Exhibit No.:
Issues: *Prepaid Pension Asset, Tracking FAS 87 Pension Cost, Exclusion of SERP, Regulatory Plan Amortization, Off System Sales Margin*
Witness: *Steve M. Traxler*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *ER-2006-0314*
Date Testimony Prepared: *October 6, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

STEVE M. TRAXLER

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

Jefferson City, Missouri
October 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 STEVE M. TRAXLER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Steve M. Traxler, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 29 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

Steve M. Traxler

Subscribed and sworn to before me this 5th day of October 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

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SURREBUTTAL TESTIMONY

OF

STEVE M. TRAXLER

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

Q. Have you pre-filed direct testimony in this proceeding?

A. Yes, I have.

Q. What is the purpose of your rebuttal testimony?

A. My surrebuttal testimony will address the direct testimony of Kansas City Power & Light Company (KCPL) witnesses Lorie Wright on the issues of Prepaid Pension Asset, Tracking FAS 87 pension cost, Exclusion of SERP from FAS 87 pension cost, Robert W. Hriszko and Michael W. Cline on the issue of Regulatory Plan Amortization and Chris B. Giles and Michael M. Schnitzer on the issue of Off System Sales Margin.

EXECUTIVE SUMMARY

Q. Please summarize your surrebuttal on the issue of FAS 87 pension cost, the Prepaid Pension Asset and exclusion of KCPL's Supplemental Executive Retirement Plan (SERP) from FAS 87 pension cost.

A. The Staff became aware during its audit that the amounts reflected for FAS 87 pension cost and Prepaid Pension Asset in the Regulatory Plan Stipulation and Agreement included amounts assignable to KCPL's joint partners in the Iatan and LaCgyne generating stations. It is the Staff's position that these amounts should be reduced approximately 6.9% to eliminate the costs which are not related to providing service to KCPL's Missouri jurisdictional electric ratepayers.

The Staff has excluded KCPL's SERP cost from the tracking mechanism for FAS 87 pension cost because KCPL refuses to fund the amounts collected in rates. This violates the funding requirement of the pension tracking mechanism agreed to in the Regulatory Plan Stipulation and Agreement in Case No. ER-2005-0329.

Q. Please summarize your surrebuttal testimony on the issue of Regulatory Plan Amortization:

A. The Staff is recommending three changes to its filed position on the Regulatory Plan Amortization.

1) Staff is proposing a correction to the method used to allocate Great Plains Energy Inc.'s (GPE) long-term debt to KCPL's Missouri electric jurisdictional electric operations.

2) Consistent with the correction to the method used to allocate GPE's debt to KCPL, an additional net balance sheet amount has been included in the Regulatory Plan Amortization calculation to consider investment not reflected in KCPL's rate base.

3) Staff has revised the level of additional book depreciation (amortization) required to meet the rating agency credit metrics addressed in the Regulatory Plan Stipulation and Agreement.

It is Staff's belief at this time that these changes may eliminate the issue on how the Regulatory Plan Amortization should be calculated.

Q. Please summarize your surrebuttal testimony on the question raised in KCPL's rebuttal whether a higher ROE represents the lower cost option for providing the necessary cash flow required for maintaining KCPL's investment grade credit rating rather than the Regulatory Plan Amortization.

A. KCPL witnesses. Chris B Giles and Michael W. Cline both rely on an erroneous hypothetical example to assert that a higher ROE is more beneficial to ratepayers than the Regulatory Plan Amortization for providing the cash flow required to maintain KCPL's investment grade credit rating. Staff has generated an EMS cost of service run under both scenarios which reflects that both scenarios produce the same revenue requirement in the first year of implementation. However, in all subsequent rate cases, ratepayers will pay lower rates, under the Regulatory Plan Amortization scenario as a result of the rate base offset for the Regulatory Plan Amortization which is provided for in the Regulatory Plan Stipulation and Agreement in Case No. EO-2005-0329.

Q. Please summarize your surrebuttal testimony on the off-system sales margin issue.

A. The Commission's July 28, 2005, Report And Order and the agreed to language in KCPL's Experimental Regulatory Plan Stipulation And Agreement, Case No. EO-2005-0329, Section III.B.1.j., as amended by the July 26, 2005, Signatory Parties' Response To Order Directing Filing specifically precludes KCPL from proposing any adjustment in a rate case to remove any portion of its off-system sales margin. KCPL is proposing a $19 million (Total Company) reduction to its 2005 off-system sales margin for the purpose of sharing the "risk" of off-system sales between customers and shareholders (Giles direct, page 23, lines 17-19).

The "risk sharing" mechanism being proposed by KCPL is an assignment of $19 million of the profit from off-system sales in 2005 to shareholders. Reducing the profit from off-system sales in this fashion violates the Stipulation And Agreement in Case No. EO-2005-0329. Mr. Giles' rebuttal testimony continues to support an assignment of $19 million of KCPL's 2005 margin (profit) on off-system sales to shareholders as an additional equity return.

PREPAID PENSION ASSET – REGULATORY PLAN STIPULATION AND AGREEMENT

Q. What is the issue between KCPL and the Staff related to the Prepaid Pension Asset to be included in Rate Base?

A. The Regulatory Plan Stipulation and Agreement approved in Case No. EO-2005-0329 included specific ratemaking treatment for pension cost to be used in rate cases filed between 2005 and 2010, the period covered by the Regulatory Plan. The pension cost agreement included rate base recognition of a Prepaid Pension Asset representing negative FAS 87 pension cost flowed back to KCPL ratepayers in prior years. KCPL witness Lorie Wright is supporting a position on page 5, lines 18-23, of her surrebuttal testimony that the amount of the Prepaid Pension Asset established in the Stipulation and Agreement, $34,694,918 Missouri Jurisdictional, included both KCPL's share of the Prepaid Pension Asset and also the share which is allocated to KCPL's partners in the Iatan and LaCygne generating stations. KCPL's partners in the Iatan generating station are Aquila and Empire District Electric Company (Empire). KCPL's partner in the LaCygne generating station is Westar Energy. Ms. Wright's position is that since the Prepaid Pension Asset identified in the Stipulation and Agreement in Case No. EO-2005-0329 included pension cost for both KCPL and pension cost assignable to it's utility partners in the Iatan and LaCygne generating stations, the same assumption should be used for ratemaking purposes not only in this case but also in subsequent rate cases between now and 2010. It is Staff's position that if the Prepaid Pension Asset amount established in the Regulatory Plan Stipulation and Agreement included pension cost amounts which are assignable to Aquila, Empire and Westar Energy it was erroneous. KCPL's rate base in this case should only reflect a Prepaid Pension Asset balance related solely to KCPL's Missouri jurisdictional electric operations.

Q. Were you the Staff member responsible for developing the pension cost ratemaking treatment the parties who signed the Stipulation and Agreement in KCPL's Regulatory Plan Case No. EO-2005-0329 ultimately agreed to?

A. Yes I was.

Q. Was it your understanding the Prepaid Pension Asset KCPL provided in Case EO-2005-0329 related solely to KCPL's Missouri jurisdictional electric operations?

A Yes it was. The Staff would not recommend rate base treatment for a Prepaid Pension Asset which includes an amount that should be allocated to KCPL's partners in the Iatan and LaCygne generating stations. KCPL's ratepayers should not be forced to pay a return on investment included in rate base which should be assigned to the ratepayers of Aquila, Empire and Western Resources.

Q. What percentage of the Prepaid Pension Asset included in the Stipulation and Agreement in Case No. EO-2005-0329 has Staff assigned to KCPL's operating partners in the Iatan and LaCygne generating stations in this case?

A. Staff has allocated approximately 6.9% of KCPL's pension cost to KCPL's joint partners. This allocation percentage will be trued up in the true-up audit consistent with KCPL's allocation of payroll costs to its joint partners.

Q. Is KCPL's position regarding rate base treatment for a Prepaid Pension Asset which includes pension cost assignable to KCPL's joint partners consistent with the intent of the Regulatory Plan Stipulation and Agreement in Case No. EO-2005-0329?

A. No. The Stipulation and Agreement in Case No. EO-2005-0329 was intended to address KCPL's Missouri electric operations. Recognition of a Prepaid Pension Asset which includes the share of KCPL's pension costs assignable to Aquila, Empire and Westar Energy was clearly not intended by the Regulatory Plan Stipulation and Agreement.

<u>TRACKING FAS 87 PENSION COST – REGULATORY PLAN STIPULATION AND AGREEMENT</u>

Q. Is there a similar issue between the Staff and KCPL regarding FAS 87 pension cost recognized for tracking purposes in the Regulatory Plan Stipulation and Agreement?

A. Yes. The method agreed to for tracking KCPL's actual FAS 87 pension cost against the FAS 87 included in rates required identifying the amount of annual pension cost being recovered in KCPL's existing rates. Any difference between KCPL's annual FAS 87 costs and the level included in existing rates is tracked, accounted for as a regulatory asset or liability, included in rate base and amortized to cost of service over 5 years in KCPL's next rate case. A $22 million amount was included in the Stipulation and Agreement representing what Staff believed to be KCPL's 2004 FAS 87 pension cost for its total company electric operations. Staff is now aware that the $22 million FAS 87 amount KCPL provided in that case also included an amount assignable to its utility partners in the Iatan and LaCygne generating stations. KCPL's witness, Ms. Wright is supporting a position on page 7, lines 16-21, in her rebuttal testimony that the $22 million amount included in the Regulatory Plan

Stipulation and Agreement should not be adjusted to remove the 6.9% share assignable to KCPL's Iatan and LaCygne partners.

Q. Were you aware that the $22 million FAS 87 pension cost, provided by KCPL in Case No. EO-2005-0329, included an amount which should be assigned to KCPL's partners in the Iatan and LaCygne generating stations?

A. No. It was Staff's understanding that the $22 million FAS 87 pension cost amount represented KCPL's 2004 total company pension cost prior to allocation to the Missouri, Kansas and FERC jurisdictions. There is no logical rationale for tracking a FAS 87 pension cost which included pension cost assignable to the ratepayers of Aquila, Empire and Western Resources – KCPL's joint utility partners. The Stipulation and Agreement in Case No. ER-2005-0329 was intended to apply solely to KCPL's Missouri jurisdictional electric ratepayers.

Q. What adjustment is necessary to correct the $22 million FAS 87 cost in order to determine the correct result under the tracking mechanism?

A. Like the Prepaid Pension Asset previously discussed, the $22 million starting point for the tracking mechanism must be reduced by approximately 6.9% to eliminate the amount assignable to KCPL's joint partners, Aquila, Empire and Westar Energy.

<u>EXCLUSION OF SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN FROM FAS 87 PENSION COST</u>

Q. What issue is KCPL raising regarding the cost of its Supplemental Executive Retirement Plan (SERP)?

A. As previously stated, in order to implement the tracking mechanism for tracking KCPL's annual FAS 87 pension costs, the FAS 87 pension cost in existing rates, must be identified as starting point. On page 7, lines 7-11, of her rebuttal testimony, Ms. Wright states that it is KCPL's belief that the $22 million FAS 87 pension cost, representing the level being recovered in existing rates, included the cost of KCPL's SERP plan and, therefore, the FAS 87 pension cost determined in this case and subsequent cases should include the annual cost of the SERP.

Q. Why is Staff opposed to including the cost of the SERP for purposes of tracking KCPL's FAS 87 pension cost in accordance with the method Staff agreed to in the Regulatory Plan Stipulation and Agreement in Case No. EO-2005-0329?

A. The method developed by the Staff for tracking KCPL's FAS 87 pension cost was based upon three fundamental principals listed below. The second principle applies to the issue regarding whether the SERP should be included in KCPL's FAS 87 pension cost.

1) The FAS 87 pension cost collected in rates would be used first to amortize the existing Prepaid Pension Asset, previously discussed, representing negative pension cost under FAS 87 that had been flowed back to KCPL ratepayers in prior years.

2) Annual FAS 87 pension costs which exceed the statutory funding requirement under ERISA regulations must also be funded into the pension fund. This ensures that all pension cost collected in rates are used for funding KCPL's pension obligation after recovery of the Prepaid Pension Asset addressed in 1) has been accomplished.

3) After the Prepaid Pension Asset has been fully amortized, the difference between KCPL's annual FAS 87 pension cost and the annual level reflected in existing rates will be tracked and treated as a regulatory asset or liability and included in rate base and amortized in subsequent rate cases until fully recovered by KCPL (regulatory asset) or returned to ratepayers (regulatory liability).

The only reason, the Staff is opposing including the SERP cost in KCPL's annual FAS 87 cost is because they are refusing to fund the SERP cost collected in rates. Unlike KCPL's normal defined benefit pension plan which has statutory funding requirements under ERISA regulations, the SERP is a supplemental plan for higher paid executives which is not covered by ERISA funding requirements. KCPL must agree to fund the FAS 87 costs collected in rates. As soon as KCPL makes a commitment to fund the FAS 87 SERP costs, as required for all other FAS 87 costs collected in rates under the method stipulated to in Case No. EO-2005-0329, this issue will be resolved.

Q. By excluding KCPL's SERP cost from the annual level of FAS 87 pension cost, is Staff precluding rate recovery of SERP cost in rates?

A. No. Rather than recover the cost under the accrual accounting method, FAS 87, the Staff has included an average of the SERP benefit payments KCPL has actually made.

Q. Is the treatment of the SERP cost recommended by the Staff for KCPL consistent with the ratemaking treatment the Staff has used for other electric utility companies in Missouri including Aquila and The Empire District Electric Company (Empire)?

A. Yes. The Staff has consistently opposed recognition of SERP costs in rates using the FAS 87 accrual accounting method unless the utility agrees to fund the amounts collected. In addition, the pension cost tracking mechanisms currently in effect for Aquila and Empire exclude the FAS 87 cost for a SERP consistent with Staff's recommendation for KCPL.

TRACKING MECHANISM FOR FAS 88 PENSION COSTS

Q. On page 8, lines 5-6, of her rebuttal testimony Ms Wright states the Staff has made no recommendation regarding KCPL's deferred accounting treatment for pension cost recognized under FAS 88. What are pension costs under FAS 88?

A. FAS 88 - Employers accounting for Settlement and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, relates to the settlement or curtailment of benefits under a defined benefit pension plan.

Q. What is a curtailment under FAS 88?

A. When the services of a significant number of employees are terminated earlier than expected, a curtailment occurs under FAS 88. Any unrecognized prior service cost related to the remaining expected future service lives which have been eliminated must be recognized immediately. KCPL will b required to recognize a FAS 88 pension cost in late 2006 as a result of the early retirement program currently in place.

Q. What ratemaking treatment is KCPL requesting for FAS 88 costs?

A. It is the Staff's understanding that KCPL witness, Terry Bassham, is requesting deferred accounting treatment for FAS 88 costs similar to the method in place for tracking of FAS 87 pension costs agreed to in the Regulatory Plan Stipulation and Agreement in Case No. EO-2005-0329. He addresses his proposed treatment for FAS 88 costs on pages 10 and 11, of his direct testimony.

Q. Has KCPL requested deferred accounting treatment for FAS 88 costs in any other case pending before this Commission?

A. Yes KCPL's filing in docket EU-2006-0560 is a request for deferred accounting treatment for FAS 88 costs.

Q. What is the Staff's position regarding KCPL's request for deferred accounting treatment for FAS 88 pension cost?

A. FAS 88 costs are legitimate pension costs which should be recovered in rates. Staff is agreeable to deferred accounting treatment and tracking of FAS 88 costs between rate cases with the following understanding:

1) Any FAS 88 costs deferred and subject to recovery in a future rate case should include only the costs related to Mo. jurisdictional electric operations and exclude all amounts assignable to KCPL's joint partners;

2) Consistent with the Stipulation and Agreement in KCPL's Regulatory Plan Case No. ER 2005-0329, KCPL will be required to fund all FAS 88 pension costs collected in rates; and

3) The difference between KCPL's annual FAS 88 costs and the amount included in existing rates will be accounted for as a regulatory asset or liability, included in rate base and amortized over 5 years in KCPL's next rate case.

Q. If the Staff and KCPL agree to the terms you set in your previous answer would the Commission need to address this issue in Case EU 2006-0560?

A. In Staff's view it would not.

REGULATORY PLAN AMORTIZATION

Q. What is the purpose of your surrebuttal testimony regarding the Regulatory Plan Amortization?

A. My surrebuttal testimony will address the rebuttal testimony of KCPL witnesses Robert W. Hriszko and Michael W. Cline.

Q. On page 3, lines 3-15, Mr. Hriszko states that the purpose of his rebuttal testimony is to rebut the contention of the Staff that KCPL is not entitled to tax gross-up on an Regulatory Plan Amortization provided for in the Regulatory Plan Stipulation and Agreement for the purpose of providing sufficient cash flow for maintaining KCPL's debt at investment grade.

Has the Staff changed its position since its direct filing regarding the calculation of the Regulatory Plan Amortization?

A. Yes. The Staff is recommending three changes to its filed position regarding the calculation of the Regulatory Plan Amortization:

1) The Stipulation and Agreement in Case No. EO-2005-0329 included a sample calculation for the Regulatory Plan Amortization as Attachment 1 to Appendix F. This calculation method was used by the Staff for the purpose of calculating the Regulatory Plan Amortization addressed in my direct testimony. Subsequent to the filing of direct testimony, Staff discovered an error in how the long term debt, included in the capital structure for Great Plains Energy (GPE), was allocated to KCPL's Missouri jurisdictional electric operations. Staff is recommending a correction to the method used for allocating GPE's long term debt to KCPL's Missouri jurisdictional electric operations.

2) Consistent with Staff's belief that the two debt coverage credit metrics, addressed in the Regulatory Plan Stipulation and Agreement, are intended to cover all of KCPL's assets supported by debt, Staff is recommending that an additional net investment be included in the Regulatory Plan Amortization calculation to recognize KCPL's net investment not included in rate base. The primary additional investment included in this calculation is KCPL's investment in Construction Work in Progress (CWIP).

3) Staff has revised the level of additional Book Depreciation required to meet the cash flow required for the Funds From Operations (FFO) as a percent of debt credit metric.

Q. What change is Staff recommending for allocating GPE's long term debt to KCPL's Missouri jurisdictional electric operations for purposes of calculating the Regulatory Plan Amortization?

A. Attachment 1 to Appendix F of the Regulatory Plan Stipulation and Agreement allocated GPE's long term debt to KCPL's Missouri jurisdictional electric operations by multiplying GPE's total long term debt **balance** by KCPL's Missouri jurisdictional allocation factor for plant in service. GPE's capital structure supports KCPL's electric operations and the operations of its non-regulated subsidiary, Strategic Energy. This method of assigning GPE's long term debt **balance** to KCPL's Missouri jurisdictional electric operations resulted in a long term debt balance allocated to KCPL which related to KCPL's electric operations and the operations of GPE's non-regulated subsidiary, Strategic Energy. To eliminate any debt assignment to KCPL related to Strategic Energy, Staff is proposing to apply GPE's long term debt **ratio** to KCPL's Mo., jurisdictional rate base plus the additional net investment on KCPL's balance sheet not reflected in rate base, previously discussed.

Q. Has Staff made a more current calculation to determine the increase in book depreciation required to provide KCPL the opportunity to meet the cash flow required by the two credit metrics addressed in the Regulatory Plan Stipulation and Agreement?

A. Yes. Staff has recomputed the increase in book depreciation required to provide the additional cash flow required to meet the rating agency credit metrics addressed in the Regulatory Plan Stipulation and Agreement. Staff's current revenue requirement, under a traditional cost of service approach, is a revenue excess of $34.5 million. Staff has calculated that an increase in book depreciation equal to $86.2 million is required to give KCPL the opportunity of meeting the cash flow requirements of the rating agency credit metrics. Consistent with any increase in book depreciation, KCPL will recognize a corresponding increase in the straight line tax depreciation deduction used in calculating deferred income tax. The net increase in book depreciation recovery will provide the opportunity for the after-tax cash flow required to meet the rating agency credit metrics.

Q. Have you prepared a calculation of Attachment 1 to Appendix F which reflects the Staff's current recommended revenue increase for KCPL including the additional increase in book depreciation required to meet the cash flow requirements of the rating agency credit metrics?

A. Yes, attached as Schedule 1 to this surrebuttal testimony, is a calculation of the cash flow requirements of the rating agency credit metrics based upon Staff's current revenue requirement excess of $34.5 with an additional $86.2 in book depreciation and corresponding increase in the straight line tax depreciation deduction used calculating deferred income tax. The net result is a recommended revenue requirement increase of $52.1 million.

Q. Does Schedule 1 reflect a need for any additional amortization?

A. No. Line 31, Funds From Operations (FFO) is reflected at $0 in the middle column, labeled Jurisdictional Adjustments. This indicates that Staff's current revenue requirement for KCPL, $52.1 million, provides sufficient cash flow required by the rating agency credit metrics calculated on Schedule 1.

Q. Will the Staff's recommended rate increase for KCPL which includes the increase in book depreciation required for the Regulatory Plan Amortization change based upon the results of the Staff's true-up audit?

A. Yes, it will.

HIGHER ROE VS. REGULATORY PLAN AMORTIZATION FOR MEETING CREDIT METRICS

Q What is the purpose of this section of your surrebuttal testimony?

A. KCPL witness, Michael W. Cline in his rebuttal testimony asserts that using an Amortization, allowed under the Regulatory Plan Stipulation and Agreement, for providing the necessary cash flow required for rating agency credit metrics, is less favorable to ratepayers that providing the additional cash flow by raising the allowed return on equity (ROE). He also takes exception to a statement in my direct testimony that KCPL has an incentive to maximize its ROE for the purpose of avoiding a Regulatory Plan Amortization. KCPL witness Chris B. Giles also suggests that using a higher ROE is a lower cost method than using a Regulatory Plan Amortization for the purpose of providing the required cash flow to maintain KCPL's credit rating. My surrebuttal testimony will address the rebuttal testimony of Mr. Cline and Mr. Giles on these issues.

Q. On page 2, lines 14-15, of his rebuttal testimony, Mr. Cline expresses disagreement with a statement in your direct that "KCPL has an incentive to maximize its requested return on equity, for the purpose of avoiding an amortization, resulting from the financial benchmark ratio analysis." Is your statement still accurate?

A. Yes it is. Under the Stipulation and Agreement approved in Case No. EO 2005-0329, any Regulatory Plan Amortization included in cost of service will be used as a reduction to rate base in any subsequent rate case. This ratemaking treatment allows ratepayers to earn a return on the additional cash flow provided for the purpose of maintaining KCPL's investment grade credit rating. Conversely, if a higher ROE is used to provide the additional cash flow required to maintain KCPL's credit rating, there is no reduction to KCPL's rate base in future cases which results in higher earnings. In summary it is a mathematical certainty that if a higher ROE is used in this case in lieu of a Regulatory Plan Amortization for purposes of providing the cash flow for maintaining KCPL's credit rating, ratepayers will pay higher rates in all subsequent rates filed by KCPL.

Q. Can KCPL's recommended treatment on Off System Sales Margin be fairly characterized as an attempt to maximize ROE in this case?

A. Yes it can. KCPL's proposed adjustment to reduce the margin of off system sales by $19 million results in a revenue requirement increase of $9.8 million for KCPL's Missouri jurisdictional electric ratepayers. In response to a question in Staff Data Request No. 213.1 (attached as Schedule 1-3 to my rebuttal testimony) as to whether KCPL's proposed adjustment reducing the margin from off system sales was a substitute for requesting a higher ROE, KCPL witness Chris Giles answered "Yes".

Q. On page 5, lines 1-3, of the rebuttal testimony of KCPL witness, Michael W. Cline he states, "Ratepayers are disadvantaged in the short-run if a high level of cash flow for financing is provided through Additional Amortization rather than the cash being sourced through traditional ratemaking." Is this an accurate statement?

A. Certainly not. This statement suggests that ratepayers are better off in the short run if a higher ROE is used for providing the cash flow to maintain KCPL's credit rating rather than use a Regulatory Plan Amortization to generate the required cash flow. Mr. Cline attempts to support this erroneous conclusion using a "hypothetical "example reflected on Schedule MWC-3 attached to his rebuttal testimony.

Q. Does the example on Mr. Cline's Schedule MWC-3 reflect the "reality" of using a higher return on equity in lieu of an additional amortization for the purpose of meeting the cash flow required by the rating agency credit metrics addressed in the Regulatory Plan Stipulation and Agreement in Case No. ER-2005-0329?

A. Certainly not. Mr. Cline asserts, incorrectly, that using a Regulatory Plan Amortization in lieu of a higher return on equity (ROE) results in a revenue requirement which is 300% greater than the scenario based upon a higher ROE. "*The revenue requirement in the second scenario is over 300% greater than that of the scenario with no Additional Amortizations*." (Cline rebuttal, page 5, lines 10-12). The "reality" of implementing either scenario in this rate case is that **both** result in the **same** revenue requirement if implemented in this case, ER-2006-0314.

Q. Why would both scenarios result in the same revenue requirement in this case?

A. The revenue requirement for KCPL in this case and all subsequent rate cases between now and 2010, the period covered by the Regulatory Plan, is driven by the cash flow required to meet two credit metrics necessary for maintaining KCPL's investment grade credit rating. The cash flow required to meet the two credit metrics **does not change** depending on whether you use a higher ROE or a Regulatory Plan Amortization for purposes of addressing a cash flow deficiency. Mr. Cline's hypothetical example on Schedule MWC-3 reflects the erroneous result that KCPL's revenue requirement is significantly less, 300%, if a higher ROE is used in lieu of an additional amortization provided by the Regulatory Plan Stipulation and Agreement. As stated previously, Mr. Cline's conclusion completely ignores the "reality" of implementing either method in this case for meeting the cash flow required for meeting credit metrics necessary for maintaining KCPL's investment grade credit rating.

Q. What is the best way to demonstrate that KCPL's revenue requirement in this case will be the **same** whether a higher ROE or alternatively a Regulatory Plan Amortization is used for the purpose of providing sufficient cash flow to meet the rating agency credit metrics?

A. The obvious way is to calculate KCPL's revenue requirement under both approaches and run the results through the spreadsheet used to calculate the need for any additional amortization, Attachment 1 to Appendix F to the Regulatory Plan Stipulation and Agreement.

Q. What increase in KCPL's existing rates is necessary for meeting the cash flow required for meeting the rating agency credit metrics addressed in the Regulatory Plan Stipulation and Agreement?

A. The Staff's current cost of service calculation, under a traditional cost of service approach is an excess revenue requirement, or, otherwise stated, over earnings of $34 million. When this result is run through the credit metric cash flow calculation the result reflects a need for a Regulatory Plan Amortization of $86 million to meet the cash flow required by the two credit metrics. This results in a net revenue requirement increase of $52 million ($86 million - $34 million). I have prepared a cost of service EMS run (Scenario 1) which reflects a $52 million revenue requirement assuming an $86 million Regulatory Plan Amortization. Attached as Schedules 2 and 3 is a copy of Accounting Schedule 1 – Revenue Requirement from Staff's EMS run and a copy of Staff's weighted cost of capital calculation based upon a midpoint ROE of 9.37%.

Q. Have you also prepared an additional cost of service EMS run which produces the same $52 million revenue requirement using a higher ROE in Staff's weighted cost of capital (Scenario 2) in lieu of the $86 million Regulatory Plan Amortization used in Scenario 1?

A. Yes.

Q. What ROE assumption is required in Staff's cost of service EMS run to generate a $ 52 million revenue requirement for KCPL in that case?

A. An ROE assumption of 17.92% is required to generate the identical $52 million revenue requirement necessary for meeting the cash flow requirements of the rating agency credit metrics. Attached as Schedules 4 and 5 is a copy of Accounting Schedule 1 – Revenue Requirement from the Staff's EMS run and a copy of Staff's weighted cost of capital calculation using a midpoint ROE of 17.92%. All of the other accounting schedules in the two EMS cost of service runs are being provided as work papers supporting this surrebuttal testimony.

Q. Based upon the results of the two cost of service calculations, Scenario 1 – Regulatory Plan Amortization and Scenario 2 – ROE = 17.9% , are ratepayers better off under the higher ROE scenario than the Regulatory Plan Amortization scenario in the **first year** that rates established in this case are in effect?

A. No. Ratepayers are indifferent in **year 1** as to whether a higher ROE is used in lieu of a Regulatory Plan Amortization for purposes of providing the necessary cash flow to meet the rating agency credit metrics. This result demonstrates that Mr. Cline's **first year** result showing a 300% savings from the higher ROE assumption is erroneous because it does not reflect the reality of implementing either scenario in this rate case.

Q. Does Mr. Cline's testimony or Schedule MWC-3 address the impact on ratepayers for both scenarios **beyond** year 1?

A. No. Mr. Cline's failure to address the difference in impact on ratepayers after year 1 is more misleading than the erroneous conclusion reflected for the first year of implementing both scenarios on his Schedule MWC-3.

Q. What is the impact on KCPL's ratepayers **after** year 1 resulting from using the Regulatory Plan Amortization for meeting KCPL's cash flow requirements in lieu of a higher ROE?

A. Under the Regulatory Plan Stipulation and Agreement, any Regulatory Plan Amortization used for setting rates will be used as an offset (reduction) to KCPL's rate base in subsequent rate cases. The reduction to rate base, under the Regulatory Plan Amortization scenario in KCPL's next rate case will be approximately $53 million after considering the reduction in deferred taxes that results from any increase in book depreciation (regulatory plan amortization). Using Staff's recommended midpoint rate of return in this case, grossed up for taxes to 10.96%, ratepayers will benefit from an annual revenue requirement **reduction** of $5.8 million in all rate cases filed after year 1 under the Amortization Scenario 1. Alternatively, under the higher ROE Scenario 2, ratepayers will pay an **additional** $5.8 million in rates set in rate cases, filed by KCPL after year 1, if Mr. Cline's recommended use of a higher ROE scenario is adopted by the Commission in this case.

Q. Does KCPL witness Giles also assert that a higher ROE is less costly to ratepayers than a Regulatory Plan Amortization for providing the cash flow necessary to maintain KCPL's investment grade credit rating?

A. Yes. On page 12, lines 1-4 of his rebuttal testimony, Mr. Giles makes the following statement:

> As I indicated in the introduction to my rebuttal testimony, the concept of additional amortization was a means to assure the credit community that KCPL would be able to achieve sufficient cash flow to maintain its credit rating. **It is not a lower cost method of financing than equity as shown in the rebuttal testimony of Mr. Michael Cline**." (Emphasis added)

Mr. Giles is relying on the same erroneous analysis as Mr. Cline to support his statement.

Q. Please summarize your testimony on this section of your surrebuttal testimony.

A. Mr. Cline and Mr. Giles are asserting that ratepayers are better off (pay lower rates) if a higher ROE is used to provide the cash flow required for maintaining KCPL's investment grade credit rating in lieu of using a Regulatory Plan Amortization. As previously discussed the Staff has generated two EMS run results which reflect implementation of Scenario 1 – Regulatory Plan Amortization and Scenario 2 – Higher ROE. The results of the two EMS cost of service runs indicate that the revenue requirement is identical in **year 1** which exposes the fallacy in the conclusion reached by Mr. Cline that the higher ROE scenario resulted in a 300% savings to ratepayers in year 1. The hypothetical example used by Mr. Cline does not reflect a realistic implementation of the two scenarios for purposes of setting rates in this case.

More importantly the assertions by Mr. Cline and Mr. Giles **fail to mention** the revenue requirement impact on ratepayers in all rate cases **after** year 1. As stated above, under a Regulatory Plan Amortization scenario, ratepayers will benefit from lower rates in subsequent rate cases as a result of the reduction to rate base provided under the Regulatory Plan Stipulation and Agreement.

All arguments by KCPL for adoption of the highest ROE proposed in this case on the premise that the higher ROE is "less costly" to ratepayers than a Regulatory Plan

Amortization, for purposes of providing the necessary cash flow for maintaining KCPL's credit rating should be rejected.

NON-FIRM OFF-SYSTEM SALES MARGIN

Q. What is the purpose of this section of your surrebuttal testimony?

A. My surrebuttal testimony in this section will address the rebuttal testimony of KCPL witness Chris B. Giles and Michael M. Schnitzer on the issue of the level of off-system sales margin to be included in KCPL's cost of service in this case.

Q. How is Mr. Schnitzer's rebuttal testimony related to the disagreement between the Staff and KCPL regarding the appropriate level of off system sales margin to be reflected in KCPL's cost of service for this case?

A. As explained on page 8, line 25, and continuing on page 9, through line 10, of my rebuttal testimony, Mr. Schnitzer was retained by KCPL for the purpose of performing a risk analysis of the off-system sales market based upon projected assumptions through year end 2007. The results of Mr.Schnitzer's analysis are summarized on schedules which reflect the probability of occurrence for various levels of off-system sales margin. KCPL witness Chris Giles sponsored direct testimony supporting KCPL's cost of service recognition of ** ___ ** million in off-system sales margin which represented the 25th percentile in Mr. Schnitzer's analysis reflected on Schedule MMS-5 of his direct testimony. Mr. Schnitzer's rebuttal testimony addresses updating his analysis for changes in data as of June 30, 2006.

Q. Has KCPL changed its position of selecting Mr. Schnitzer's projected level of off-system sales margin based upon the 25th percentile reflected on Mr. Schnitzer's updated analysis attached as Schedules MMS-8 and MMS-9 to his rebuttal testimony?

A. No. On page 5, of his rebuttal testimony, Mr. Giles identifies KCPL's updated position of including ** __ ** million in off-system sales margin in cost of service for this case. The ** ___ ** million level replaces the ** ___ ** million level recommendation in Mr. Giles direct testimony.

Q. What is the probability of occurrence associated with the $79 million off-system sales margin selected by KCPL for its June 30 updated cost of service?

A. The 25th percentile equates to a 75% probability that KCPL's actual 2007 off-system sales margin will exceed the ** ___ ** million level used for setting rates in this case under KCPL's proposal.

Q. What is the median or 50 percentile off-system sales level in Mr. Schnitzer's updated risk analysis?

A. The median value has remained unchanged at ** ____ ** million in Mr. Schnitzer's updated risk analysis. The median value, ** ____ ** million has a 50% probability of being higher than KCPL's actual off-system sales margin in 2007 and a 50% probability of being lower than KCPL's actual off-system sales level in 2007.

Q. On page 3, of his rebuttal testimony, Mr. Schnitzer identifies three significant changes which have occurred since his January 2006 analysis. Does Staff have concerns with Mr. Schnitzer's recognition of any of these changes?

A. Yes. Beginning on page 3, line 22, and continuing on page 4, through line 10, Mr. Schnitzer identifies a new 50 MW capacity sale contract that KCPL has negotiated.

Q. How does the recognition of the new 50 MW capacity sale contract impact Mr. Schnitzer's projected off-system sales margin analysis?

A. Mr. Schnitzer identifies the impact of recognizing the reduction in available capacity on projected levels of off-system sales margin on page 4, lines 6-8, of his rebuttal testimony:

> The effect of the MJMEUC sale is to decrease the number of MWH's available for sale off-system, and hence to decrease the projected Off-System Contribution Margin. However, thus is ***partially*** offset by an approximately 300,000 MWH reduction in forecast native load obligations. (emphasis added)

Q. Does Staff have a concern regarding Mr. Schnitzer's recognition of the reduction in available capacity as a result of the new MJMEUC capacity sale contract?

A. Mr. Schnitzer's testimony does not identify the effective date of the 50 MW capacity sale contract. However, Staff is fairly certain that the effective date of the contract occurs sometime after the September 30, 2006, true-up date agreed to by the signatory Parties to the Regulatory Plan Stipulation and Agreement. Mr. Schnitzer's projected off-system sales margins have been reduced by recognizing the 50 MW capacity sale contract even with the offsetting reduction in projected native load. This 50MW capacity sale contract causes a material mismatch in KCPL's revenue requirement unless there is consistent cost of service recognition for both 1) the reduction in **non-firm** off-system sales margin and 2) the increase in the **firm** off-system margin from the new capacity sale contract with MJMEUC.

Q. How can the mismatch in KCPL's cost of service be avoided?

A. The mismatch that will result if only one of the two impacts on KCPL's cost of service is recognized can be avoided in two scenarios:

1) Since the 50 MW capacity sale contract occurs beyond the September 30, 2006, true-up date for this case, a mismatch in KCPL's cost of service can be avoided if Mr. Schnitzer runs his analysis without recognizing the 50 MW reduction in available capacity resulting from the capacity sale contract and without recognizing the offsetting

projected reduction in native load obligations. Under this approach, no mismatch in KCPL's cost of service would occur because both future impacts of the capacity sale would be excluded from KCPL's cost of service. The Staff considers this to be the best approach because it is not intended under the Regulatory Plan Stipulation and Agreement that KCPL's cost of service be based upon events which occur after the 9/30/2006 true-up date.

2) The mismatch in KCPL's cost of service can also be avoided by using the opposite approach. If the reduction in non-firm off system sales margin, resulting from the reduction in available capacity, is recognized in cost of service consistent with KCPL's rebuttal testimony, then the projected increase in firm off-system margin resulting from the new 50MW firm capacity contract should also be reflected in KCPL's cost of service.

Q. Have you requested KCPL to have Mr. Schnitzer update his analysis to exclude both the reduction in capacity from the 50 MW capacity sale contract and an offsetting reduction in forecast native load?

A. Yes. Staff may file a request for supplemental testimony depending on the results of the updated analysis.

Q. On page 4, lines 4-5, of his rebuttal testimony, Mr. Giles makes the following statement regarding the margin on off-system sales, "These sales benefit retail customers because the margin from those sales is a reduction to KCPL's retail revenue requirement." Is the benefit identified by Mr. Giles intended to be protected by the Regulatory Plan Stipulation and Agreement in Case No. EO-2005-0329?

A. Yes. The language in section J, page 22, of the Stipulation and Agreement is clear in its intent of protecting the benefit to ratepayers that results from using the margin on off-system sales as reduction to KCPL's revenue requirement:

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

Q. Is Mr. Giles recommended treatment for off-system sales margin in this case consistent with language in the Regulatory Plan Stipulation and Agreement requiring full recognition of the margin from off-system sales?

A. No it is not. Mr. Giles recommended level of ** ___ ** off-system sales margin required an adjustment reducing the 2005 test year level by $19 million for the stated purpose on page 7, lines 7-11, of his rebuttal testimony "to adjust the return on equity to reflect this additional risk" related to the margin from off-system sales. Mr. Giles' proposal to adjust the return on equity by assigning off-system sales margin to shareholders violates the intent of language in the Regulatory Plan Stipulation and Agreement which specifically precludes KCPL from recommending such an adjustment. If KCPL believed that assigning a portion of the margin on off-system sales to shareholders was necessary in order to earn a reasonable return on equity ROE for shareholders, then KCPL should not have agreed to language in the Regulatory Plan Stipulation and Agreement which precludes KCPL from doing so.

Q. Did KCPL receive something in return for its commitment not to make adjustments to remove any portion of its off-system sales from its revenue requirement determination in any rate case during the period covered by the Regulatory Plan?

A. It certainly did. The Amortization provided for in the Regulatory Plan Stipulation and Agreement for KCPL and for The Empire District Electric Company (Empire) for the purpose of providing additional cash flow required for the opportunity to maintain a

BBB credit rating is unprecedented in Missouri. Under a traditional cost of service approach, Staff's current cost of service calculation reflects an excess revenue requirement of approximately $34 million. However, as a result of the Regulatory Plan Amortization, Staff is recommending a $52 million rate increase instead of a $34 million rate reduction.

Q. On page 8, lines 5-7, of his rebuttal testimony Mr. Giles asserts that KCPL's proposed treatment for off-system sales margin is not a sharing mechanism: "One means to recognize this risk is to include margins at the 25 percent level of expected margins during the year that rates would be in effect as proposed by KCPL. **This is not a sharing mechanism**." (emphasis added) Is this statement consistent with Mr. Giles direct testimony and response to Staff discovery?

A. No it is not. The following statements appear in Mr. Giles direct testimony:

> Because these risks are so large, the Company believes that it would not be acceptable to retail consumers to incorporate the full costs of the risks to capital within the rate of return. Therefore, KCPL has decided not to request a rate of return above 11.5%, and proposes to **share the off-system sales risk** with customers and shareholders.(emphasis added) (Giles Direct, page 23, lines 15-19)

> . . . the only reasonable and responsible method to determine the appropriate amount of off-system sales margin to include in test year revenue is to project the amount of off-system sales margin expected during the first year that the increased rates would be in effect, calculate the risk of those off-system sales and **share the risk** between retail customers and the Company. (emphasis added) (Giles direct, page 25, lines 3-7)

> ** ______________________________ **

> ** ______________________________

> ____
> ____
> ___________________________________ **
>
> Some utilities in various venues have proposed **sharing** off –system sales margins between customers and the company. In fact, in its most recent rate increase request, AmerenUE proposed to account for the risk of off – system sales in the **same manner** KCPL is proposing in this case. (emphasis added, Giles Rebuttal, page 7, lines 14-17)

There is no question, based upon the statements above, that KCPL's proposed treatment for off-system sales margin in this case represents a partial assignment of off-system sales margin to its shareholders as a substitute for requesting a higher return on equity. This recommended treatment is a clear violation of the commitment made by KCPL in the Regulatory Plan Stipulation and Agreement.

Q. Does Mr. Giles' reference to AmerenUE's proposed sharing mechanism for sharing off-system sales margins between customers and the AmerenUE justify KCPL's recommended treatment for off-system sales margin in this case?

A. Certainly not. AmerenUE is free to propose a type of sharing mechanism. It is my understanding that AmerenUE has not agreed to language in a Stipulation and Agreement which specifically precludes it from doing so as KCPL has done. Additionally, AmerenUE's ratepayers are not committed to providing millions of dollars in additional rate relief for the purpose of maintaining Ameren's credit rating. KCPL and AmerenUE are in completely different positions regarding the ratemaking treatment each can propose for off-system sales margin.

Q. Does Mr. Giles rebuttal testimony indicate a clear understanding of the language addressing off-system sales margin in the Regulatory Plan Stipulation and Agreement?

A. Yes it does. On page 7, lines 18-22, of his rebuttal testimony, Mr. Giles makes the following statement:

> As a number of witnesses in this case have noted, KCPL has **agreed** in its testimony in this case, and in the Stipulation and Agreement approved in 2005 by the Commission, **that it has no inherent right to the earnings from off-system sales market** as long as the costs of the assets generating those wholesale earnings are in retail prices. (emphasis added)

Q. After expressing a clear understanding of KCPL's commitment in the Regulatory Plan Stipulation and Agreement, regarding the margin on off-system sales, does Mr. Giles make a request that KCPL not be required to keep that commitment?

A. Yes. Mr. Giles' very next statement in the same paragraph on page 7, lines 22-23, and in the next paragraph on page 8, lines 5-6 read as follows:

> The Commission must recognize, however, wholesale revenue and earnings have different financial characteristics than retail revenues and earnings. One means to recognize this risk is to include margins at the 25 percent level of expected margins during the year that rates would be in effect as proposed by KCPL.

Mr. Giles has already admitted in response to Staff Data Request No. 213.1 that KCPL's proposed treatment for off-system sales margin represents an assignment of $24-30 million in interchange margin to shareholders as an equity return. Given Mr. Giles clear understanding of the commitment made by KCPL in the Regulatory Plan Stipulation and Agreement, referenced above, his two following statements can be characterized as a request that the Commission not hold KCPL accountable for the commitment made in the Regulatory Plan Stipulation and Agreement.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Attachment 1 to Appendix F - Staff's Revenue Requirement with Amortization

Line			Total Company		Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
1	Additional net Assets on KCPL's balance sheet				30,830,731		
2	Rate Base		NA		1,169,611,766		
3	Net Assets supported by LTD & Equity				1,200,442,497		
4	Jusrisdictional Allocator for Capital	Jurisdictional Rate Base / Total Company Rate Base			54.20%		
5							
6	Total Capital	Barnes Schedule 9	2,530,901,000		1,200,442,497	-	1,200,442,497
7	Equity	Barnes Schedule 9	1,347,348,000	53.24%	639,066,403	-	639,066,403
8	Preferred	Barnes Schedule 9	39,000,000	1.54%	18,498,257		18,498,257
9	Long-term Debt	Barnes Schedule 9	1,144,553,000	45.22%	542,877,837		542,877,837
10	Cost of Debt	Barnes Schedule 10	6.08%		6.08%		6.08%
11	Interest Expense	Line 13 * Line 14	69,588,822		33,006,973	-	33,006,973
12							
13	Retail Sales Revenue	Staff Accounting Schedule 9-1 plus Revenue Requirement	0		483,388,716	0	483,388,716
14	Other Revenue	Staff Accounting Schedule 9-1	0		175,049,622		175,049,622
15	Operating Revenue	Staff Accounting Schedule 9-1	0		658,438,338	0	658,438,338
16							
17	Operating & Maintenance Expenses	Staff Accounting Schedule 9-3 - Less Customer Deposit Interest			352,635,384		352,635,384
18	Depreciation	Staff Accounting Schedule 9-3			139,441,008		139,441,008
19	Amortization	Staff Accounting Schedule 9-3			4,421,356	0	4,421,356
20	Interest on Customer Deposits						0
21	Taxes other than income taxes	Staff Accounting Schedule 9-3			36,135,265		36,135,265
22	Federal and State income taxes	Staff Accounting Schedule 9-4			34,591,112		34,591,112
23	Gains on disposition of plant				0		0
24	Total Electric Operating Expenses	Sum of Lines 21 to 27	0		567,224,125	0	567,224,125
25							
26	Operating Income	Staff Accounting Schedule 1-1 Line 3	0		91,214,213	0	91,214,213
27	less Interest Expense	- Line 15	-		(33,006,973)	-	(33,006,973)
28	Depreciation	Staff Accounting Schedule 9-3			139,441,008	-	139,441,008
29	Amortization	Staff Accounting Schedule 9-3			4,421,356	-	4,421,356
30	Deferred Taxes	Staff Accounting Schedule 9-4			(31,760,373)	-	(31,760,373)
31	Funds from Operations (FFO)	Sum of Lines 30 to 34	-		170,309,231	-	170,309,231
32							
33	Net Income	Line 30 + Line 31	-		58,207,240	-	58,207,240
34	Return on Equity	Line 37 / Line 11	0.0%		9.1%	0.0%	9.1%
35	Unadjusted Equity Ratio	Line 11 / Line 10	53.2%		53.2%	0.0%	53.2%
	Additional financial information needed for the calculation of ratios						
36	Capitalized Lease Obligations	KCPL Trial Balance accts 227100 & 243100	2,314,096		1,254,334		1,254,334
37	Short-term Debt Balance	KCPL Trial Balance accts 231xxx	82,400,000		44,664,151		44,664,151
38	Short-term Debt Interest	KCPL T.B. accts 831014, 831015, 831016	5,681,983		3,079,866		3,079,866
	Adjustments made by Rating Agencies for Off-Balance Sheet Obligations						
39	Debt Adjustments for Off-Balance Sheet Obligations						
40	Operating Lease Debt Equivalent	Present Value of Operating Lease Obligations discounted @ 6.1%	86,657,361		46,971,814		46,971,814
41	Purchase Power Debt Equivalent	Present Value of Purchase Power Obligations discounted @ 6.1%	12,443,708		6,744,996		6,744,996
42	Accounts Receivable Sale	KCPL Trial Balance account 142011	70,000,000		37,942,847		37,942,847
43	Total OBS Debt Adjustment	Sum of Lines 50 to 52	169,101,069		91,659,656	-	91,659,656
44							
45	Interest Adjustments for Off-Balance Sheet Obligations						
46	Present Value of Operating Leases	Line 50 * 6.10%	5,286,099		2,865,281	-	2,865,281
47	Purchase Power Debt Equivalent	Line 51 * 6.10%	759,066		411,445	-	411,445
48	Accounts Receivable Sale	Line 52 * 5%	3,500,000		2,314,514	-	2,314,514
49	Total OBS Interest Adjustment	Sum of Lines 56 to 58	9,545,165		5,591,239	-	5,591,239
	Ratio Calculations						
50	Adjusted Interest Expense	Line 15 + Line 45 + Line 59	84,815,971		41,678,077	-	41,678,077
51	Adjusted Total Debt	Line13 + Line 43 + Line 44 + Line 53	1,398,368,165		680,455,979	-	680,455,979
52	Adjusted Total Capital	Line 10 + Line 43 + Line 44 + Line 53	2,784,716,165		1,338,020,638	-	1,338,020,638
53							
54	FFO Interest Coverage	(Line 35 + Line 63) / Line 63	1.00		5.09	-	5.09
55	FFO as a % of Average Total Debt	Line 35 / Line 64	0.0%		25.0%	0.0%	25.0%
56	Total Debt to Total Capital	Line 64 / Line 65	50.2%		50.9%	0.0%	50.9%
	Changes required to meet ratio targets						
57	FFO Interest Coverage Target		3.80		3.80	0.00	3.80
58	FFO adjustment to meet target	(Line 73 - Line 67) * Line 63	237,484,718		(53,610,615)	-	(53,610,615)
59	Interest adjustment to meet target	Line 35 * (1 / (Line 73 - 1) - 1 / (Line 67 - 1))	#DIV/0!			#VALUE!	19,146,648
60							
61	FFO as a % of Average Total Debt Target		25%		25%	0%	25%
62	FFO adjustment to meet target	(Line 77 - Line 68) * Line 64	349,592,041		(195,237)	-	(195,237)
63	Debt adjustment to meet target	Line 35 * (1 / Line 77 - 1 / Line 68)	#DIV/0!		780,947	-	780,947
64							
65	Total Debt to Total Capital Target		51%		51%	0%	51%
66	Debt adjustment to meet target	(Line 81 - Line 69) * Line 65	21,837,079		1,934,547	-	1,934,547
67	Total Capital adjustment to meet target	Line 64 / Line 81 - Line 65	(42,817,802)		(3,793,229)	-	(3,793,229)
	Amortization and Revenue needed to meet targeted ratios						
68	FFO adjustment needed to meet target ratios	Maximum of Line 74 , Line 78 , or Zero	349,592,041		-	-	-
69	Effective income tax rate	Accounting Schedule 11	38.77%		38.77%	38.77%	38.77%
70	Deferred income taxes *	- Line 87 * Line 88 / (1 - Line 88)	(221,356,907)		-	-	-
71	Total amortization required for the FFO adjustment	Line 87 - Line 89	570,948,949		-	-	-
72							
73	Retail Sales Revenue Adjustment	Adjustment =Sum(Line 21 to Line 25)+Line 27-Line 18-Line 31+(Line 11*Line 38)/(1-Line 88)			483,388,716	-	483,388,716
74	Percent increase in retail sales revenue	Line 92 Jurisdictional Adjustments / Line 92 Jurisdictional				0.0%	

* Adjusted for known and measurable changes including changes related to new plant in-service

Schedule 1

Kansas City Power & Light Co.
Case: ER-06-314A
12-Months Ended Deember 31, 2005

Revenue Requirement

Line	(A)	7.78% Return (B)	7.81% Return (C)	7.83% Return (D)
1	Net Orig Cost Rate Base (Sch 2)	$1,167,915,662	$1,167,915,662	$1,167,915,662
2	Rate of Return	7.78%	7.81%	7.83%
3	Net Operating Income Requirement	$ 90,863,839	$ 91,214,213	$ 91,447,796
4	Net Income Available (Sch 9)	$ 59,305,632	$ 59,305,632	$ 59,305,632
5	Additional NOIBT Needed	$ 31,558,207	$ 31,908,581	$ 32,142,164
6	Income Tax Requirement (Sch 11)			
7	Required Current Income Tax	$ 66,129,636	$ 66,351,485	$ 66,499,385
8	Test Year Current Income Tax	$ 46,147,675	$ 46,147,675	$ 46,147,675
9	Additional Current Tax Required	$ 19,981,961	$ 20,203,810	$ 20,351,710
10	Required Deferred ITC	$ 0	$ 0	$ 0
11	Test Year Deferred ITC	$ 0	$ 0	$ 0
12	Additional Deferred ITC Required	$ 0	$ 0	$ 0
13	Total Additional Tax Required	$ 19,981,961	$ 20,203,810	$ 20,351,710
14	Gross Revenue Requirement	$ 51,540,168	$ 52,112,391	$ 52,493,874

Kansas City Power and Light Company
Case No. ER-2006-0314

Weighted Cost of Capital as of June 30, 2006 for Kansas City Power and Light Company

			Weighted Cost of Capital Using Common Equity Return of:		
Capital Component	Percentage of Capital	Embedded Cost	9.32%	9.37%	9.42%
				-2.82%	
Common Stock Equity	53.24%	-----	4.96%	4.99%	5.01%
Preferred Stock	1.54% **	4.29% **	0.07%	0.07%	0.07%
Long-Term Debt	45.22% **	6.08% **	2.75%	2.75%	2.75%
Short-Term Debt	0.00%				
Total	100.00%		7.78%	7.81%	7.83%

Notes:

See Schedule 9 for the Capital Structure Ratios.

Embedded Cost of Long-Term Debt and Embedded Cost of Preferred Stock Taken from Response to DR 0178.1.

Accounting Schedule: 1
Williams
10:36 10/05/2006

Kansas City Power & Light Co.
Case: ER-06-314B
12-Months Ended Deember 31, 2005

Revenue Requirement

Line		12.33% Return	12.36% Return	12.39% Return
	(A)	(B)	(C)	(D)
1	Net Orig Cost Rate Base (Sch 2)	$1,167,915,369	$1,167,915,369	$1,167,915,369
2	Rate of Return	12.33%	12.36%	12.39%
3	Net Operating Income Requirement	$ 144,003,965	$ 144,354,340	$ 144,704,714
4	Net Income Available (Sch 9)	$ 112,436,575	$ 112,436,575	$ 112,436,575
5	Additional NOIBT Needed	$ 31,567,390	$ 31,917,765	$ 32,268,139
6	Income Tax Requirement (Sch 11)			
7	Required Current Income Tax	$ 66,135,453	$ 66,357,302	$ 66,579,151
8	Test Year Current Income Tax	$ 46,147,678	$ 46,147,678	$ 46,147,678
9	Additional Current Tax Required	$ 19,987,775	$ 20,209,624	$ 20,431,473
10	Required Deferred ITC	$ 0	$ 0	$ 0
11	Test Year Deferred ITC	$ 0	$ 0	$ 0
12	Additional Deferred ITC Required	$ 0	$ 0	$ 0
13	Total Additional Tax Required	$ 19,987,775	$ 20,209,624	$ 20,431,473
14	Gross Revenue Requirement	$ 51,555,165	$ 52,127,389	$ 52,699,612

Schedule SMT 4

Kansas City Power and Light Company
Case No. ER-2006-0314

Weighted Cost of Capital as of June 30, 2006 for Kansas City Power and Light Company

Weighted Cost of Capital to Meet Cash Flow Required by Credit Metrics

Capital Component	Percentage of Capital	Embedded Cost		Weighted Cost of Capital Using Common Equity Return of: 17.87%	17.92%	17.97%
Common Stock Equity	53.24%	-----		9.51%	9.54%	9.57%
Preferred Stock	1.54% **	4.29%	**	0.07%	0.07%	0.07%
Long-Term Debt	45.22% **	6.08%	**	2.75%	2.75%	2.75%
Short-Term Debt	0.00%					
Total	100.00%			12.33%	12.36%	12.38%

Notes:

See Schedule 9 for the Capital Structure Ratios.

Embedded Cost of Long-Term Debt and Embedded Cost of Preferred Stock Taken from Response to DR 0178.1.