

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT

CASE NO. : HO-86-139

In the matter of the investigation of steam
service rendered by KANSAS CITY POWER & LIGHT
COMPANY.

DATE : APRIL 7, 1987

PAGES : 141 TO 270c, INCLUSIVE (INDEX: 270a-270c)

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Missouri Public Service Commission

PROCEEDINGS

(EXHIBIT NOS. 14 TO 19 WERE MARKED BY THE
REPORTER FOR IDENTIFICATION.)

EXAMINER HOGERTY: Come to order.

Mr. Kennett.

MR. KENNETT: May I just enter my
appearance. My name is Carrol Kennett, Assistant City
Attorney, 2800 City Hall, Kansas City, Missouri 64106, for
interventor Kansas City, Missouri.

EXAMINER HOGERTY: The company may call its
next witness.

MR. ENGLISH: Thank you, your Honor. KCPL
calls Mr. Michael C. Mandacina to the stand.

(Witness sworn.)

TERMINATION OF CENTRAL STEAM SERVICE ISSUES CONTINUED:

MICHAEL C. MANDACINA testified as follows:

DIRECT EXAMINATION BY MR. ENGLISH:

Q. Would you please state your name and by whom
you are employed.

A. My name is Michael C. Mandacina. I'm
employed by Kansas City Power & Light Company.

Q. Are you the same Michael Mandacina that
caused to be prefiled certain direct testimony in this case
which has been identified as Exhibit 14?

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1 A. Yes, I am.

2 Q. Do you have any changes or corrections to
3 make to your testimony?

4 A. No, I do not.

5 Q. If I asked you the questions contained in
6 Exhibit 14, would your answers be the same?

7 A. Yes, they would.

8 Q. Would you like to adopt Exhibit 14 as your
9 direct testimony in this matter?

10 A. Yes, I would.

11 MR. ENGLISH: Your Honor, certain questions
12 yesterday were referred by Mr. Beaudoin to Mr. Mandacina;
13 and what is your Honor's pleasure in addressing these
14 questions? Should I do it now or after cross-examination?

15 EXAMINER HOGERTY: Are you referring to
16 questions from the Bench?

17 MR. ENGLISH: Questions from the Bench and
18 also I believe from Staff counsel that were referred by
19 Mr. Beaudoin to Mr. Mandacina. I think these questions are
20 four in number.

21 EXAMINER HOGERTY: You may proceed.

22 BY MR. ENGLISH:

23 Q. Mr. Mandacina, were you present in the
24 hearing room yesterday when Mr. Beaudoin was on the stand?

25 A. Yes, I was.

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1 Q. And are you aware that he referred certain
2 questions to you for answer?

3 A. Yes, I am.

4 Q. I'd like to address these questions to you
5 for answer. The first question has to do with American
6 Formal Wear; and the question was, Was the energy audit for
7 American Formal Wear done in compensation for permission
8 to install a test boiler on the premises?

9 A. The answer is, No, it was not.

10 Q. Second question, Mr. Mandacina, is the
11 amount that the test boiler program cost KCPL. Do you have
12 that figure?

13 A. Yes. The test boiler program up to the
14 point that we stopped was \$539,212.

15 Q. Is that just capital costs?

16 A. That's everything.

17 Q. Mr. Mandacina, were you involved in the
18 process of National Starch becoming a steam customer of
19 KCPL?

20 A. Yes, I was.

21 Q. The question that was referred to you dealt
22 with the contractual arrangements between Corn Products,
23 National Starch, and Kansas City Power & Light. Could you
24 briefly explain the contractual process between these three
25 entities?

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1 A. Yes. Corn Products had entered into an
2 agreement that contained a cancellation clause. When
3 National Starch bought their plant, the process basically
4 involved assignment of the Corn Products contract to the
5 National Starch company for a short period of time at which
6 time the National Starch company terminated the agreement,
7 the original agreement which thereby caused them to be
8 responsible for the cancellation cost. We then entered a
9 new contract with National Starch for the steam service to
10 National Starch.

11 Q. I believe Judge Hendren asked a question
12 concerning the sizing of the steam pipe between Grand Avenue
13 Station and Corn Products, now National Starch. And the
14 question was, Can the line serve other customers besides
15 National Starch?

16 A. In today's situation it can. It was
17 designed to serve the Corn Products' load. The National
18 Starch load is significantly less than that; therefore, the
19 existing line has additional capacity that's unused.

20 And at the time of the National Starch/CPC
21 changeover we inquired to various companies in
22 North Kansas City who were generating their own steam if
23 they would, in fact, be interested in buying some of that
24 steam since we did have additional capacity in that line.

25 They were all relatively interested until

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1 they found out the capital costs that it would take to get
2 an extension from their present steam usage where the load
3 was and their buildings hooked on to the pipe. The problems
4 associated with that were enough to make it economically
5 infeasible for any of them to attach to the pipe. So
6 there's nobody really located close to the pipe that could
7 hook on.

8 MR. ENGLISH: Your Honor, yesterday Judge
9 Musgrave asked a question of the land area at Grand Avenue
10 Station. Our accounting department has pulled the
11 information for records; and for the Commission's
12 information, I've got three pieces.

13 The area of the power plant and the screen
14 house comprises 4.46 acres. The coal yard, which is to the
15 west of the power plant, is 5.26 acres in size. And we have
16 a substation as well called the Navy Substation which is .85
17 acres in area. The total area of the Grand Avenue Station
18 facilities is 10.57 acres.

19 Your Honor, at this time I tender
20 Mr. Mandacina for cross-examination on his prefiled testimony
21 and also his oral testimony this morning.

22 EXAMINER HOGERTY: Ms. Young.

23 MS. YOUNG: Thank you.

24 CROSS-EXAMINATION BY MS. YOUNG:

25 Q. Following up on the information that

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1 Mr. English just gave regarding the land at Grand Avenue, is
2 it true that the offer to donate the Grand Avenue Station
3 includes the building and ground in, what, the 4.46 acre
4 tract, but not the coal yard and the substation, or do you
5 know?

6 A. I'm sorry. I don't know that.

7 Q. I asked Mr. Beaudoin some questions
8 yesterday about the potential effect of the conversion plan
9 on summer electric load, and I believe he suggested I speak
10 to Mr. Graham about that; but do you have information as to
11 what the possible impact on the summer load would be?

12 A. Well, I can say just in general that it
13 would be minimum because the summer steam load is very
14 insignificant at this point; but Mr. Graham does have the
15 exact details on it.

16 Q. On Page 2 of your direct testimony you state
17 that you were promoted to manager of utility steam
18 operations in 1982. When was that position created?

19 A. At that time.

20 Q. So you were the first person appointed to
21 that position, right?

22 A. Yes.

23 Q. The testimony there also indicates that you
24 had general management responsibilities for all of KCPL's
25 downtown public utility steam operations. What were the

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1 goals, objectives, and responsibilities that you were given
2 at the time you took over that position?

3 A. It initially was to determine if we could do
4 a good enough marketing job to secure the Corn Products
5 company as a steam customer. The initial six or seven
6 months was spent by me just about entirely doing that. It
7 was a very intense marketing effort to be able to provide
8 that kind of load to connect to our steam plant. And at
9 that point in time that was the gist of my efforts.

10 After we had secured that load and it was
11 certain that we had established a direction at that point in
12 time for the steam business, then I got more involved in
13 looking into how the steam operation was run; and the
14 programs that ensued from there were a result of that.

15 Q. Had any of those later questions already
16 been addressed in terms of the condition of the steam system
17 and where the system was at the time you took over as
18 manager?

19 A. Had been addressed by me, you mean?

20 Q. No, by the company.

21 A. Oh, yes. In the late '70s and into the
22 early '80s, the company had done at least one formal study
23 and several informal studies in engineering with respect to
24 why the situation was getting into the loss characteristics
25 and everything else. The company had been looking at this

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1 all along. It got to a point where a formal report was
2 issued that was sort of the impetus to create the new
3 position to either do something or decide what direction to
4 go with the steam business.

5 Q. Okay. Now, according to the Staff testimony
6 and company documents that were obtained by the Staff in its
7 investigation in this case, it appears that you were quite
8 successful in changing that loss picture at least for the
9 short duration that Corn Products was on line at its full
10 demand.

11 Do you feel that your management of the
12 steam operations was successful in changing the steam system
13 from a stepchild of the electric operations to a profit
14 center?

15 A. I think the efforts that I did were
16 positive. The one thing that really made the difference was
17 the procurement of the Corn Products steam load as a large
18 base load factor. The other things were ancillary, and we
19 kind of cleaned up a few of the operations with respect to
20 better reporting and changed the structure of the actual
21 steam operations to a centralized responsibility rather than
22 a decentralized responsibility.

23 There was nothing magic in that. The thing
24 that made the difference was procuring the steam load for a
25 few years from Corn Products.

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1 Q. What was the steam loss situation in terms
2 of the distribution system when you took over as manager?

3 A. It was an aging system that over time was
4 developing leaks. There's kind of a misunderstanding when
5 we talk about steam losses. The reports the company puts
6 out say "steam unaccounted for" or "steam losses." All of
7 those aren't necessarily from the distribution system or the
8 pipes in the street. There were some losses from pipes in
9 the street when they deteriorated to a point where steam
10 escaped or an expansion joint burst and steam shot out.

11 There were a lot of other losses in the
12 total steam system other than just the distribution system.
13 There were a lot of losses in the customers of the system
14 which were also called losses, but basically it was
15 "condensate unaccounted for."

16 The system, as we have already heard in
17 testimony, was anywhere from 40 to 100 years old based on
18 the various parts of it. And as the pieces of distribution
19 equipment were exposed to different conditions in the
20 street, they deteriorated at different rates. And as we had
21 a leak, not just starting in 1982 but all years prior to
22 that, they were fixed.

23 So the distrubution system was maintained to
24 the extent that as the age caused leaks or other factors
25 caused leaks in the system, the company went out and fixed

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1 it.

2 MS. YOUNG: Excuse me for just a moment,
3 please.

4 BY MS. YOUNG:

5 Q. As manager of steam operations, Mr. Mandacina,
6 did you take an interest in other steam systems around the
7 country?

8 A. Yes. I tried to familiarize myself a little
9 bit. We didn't do anything very extensive.

10 Q. Was KCPL a member of the International
11 District Heating Association while you were a manager of
12 steam operations?

13 A. No.

14 Q. Did you participate in any of the proceedings
15 of that association while you were manager?

16 A. Yes, I did.

17 Q. As I understand, you presented a paper at one
18 of their meetings; is that correct?

19 A. That's correct.

20 Q. What was the subject of the paper?

21 A. The subject was the connection between our
22 power plant and the Corn Products plant. Basically we talked
23 about how the line was built and the background of that.

24 Q. As a result of whatever level of interest you
25 took in other steam operations around the country, were you

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1 previously aware of any of the sale transactions of district
2 heating systems that are referenced in Staff witness Dahlen's
3 direct testimony?

4 A. Yes.

5 Q. And were you basically aware of all or most of
6 those or just a portion of them?

7 A. I had heard of some of them. I had never
8 taken a very large interest in it.

9 Q. And what about the abandonments that he
10 described in his testimony? Were you aware of some of those?

11 A. Some of those.

12 Q. Also your testimony indicates that you are no
13 longer the manager of utility steam operations but that you
14 still have general management responsibility over those
15 operations. Does this mean that you spend less of your time
16 now in steam operations than you did when you were in the
17 other position?

18 A. That's correct.

19 Q. Do you still keep up at all with other steam
20 systems across the country?

21 A. The only aspect of keeping up with them has
22 been as a result of this case and reading various
23 testimonies.

24 Q. For instance, are you aware of the disposition
25 of the steam system in Rochester, New York?

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1 A. I've read a little bit about it. I can't talk
2 very well on it.

3 Q. What would have been the source of the
4 documents that you read about it?

5 A. I'm not sure. I recall hearing that as one of
6 the companies that's been looked at.

7 Q. And what with about the recent sale of the
8 Harrisburg, Pennsylvania steam system?

9 A. I think that maybe was the Rochester plant
10 that Catalyst Thermal was involved with. I think they're in
11 Pennsylvania or Philadelphia, I guess, is where they are.
12 They all kind of muddle up in my mind. I'm sorry.

13 Q. To what extent did you follow the details of
14 the transaction in the Commission case involving the sale of
15 the UE steam system and the Ashley generating system to
16 Bi-State Development authority and Thermal Resources
17 respectively?

18 A. When they had their case here in
19 Jefferson City, I sat in on the first day of the hearings just
20 to get a little more familiar with what was going on.

21 Q. And based on your keeping track or the
22 knowledge you had of these other transactions, why do you
23 think it is that district steam heating can succeed in
24 St. Louis and some of these other cities but not in
25 Kansas City?

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1 A. Well, there's probably several reasons.
2 Especially on the east coast where the gas rates are
3 considerably higher than they are in Kansas City, there's a
4 lot more competitive edge between just the cost of gas and the
5 cost of steam. There are different aspects of steam. If
6 you're considering waste to energy, the cost of landfills on
7 the east coast, for instance, are extremely higher than they
8 are in the Kansas City area. I'd say the general competitive
9 edge is a lot different in Kansas City even than in
10 St. Louis specifically with respect to the cost of gas if
11 nothing else.

12 Q. Now, on Page 12 of your testimony you refer to
13 purchase of the test boilers from Lattner Boiler Manufacturing
14 Company. Was this purchase made under competitive bidding
15 procedures?

16 A. No. I believe--and again Mr. Graham can
17 talk about the details of the test project, but I believe in
18 this situation due to the fact that it was a very limited
19 test situation, we did look at a number of boiler
20 manufacturers and chose one without a competitive bid.

21 But based on the facts that he had some
22 experience of this company and the representatives had
23 experience in the Kansas City area, our engineers were
24 familiar with the product, and it would provide us with a
25 good comparison to have a stable single unit to look at to

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1 see how it worked with respect to proving the concept rather
2 than testing several products, so we stuck with one for the
3 limited application of the test product.

4 We had discussed this with our purchasing
5 people in that typically when we enter a large project we do
6 go out for a competitive bid. Due to the extent of the test
7 project, however, it was a management decision that at this
8 point we would pursue on a limited basis the Lattner
9 boilers. And then as we advanced in the conversion plan, we
10 would go out for a competitive bid with whoever was
11 available to bid on it.

12 Q. And were the estimates that the company has
13 made of the cost, the total capital cost of the test boilers
14 made based on the costs of the Lattner boilers in the test
15 projects?

16 A. That was part of it. That was part of it.
17 The cost of the boilers was part of the total cost of doing
18 a test project.

19 Q. Mr. Mandacina, are you aware of any steps
20 taken by the company to involve customers in this case in
21 support of the company's conversion plan?

22 A. Well, we've kept our customers advised all
23 along on what was going on. We've had several meetings in
24 our building inviting all the steam customers in right
25 from the start as soon as we had discussed the test project

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1 concept with the Commission Staff, which we did before we
2 involved any of the customers.

3 After we had discussed what we planned to do
4 as a test project with the Staff, we had a meeting with our
5 customers and explained to them what the direction is, what
6 the results of our last few years efforts were, the fact
7 that Corn Products had gone away. We've involved--tried to
8 keep our customers involved right from the beginning, and
9 that's why we're approaching--

10 Q. Isn't it true, Mr. Mandacina, that the
11 company devised a six-step strategy to get customer
12 involvement in this case?

13 A. A six-step strategy? I'm not familiar with
14 your six steps.

15 Q. I guess I'm going to have to refresh your
16 memory.

17 MS. YOUNG: Could I have a moment, please.

18 Do you want me to go through the document
19 initially before I provide copies around?

20 EXAMINER HOGERTY: Are you planning to mark
21 it for an exhibit?

22 MS. YOUNG: I think I'm going to have to,
23 yes.

24 EXAMINER HOGERTY: Why don't you go ahead
25 and mark it.

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1 MS. YOUNG: Madam Examiner, at this time I'd
2 like to have an exhibit marked which is Staff Data
3 Information Request No. 690. The information was requested
4 from Mr. Steve Cattron. The response was provided on
5 February 9 of 1987, and the entire response is attached to
6 the data request.

7 EXAMINER HOGERTY: It will marked
8 Exhibit 20.

9 (EXHIBIT NO. 20 WAS MARKED BY THE REPORTER
10 FOR IDENTIFICATION.)
11 BY MS. YOUNG:

12 Q. Mr. Mandacina, I've provided you a copy of
13 Data Information Request No. 690 from this audit which was
14 requested from Mr. Steve Cattron on February 4 of 1987 and
15 the answer by the company on February 9 of 1987. Can you
16 tell me whose signature appears in the "Information
17 Provided" section?

18 A. Yes. That's mine.

19 Q. Is it true that the response to that Data
20 Request is a memorandum that you drafted to a list of
21 recipients including Mr. Doyle, Rassmussen, Mayberry,
22 Beaudoin, Showlander, and Graham?

23 A. Yes. That's the first document.

24 Q. And is the first attachment to that document
25 not a list of six suggestions for customer intervention in

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1 the steam rate case?

2 A. Yes. You could describe it that way.

3 Q. The first item shown is completed. I'd
4 like to ask you some questions about the remaining five
5 items on that list.

6 Was the second step or suggestion completed
7 regarding providing the spokesman with information as listed
8 there?

9 A. I guess I can answer in the affirmative in
10 that at this meeting a spokesman did stand up and address
11 the situation.

12 Q. Okay. And then No. 3, was that one
13 accomplished also in terms of the informal meeting?

14 A. Yeah. The location was our building.

15 Q. And would the same be true for No. 4, that
16 that was accomplished by the time of the informational
17 meeting?

18 A. Yes. I would add that it wasn't just
19 interested customers. It was all customers that were
20 invited.

21 Q. Thank you for clarifying that.

22 On No. 5 there seem to be two parts to that.
23 One has to do with the meeting itself in providing
24 information. Was that step accomplished?

25 A. Briefly, yes, I guess it was.

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1 Q. The second portion deals with offering
2 assistance for development of customer testimony. Was that
3 step accomplished?

4 A. To my knowledge, we did not get involved in
5 helping customers develop testimony other than providing
6 general information, press releases, and things that were
7 public information.

8 Q. Did you or any other company personnel to
9 your knowledge work with Mr. Mauro in preparation of his
10 testimony?

11 A. Mr. Mauro?

12 Q. Yes. For the intervenor.

13 A. No, not to my knowledge.

14 Q. Thank you, sir.

15 The final step is to request customers to
16 contact the Commission/Staff regarding possibility of
17 hearings to be held in Kansas City. Was this step completed
18 when the intervenor group filed its motion requesting a
19 local hearing in Kansas City?

20 A. I suppose you could say it was.

21 Q. Thank you. Is it also true that you sent a
22 letter to steam customers during the week prior to the local
23 public hearing regarding the public hearing in Kansas City?

24 A. I probably did.

25 Q. Was that letter send to all steam customers

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1 or just select steam customers?

2 A. As far as I recall, every time I sent a
3 letter out it was to all steam customers.

4 Q. As manager of the steam system, were you
5 ever contacted by persons outside the company concerning
6 availability of the steam system for sale?

7 A. Yes.

8 Q. And how did you respond to those inquiries?

9 A. I basically answered them all to the extent
10 that the steam system was not for sale.

11 Q. And was that your decision on how to respond
12 to those letters?

13 A. Those letters? You mean the inquiries?

14 Q. Yes.

15 A. No. That was the company policy.

16 Q. Okay. Would you have treated those
17 inquiries any differently if it had been your decision to
18 make--to handle those?

19 A. Probably not depending on the situation
20 with respect to the direction we thought steam was going.

21 Q. Under what scenario might you have responded
22 differently?

23 A. I would think that had a third party had the
24 funding to completely rebuild the system and was able to
25 serve the system in an unregulated mode and select his

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1 customers and it would have been beneficial for our
2 customers, that we may have talked about providing him the
3 opportunity to have a small area that we would give them. I
4 think it would have to be in conjunction with our complete
5 conversion plan, however.

6 Q. Thank you. Attached to the direct testimony
7 of Staff witness Mark Oligschlaeger is a phone message form,
8 a call in May of 1986 from a Kent McCord regarding interest
9 in buying GAS if it is ever for sale. Is GAS an
10 abbreviation for Grand Avenue Station?

11 A. Yes, it is.

12 Q. Did you return Mr. McCord's call?

13 A. I believe I did.

14 Q. Do you know what the nature--could you
15 expand on what the nature of his inquiry was?

16 A. As I answered in that data request, the
17 nature of his inquiry was, Would it be for sale; and my
18 answer was, No.

19 Q. And what was the reason for that response?

20 A. Because as I said before the policy was at
21 that time we were not and have not yet offered Grand Avenue
22 or the steam system for sale.

23 Q. When you were manager of the steam system,
24 were you ever given any kind of first rights to market steam
25 to prospective new customers in the downtown area over

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1 electricity?

2 A. I'm not sure what first rights are; but, no,
3 there was never any designation given me that I had any
4 ability to go do anything that would be different than the
5 electric customers should receive.

6 Q. And were you ever given any dedicated
7 marketing people whose sole or primary responsibility was to
8 market steam?

9 A. No. Can I add to that, or is that a good
10 enough answer?

11 Q. That's good enough. Thank you.

12 MS. YOUNG: I don't have any other
13 questions. Thank you.

14 EXAMINER HOGERTY: Ms. Bjelland.

15 CROSS-EXAMINATION BY MS. BJELLAND:

16 Q. Mr. Mandacina, I have just a few questions,
17 please.

18 If you could refer to Page 5 of your
19 testimony, beginning at Line 7 you refer to the steam
20 losses. In 1981 those losses were close to 45 percent of
21 the total system or total steam produced. And in the
22 following sentence it indicates that steam losses were
23 reduced to about 20 to 25 percent in a more recent period.
24 Could you tell me or give me the specific percentage of
25 losses for the years 1982 through 1986?

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1 A. Yes. I think I have those. Percentage
2 losses from '82 to '86?

3 '82 was 34 percent--34.6; '83 was 26.6; '84
4 is recorded as 27.4; '85 was 22.6; and '86 was 26.4; and
5 those are percentages.

6 MS. BJELLAND: I have no further questions.
7 Thank you.

8 EXAMINER HOGERTY: Mr. Finnegan.

9 CROSS-EXAMINATION BY MR. FINNEGAN:

10 Q. Mr. Mandacina, while you're on Page 5 there
11 talking about that same question, you indicate that the
12 reduction in steam losses was due to the leak repairs. Was
13 it also not due to the fact that you found some customers
14 who were not running all their condensate through the meter?

15 A. That was part of it, yes.

16 Q. With respect to the energy audits that KCPL
17 has run, how much have these cost?

18 A. I'm sorry. I don't have those details.
19 Mr. Graham will have them.

20 Q. You gave a figure for the test boiler
21 program to date is \$539,212, I believe?

22 A. Yes.

23 Q. And does that include some energy audits for
24 those particular buildings?

25 A. No, it does not.

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1 Q. Now, who is paying for these--this test
2 boiler program? Is this the steam customer, the electric
3 customer, or the stockholders?

4 A. The shareholders--stockholders.

5 Q. You're not requesting any of that money in
6 this case?

7 A. As far as--well, to my knowledge, and I'm
8 not well versed with the accounting procedures, but that is
9 all being accounted for in a separate function that is going
10 to be borne by the shareholders to the best of my
11 knowledge.

12 Q. With respect to the National Starch
13 contractual arrangements, I believe you said that Corn
14 Products had a contract with a cancellation clause?

15 A. Yes.

16 Q. And then it was assigned to National Starch?

17 A. The whole contract was assigned to National
18 Starch.

19 Q. National Starch terminated the agreement and
20 paid a cancellation charge, is that correct, or you
21 negotiated a new agreement in lieu of the cancellation
22 charge?

23 A. No. National Starch is paying the
24 cancellation charges from the original contract over a four-
25 or five-year period, different amounts. In addition to

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1 that, they also negotiated with us an agreement for us to
2 sell them steam completely separate than the original
3 contract.

4 Q. Are these on terms more favorable than Corn
5 Products' contract?

6 A. The costs are similar. I don't know. Its
7 average is about \$6 an Mlb for National Starch.

8 Q. Are the cancellation amounts that are being
9 paid going into steam revenues, or do you know that?

10 A. I don't recall.

11 MR. ENGLISH: We'll find that answer.

12 THE WITNESS: We can find out and let you
13 know. It's easy to check.

14 BY MR. FINNEGAN:

15 Q. With respect to the question of being
16 contacted by interested potential purchasers, I guess, do
17 you recall being contacted by Mr. Tab Schmidt of Thermal
18 Resources or now maybe known as Catalyst Thermal?

19 A. Yes.

20 Q. Somewhere in the '83 to '86 time frame?

21 A. Yes.

22 Q. And you advised him that the system was not
23 for sale?

24 A. That's correct.

25 Q. On Page 6 of your testimony you refer to the

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1 fact that the use of coal has been cut back substantially
2 because of a) Corn Products, and b) because you don't
3 generate electricity anymore; is that correct?

4 A. Well, the use of coal was cut back in the
5 production of steam because Corn Products left the system,
6 if that's what you meant.

7 Q. Right. But if the Grand Avenue Station were
8 still utilized to produce electricity, there would be a need
9 to burn coal again, would there not, or under that scenario?

10 A. Technically when Grand Avenue was an
11 electric production station, it did burn coal to make
12 electricity as well as steam.

13 Q. And if another purchaser, another entity
14 purchased the system or condemned the system and took it
15 over, it could sell electricity, could it not, to KCPL under
16 the PURPA guidelines?

17 A. Well, I think you asked two different
18 questions there. There are legal--there is a legal method
19 for someone to sell electricity back to an utility.

20 Q. And if an entity were a governmental entity,
21 it could sell electricity to itself and to others--I mean,
22 in its area, to itself at least?

23 A. Well, if you say "sell it to itself," I
24 suppose that's--yes, it could.

25 Q. All right. Now, on Page 8 through basically

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1 about Page 10, you give the step-by-step process that KCP&L
2 went through in the conversion test program or project; is
3 that correct?

4 A. Well, it's not a detailed step by step. It's
5 a general overview. It discusses the generalities of the
6 test project.

7 Q. And you talk about things such as how long
8 it took to get city permits for construction and other
9 factors that were involved in this test project?

10 A. That's correct.

11 Q. Something seems to be missing, and that's when
12 KCPL went to the Public Service Commission and asked for its
13 approval to operate--to run this project. Was there any such
14 a step taken?

15 A. To the best of my knowledge this case is the
16 first time we've gone to the Commission asking for approval.
17 We discussed the aspects of the test project with the Staff
18 before we began anything.

19 Q. You made no formal request for a variance from
20 the Promotional Practices Rule or anything like that; is that
21 correct?

22 A. At the time that we were talking to the Staff
23 and subsequent to that, we did not feel that there was any
24 need based on the discussions we had for any kind of a
25 variance from the Promotional Practices Rule because we did

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1 not have the understanding that anything we were doing was or
2 would be in conflict with that rule and still don't.

3 Q. Giving away a boiler in your mind does not
4 conflict with any Promotional Practices Rule?

5 A. The test boiler plant as it has been laid out
6 does not have any conflict with the Promotional Practices
7 Rule in my mind.

8 Q. Mr. Mandacina, you're not a lawyer, are you?

9 A. No, I'm not. I'm an engineer.

10 Q. On Page 14 of your testimony you mention--you
11 talk about the unusual problems that have surfaced during
12 the test project include providing adequate mechanical
13 support for the boiler. You say it on Lines 20 and 21.
14 Could you elaborate on this basically what you mean by
15 providing adequate mechanical support for the boiler?

16 A. There were several interesting situations in
17 the various buildings. Every building is a little
18 different. In order to locate a boiler in a space that was
19 halfway available or could be made available near the steam
20 entrance, one in particular area that we found was in a
21 basement of a very old building that was right next to the
22 wall where the steam pipe came in through the wall
23 underground from the alley.

24 The area right there was basically empty.
25 The customer wasn't using it for anything. He had a few old

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1 boxes stored there which he could easily move. When those
2 boxes were moved, we found there was no real concrete floor
3 there. It was basically dirt and gravel. And in order to
4 provide a solid foundation, we had to lay some concrete to
5 set the boiler on.

6 Q. Is that what you mean by adequate mechanical
7 support?

8 A. Yes. That's one of the examples.

9 Q. I thought perhaps you might have been
10 referring to the need for maintenance personnel, mechanical
11 maintenance people to repair and operate the boiler.

12 A. I guess it should have said "structural
13 support." I'm sorry.

14 Q. What have you found though in the way of
15 what's needed for mechanical maintenance as opposed to the
16 operation where the steam pipes just come into the building
17 and run through it and come back out again?

18 A. Well, in some cases maintaining the boilers
19 is a lot easier than maintaining some of the valves in the
20 steam line. The boilers themselves are various sizes; and
21 the larger you get, the more heating is required which means
22 you have more controls. But basically it's like a big hot
23 water heater.

24 We found that our steam trouble men have
25 been very adequately able to handle the operation and

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1 maintenance for the most part of these. These are steam
2 trouble men who have been in the steam department for many
3 years who had not worked on anything like this before. And
4 part of the test project was to provide us the understanding
5 and experience of how well those fellows would adapt to
6 maintaining and operating these kind of boilers. And for
7 the most part they have shown us that they're pretty easily
8 trained on the minimal aspects of the boilers themselves and
9 have been able to handle it.

10 Q. And once you stopped providing the
11 maintenance on these boilers, it would be up to the building
12 owner to provide its own maintenance?

13 A. That's correct. That's the plan.

14 Q. Presently the building owner does not have
15 to maintain a boiler?

16 A. Some building owners already have people on
17 site maintaining their own system. Sometimes it's chillers;
18 sometimes it's other equipment. If the customer is a steam
19 customer that has any kind of valving in a system, he
20 already has people or contracts people to do that type of
21 maintenance too, which, like I said before, sometimes is a
22 lot more costly and labor intensive than maintaining a
23 boiler in our experience.

24 Q. And for those who do not have that
25 personnel, they will have to get such personnel?

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1 A. To the extent that it would be necessary.
2 Typically those customers that don't have that personnel
3 already are a much smaller building, and it would be a
4 minimum amount of labor needed, probably nothing more than
5 maintaining a hot water heater in your home.

6 MR. FINNEGAN: That's all the questions I
7 have.

8 EXAMINER HOGERTY: Mr. Kennett.

9 CROSS-EXAMINATION BY MR. KENNETT:

10 Q. Mr. Mandacina, if you get completely out of
11 the central station steam business, are any of your people
12 in the steam department going to be unemployed?

13 A. No. I think that with respect to the
14 present situation in the company we would not lay them off
15 directly. Those people basically all have enough seniority
16 that we can place them in other positions.

17 Q. They'll have other positions for them as
18 they already have for you?

19 A. I guess I don't understand the question.

20 Q. Well, at one time you were the manager of
21 steam operations; now you have two or three other jobs?

22 A. That's correct.

23 Q. So that is downgrading the steam department
24 right there, is it not?

25 A. No, sir. As a matter of fact, there is

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1 still a person whose full job is manager of utility steam
2 operations. It's just not me anymore. We still have a
3 complete staff maintaining the steam system and operations
4 that is of the same manpower level that it has been for the
5 last two or three years. It's just different people.

6 Q. In response to a question from the Staff
7 counsel, you stated that you never had anyone whose primary
8 function was to market steam; is that correct?

9 A. They said sole purpose was to market steam.
10 We have at least--

11 Q. Okay. So I'll say whose sole function--
12 whose sole function, not primary function, whose sole
13 function was to market steam?

14 A. In the years I've been involved with it,
15 that's true.

16 Q. Did you have--do you have in the last five
17 years a person whose primary function was to market steam?

18 A. In that context, no. We have people who
19 have a lot of time spent in account maintenance and helping
20 steam customers and providing, if you wish, a marketing
21 effort to keep the steam customers.

22 Q. How about a marketing effort to obtain new
23 customers?

24 A. In conjunction with the commercial
25 operations personnel, we have people that do talk to new

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1 customers and provide them the rates and other aspects of
2 becoming a steam customer. Typically, it's their decision.

3 Q. Do you know the last, shall we say, major
4 steam customer added to your system?

5 A. I believe it was the Vista.

6 Q. And how long ago has that been?

7 A. Mr. Graham will have those exact details.
8 It's been several years. The decision was made a long time
9 prior to their actually coming on board for them to be a
10 steam customer.

11 Q. Now, a couple of years ago you laid a new
12 line in Main Street, didn't you?

13 A. We coventured the line that was installed
14 from Main Street so the AT&T building and the new building
15 could be built over the existing line. We had to basically
16 abandon an existing line and redo the direction of that
17 line, which ended up coming down Main Street to maintain the
18 integrity of the system.

19 Q. Since the Vista went on the line, the AT&T
20 building has been completed?

21 A. Uh-huh.

22 Q. The Commerce Bank building is now open.
23 United Missouri Bank building; is that right?

24 A. To my knowledge, yes.

25 Q. And the one that Executive Hills built there

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1 at 12th and Wyandotte?

2 A. Yes. That's a new one too.

3 Q. None of those buildings are on the steam
4 system, right?

5 A. That's correct.

6 Q. What effort, if any, did the company make to
7 market the steam system to the developers of those buildings?

8 A. Well, I can tell you what I think. It would
9 probably be better to defer to Mr. Graham whose people were
10 actually responsible for doing that. He can tell you the
11 exact details.

12 Q. And the building is now going up there south
13 of 12th Street between Main and Walnut, or is it Baltimore
14 and Main, I guess, being built by Executive Hills--

15 A. Yes, I know the building.

16 Q. Has any effort been made--was, to your
17 knowledge, to market the steam system to that building?

18 A. Well, yes, I think there was. And again
19 Mr. Graham's people are the one's that are responsible for
20 doing that; and I would rather defer to him so he can give
21 you all the details.

22 MR. KENNETT: I have no further questions.
23 Thank you.

24 EXAMINER HOGERTY: Questions from the Bench?
25 Commissioner Mueller.

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1 QUESTIONS BY COMMISSIONER MUELLER:

2 Q. Mr. Mandacina, you may have touched on this,
3 but I wasn't here. What was the event which prevented Corn
4 Products from using the amount of steam that they had
5 previously contracted for? Did they change their production
6 or product line or anything like that?

7 A. You mean National Starch?

8 Q. National Starch. I'm sorry.

9 A. Corn Products, the original customer, had an
10 estimated demand of about 250,000 pounds per hour. And
11 they never did get up to that level. They actually operated
12 for a couple of years about 160,000 pounds per hour.

13 When National Starch bought the Corn
14 Products plant, their--National Starch's Product was starch
15 oriented rather than additive--sweetener additives that Corn
16 Products produced. Therefore, National Starch actually
17 changed the tail end of their process; and in doing that
18 they built a new building that used a direct gas flame for
19 drying in the last stages of the starch process. That then
20 reduced the total load that they had required for steam
21 considerably. And it was basically a different process than
22 Corn Products had used.

23 Q. Different process. Totally different
24 product then too?

25 A. Yes--well, the end result was. They both

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1 start with corn, you know, wet milling process, but the end
2 result was more geared toward starch than sweeteners.

3 Q. When the AT&T building went on or was built,
4 what was the--what system do they use now? Are they on a
5 gas boiler?

6 A. No. I believe they have electric space
7 heating.

8 COMMISSINOER MUELLER: Thank you.

9 EXAMINER HOGERTY: Commission Hendren.

10 QUESTIONS BY COMMISSIONER HENDREN:

11 Q. On Page 6 where you talk about the plant
12 originally being built for electric generation--

13 COMMISSONER HENDREN: Can you here me down
14 there with that noise?

15 THE REPORTER: Yes.

16 BY COMMISSIONER HENDREN:

17 Q. You talk about the boilers were designed for
18 that purpose, for electric production and then steam. Have
19 you estimated the cost if you would put in boilers to have
20 the thermal level that you would need to continue to provide
21 steam service and continue the plant? If you replace those
22 boilers, do you have a cost estimate?

23 A. Yes. That was included in the conversion
24 plan, and I think that's between the \$20 and \$50 million range
25 that was looked at as one of the alternatives. The conversion

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1 plan itself resulted from the study, and we looked at all of
2 those things. And I don't recall the exact numbers. It's
3 filed as an exhibit in somebody's testimony.

4 Q. I think the plan was part of Mr. Beaudoin's
5 yesterday, so that number would appear in there?

6 A. It's in there somewhere.

7 Q. And so you considered that alternative and
8 found that not economically feasible?

9 A. That's correct.

10 Q. And if you were to abandon the system, would
11 you have to do anything with all that underground piping?
12 Would any of it have to be removed or filled in? What would
13 have to be done?

14 A. Well, we anticipate that at least the
15 manholes would have to be filled in to meet whatever kind of
16 codes would be required. A lot of the underground piping is
17 encased in concrete, so it's not going to settle or
18 collapse.

19 We have a process now that we're using for
20 backfilling in our steam excavations to go down and fix a
21 pipe where we use fly ash. It's a wet fly ash product that
22 sets up sort of like concrete but not nearly as hard, and it
23 can be pumped pretty easily.

24 We will probably use the fly ash product to
25 do a lot of the filling and backfilling. It reaches a

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1 consistency a lot stronger than dirt or other type of
2 backfill, but not as hard as complete concrete. It can be
3 changed in that hardness depending on how you originally mix
4 it. So if we do find that certain either manholes or pieces
5 of distribution sections have to be filled for whatever
6 reason, we anticipate pumping fly ash into them at least at
7 this time. But we really haven't looked at that technically
8 yet. There may be other things that come up when we look
9 into it.

10 Q. So you don't have a cost estimate as to what
11 it would be to make that safe permanently, I guess?

12 A. No, because it's basically safe now. Those
13 pipes aren't going to collapse now. It wouldn't necessarily
14 be any aspect of making it safe. It's not in an unsafe
15 condition now. It would just be permanent abandonment.

16 Q. But you don't have a cost estimate on that?

17 A. No, ma'am.

18 COMMISSIONER HENDREN: Thank you.

19 EXAMINER HOGERTY: Commissioner Fischer.

20 QUESTIONS BY COMMISSIONER FISCHER:

21 Q. Mr. Mandacina, how many potential purchasers
22 have contacted you or other personnel of Kansas City Power &
23 Light in recent years regarding the potential sale of the
24 steam system?

25 A. Well, in the data request I answered about

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1 four or five, I believe. I've had several phone calls, and
2 I don't even recall the names because it was a very short
3 conversation.

4 Q. You mentioned a couple of them in cross, a
5 Tab Schmidt of Thermal Resources?

6 A. Yes.

7 Q. There was another name too that I didn't
8 catch.

9 A. McCord or McCafree (phonetic). It was on a
10 telephone note. It was in my files. That's the only way I
11 could have remembered it.

12 Q. And who would he be?

13 A. He was--if I remember from the little note,
14 he was an equipment manufacturer's rep; but I'm not not
15 sure. It was, like I say, just a little note that happened
16 to be in my file.

17 Q. Have you had contacts from the city or
18 Jackson County?

19 A. Yes, we have to the extent that I appeared
20 before the City Energy Commission several times. In the
21 meeting itself, the question was posed, Would Kansas City
22 Power & Light be willing to sell the system? So from that
23 aspect, yes, we have.

24 Q. Were there any other contacts that you can
25 remember regarding--that might be classified as potential

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1 purchasers other than those three or four?

2 A. Recently we had a call from a fellow from
3 England who chatted with us a little bit about what the
4 system consisted of. He had seen the notice about the rate
5 case in the newspaper and was interested in finding out what
6 it was all about. And we explained it to him, and he had no
7 interest then.

8 Q. If the Commission permits Kansas City
9 Power & Light to abandon the steam business, will the
10 distribution lines have substantial value to the company?

11 A. I guess I don't really know how to answer
12 that. Like I tried to answer before, we are not certain
13 exactly what has to be done with those lines, if anything,
14 or if we could use them in some way. Some of them are in
15 good shape, and some of them aren't. Book valuewise, there
16 is book value I'm sure, a plant value. I guess value
17 depends on what you're going to use it for or who wants
18 them.

19 Q. Do you know of other purposes that you could
20 use that distribution steam network for?

21 A. Technically I'm really not well versed
22 enough. There's always a possibility of putting some other
23 type of cable inside that pipe perhaps.

24 Q. Like fiber optics?

25 A. Perhaps. Initially, though, I don't think

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1 that would be as efficient as just laying a new system
2 because the valving and such of the steam system probably
3 would prevent any contiguous running of a cable. But I
4 don't know for sure. Our engineers would have to tell us
5 that.

6 Q. Would it have any value to the electric
7 system? Would you ever put electric cable through that?

8 A. I would doubt it.

9 Q. If the Commission permits Kansas City
10 Power & Light to abandon the business, would you explain
11 what plans the company would have for the Grand Avenue
12 Station? I've read about Friends of the Aquarium proposal,
13 and I'm not clear whether you dismantle the Grand Avenue
14 plant in order to donate the land, or just what all would be
15 involved in that.

16 A. Well, I don't have too much more detail
17 either. I understand that the concept is to provide that
18 building to the Friends of the Aquarium.

19 Q. The building itself, not the land?

20 A. Well, the building and the land it sits on,
21 I'm sure.

22 Q. Do you know if whether the plant would have
23 to be dismantled in order to accomplish that?

24 A. In my best guess, I don't think anybody
25 could use it with all that equipment in there.

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1 Q. So the equipment would be taken out, and the
2 building shell would be left?

3 A. I don't know what the plans are, if there
4 are any plans; but in my best estimate, yes, that would be
5 the approach or one of the approaches.

6 Q. Can you explain to me who is this group
7 called the Friends of the Aquarium?

8 A. I don't know any persons' names. It's a
9 group of people that have gotten together in the Kansas City
10 area, and they've been around for several years. It's a
11 not-for-profit type group that are interested in bringing
12 the aquarium to the river front to help the Kansas City
13 development on the river front development.

14 Q. Is that a new group or has it been around
15 for a while?

16 A. It's been around several years.

17 Q. Do you know if Kansas City Power & Light has
18 considered offering the Grand Avenue Station for sale or
19 donation for other purposes?

20 A. Not to my knowledge.

21 Q. Can you explain what development plans
22 exist that you're familiar with for the river front area in
23 Kansas City just generally?

24 A. In general, yes, the William Mitchell River
25 Boat was brought up here a year or so ago. That was the

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1 initial development effort. That has run into some problems
2 here in the last year, but that was intended to be the
3 impetus for future development in the river front area.

4 At this point in time I think everything is
5 kind of stalled with respect to funding. The plans, though,
6 as I've read in the paper is to gear that immediate
7 river front area into a development with the present city
8 market area and try to combine those two areas into a more
9 attractive river front development especially for tourism.

10 Q. Do you know if that would include the river
11 quay or not?

12 A. Yes, it would. They're separate areas.

13 Q. Is there also a discussion of putting a race
14 track in that area?

15 A. Not right in that right immediate area. I
16 think--the horserace, you mean, or the dog races? That area
17 would not be suitable right there on the river front. Now,
18 maybe upstream or downstream there's room; but I'm not
19 really an expert on this.

20 Q. I'm just trying to get an understanding of
21 where things are at in Kansas City. I had heard the
22 livestock area might be an area for a horseracing track?

23 A. That's not right in this immediate area
24 we're talking about.

25 Q. Is there a major development firm that's

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1 involved in the development of the river front area other
2 than the Mitchell company?

3 A. Well, that's not really a firm. That's a
4 group of--there's a River Front Development Association.
5 That's another not-for-profit group. I don't know offhand
6 of any actual real estate firm or development firm that's
7 involved. I'm sure there's alot looking.

8 Q. We heard at the local hearing about a task
9 force that had been established to look at some of the waste
10 problems in Kansas City. Were you in attendance at that
11 local hearing?

12 A. Yes, I was.

13 Q. Has Kansas City Power & Light had contact
14 with that group, and if so would you explain the contacts?

15 A. Well, there were, I think, several different
16 groups at the public hearing. We have had contacts through
17 the aspect of the city's task force for waste to energy. We
18 have a company person who is on that task force; and she has
19 been involved with the task force development in that
20 continuation for several years now, and she has kept in
21 touch with those people.

22 Q. You mention that the company had made a
23 policy decision not to offer the Grand Avenue Station or the
24 steam distribution system for sale; is that correct?

25 A. That's correct.

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1 Q. Do you know when that decision was made?

2 A. I don't know the exact time. It's always
3 been my direction though from the Senior Executive Officer,
4 Chief Executive Officer.

5 COMMISSIONER FISCHER: Thank you very much.

6 EXAMINER HOGERTY: Commissioner Musgrave.

7 QUESTIONS BY COMMISSIONER MUSGRAVE:

8 Q. Is there a possibility that you could sell
9 off a portion of the steam distribution system if you found
10 a would-be buyer?

11 A. I think there is that possibility
12 technically.

13 Q. In a very confined, several block area or
14 how? Just supposing that somebody was interested in buying
15 a portion of it, what do you think would be their interest?

16 A. Well, we answered a question from the city
17 that basically directed that concept of tying several of the
18 government buildings in the southeast part of downtown
19 together on a small little steam system. And brief review
20 of that showed that technically it's possible, although
21 financially it's cheaper for them to have an individual
22 electric boiler in each of those buildings.

23 Q. What's the distance between your furthest
24 north steam customer and the one that is farthest south?

25 A. About 15 blocks, which would be a little

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1 over a mile, I guess a mile and a half.

2 Q. What is your northernmost market?

3 A. Old Townley Hardware is just a little north
4 of City Market. On about 3rd and Grand was the Western
5 Adhesives plant until that burned down. So I guess it's
6 City Market is farthest northernmost now. The Power & Light
7 building is at 14th Street, and the Missouri Unemployment
8 building is actually at 5th and Main, the corner of 5th and
9 Main, so that's probably the southernmost customer.

10 Q. What plans are being made for the
11 Kansas City Power & Light building for heating service if
12 the Commission allows the company to go out of the steam
13 business?

14 A. We would use electric boilers, or we would
15 offer the customer who owns the building the opportunity to
16 take advantage of the plan. It would be the customer's
17 choice. We don't own that building.

18 Q. The steam lines that are in the streets in
19 Kansas City, are those encased in an easement that all the
20 utilities have, or do your steam lines just run individually
21 through there?

22 A. We typically are within an easement in the
23 street. Around the steam lines there is all kinds of other
24 zig-zags and parallel and crossing and everything. And
25 that's part of the problem of trying to make a repair in

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1 digging down to where our steam line is, which is, except
2 for the water lines, usually the oldest, which means it's
3 usually on the bottom. There's a lot of different types of
4 cables and pipes and things around our steam lines.

5 Q. They're not straight for any particular
6 distance then?

7 A. There is a requirement I'm sure especially
8 with respect to the electric cables, how far they have to be
9 from other pipes and things. Sometimes the steam lines are
10 as much as 20 feet deep; sometimes they're 8 feet deep, so
11 there are varying distances between the utilities depending
12 on which section of the block you're looking at.

13 Q. Why are there various depths of the lines?

14 A. Typically when the steam lines were put in,
15 they were put in a lot lower than a lot of the more recent
16 utilities because it's cheaper not to have to dig them so
17 deep, and all those other utilities weren't there. And a
18 lot depends on the terrain of the city hills when they put
19 the line in.

20 Q. Do you use television cameras to check your
21 steam lines like they do for the sewers?

22 A. No. We never have that I'm familiar with.
23 You mean inside the pipe? No. The only way we have any
24 ability to check a steam line, other than seeing when the
25 steam leaks, is to use an infrared scanner. That is kind of

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1 a complex piece of equipment that measures temperature
2 differentials.

3 And back in the early '70s they started
4 doing this to try to maintain the lines or find out where
5 leaks were. And they would at night on a winter day or
6 winter evening drive up and down the street or the alley
7 where the steam line was located and take these infrared
8 pictures and that was an attempt to try to isolate a steam
9 leak or determine if there were steam leaks going that we
10 didn't know about.

11 It doesn't work too well because as I said
12 some are as deep as 20 feet deep, and this infrared
13 connector is just a measurement of temperature differential.

14 Q. Sort of like flying over the houses and
15 seeing how much snow was melted on top?

16 A. It's not even that precise because you can
17 typically--you can see the color differential where they
18 don't have the problem. As I mentioned before, the pipes
19 are typically encased either in concrete or something, and
20 you may have a leak at one point and that steam may not just
21 go straight out. It may travel laterally large distances
22 before it gets to the surface, so the infrared--but the leak
23 might be 20, 30 yards away.

24 COMMISSIONER MUSGRAVE: Thank you. That's
25 all the questions I have.

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1 EXAMINER HOGERTY: Redirect?

2 MR. ENGLISH: Three questions, your Honor.

3 REDIRECT EXAMINATION BY MR. ENGLISH:

4 Q. Mr. Mandacina, Staff counsel has asked you
5 certain questions about other steam utilities; and you and
6 she had some discussion about the relative economics. Do
7 you recall that discussion?

8 A. Yes.

9 Q. Do you have any information with respect to
10 the relative economics of, say, steam versus gas in any of
11 the cities that Catalyst Thermal serves?

12 A. Yes. It appears that the cost of gas in
13 Kansas City is considerably lower than the cost of gas in
14 St. Louis or Boston or Philadelphia. And that in itself
15 would provide a lot more competitive edge in those other
16 cities for a steam utility to the extent that they were able
17 to provide steam at a lower cost than that gas, which isn't
18 necessarily the case in Kansas City.

19 Q. Do you recall discussing on
20 cross-examination certain discussions of the test project
21 with the Staff that you testified that you had?

22 A. Yes.

23 Q. Can you identify the Staff members that were
24 present during these discussions that you attended?

25 A. I don't have any notes on that; but if I

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1 recall, a Mr. Washburn was there, a Mr. Ketter was there, I
2 believe a Mr. Carver. And there were two other people, and
3 I'm not sure I recall; maybe Mr. Featherstone, but I'm not
4 certain. It's been several years ago.

5 Q. Did Staff suggest any changes in how KCPL
6 proposed to approach the test boilers and the pricing?

7 A. Yes. We had originally developed the concept
8 of the test project in that we would sell electricity to the
9 customers. It was the Staff's suggestion that it would be
10 better to provide the electricity to the boiler and sell the
11 test project customers steam rather than electricity and have
12 them continue to be steam customers.

13 Q. Mr. Mandacina, to your knowledge has KCPL
14 given these boilers to the test customers?

15 A. No. I think the aspect of the test
16 project--it was understood that we explain to the customers
17 what we were doing in hopes that the Commission would
18 approve a conversion plan that would result in our ability
19 to then provide boilers to all our customers. And if they
20 had one as a test project, then they would be the initial
21 recipients at that time.

22 Q. Under what tariffs were these test customers
23 charged before the test boilers were installed?

24 A. The existing steam tariffs.

25 Q. What tariffs were they charged after the

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1 boilers were installed?

2 A. The same existing steam tariffs.

3 MR. ENGLISH: Thank you, Mr. Mandacina.

4 EXAMINER HOGERTY: Recross, Ms. Young?

5 MS. YOUNG: Yes, thank you. I have several
6 questions.

7 RE CROSS-EXAMINATION BY MS. YOUNG:

8 Q. You mentioned that the company coventured
9 on construction of a new steam line in Main Street. What
10 caused this new construction to be required?

11 A. The building of the new AT&T building.

12 Q. And what are the terms of this coventure
13 that you referred to?

14 A. We paid a third of the cost of installation
15 of the pipe. AT&T, I believe, paid a third; and I think the
16 city paid a third. I'm not sure. We can check on that for
17 you. There were three parties involved.

18 Q. And what was the rationale for the division
19 of the costs?

20 A. I don't know that I could tell you what it
21 was. I didn't make the decision.

22 Q. Does the company have a tariff policy
23 regarding instances where relocation or reconstruction of
24 mains is required by a construction project?

25 A. For electric?

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1 Q. No, for steam.

2 A. For steam. I'm trying to recall that
3 aspect. I think with respect to providing service to a
4 customer, I would assume there isn't. I don't recall the
5 tariff. Again, I can check and read the tariff and tell
6 you what's in it.

7 Q. Thank you. In answer to a question from
8 Commissioner Hendren you mentioned that the company
9 considered purchasing boilers of the appropriate size at
10 Grand Avenue. Is it not true that you only considered
11 electrode boilers and not natural gas boilers?

12 A. I really don't recall. Again, as I said,
13 it's in the study itself as one of the decision
14 possibilities. We can check and let, you know.

15 Q. Isn't it true that Mr. Beaudoin testified
16 yesterday that natural gas was not considered as an option
17 at Grand Avenue? Never mind. The record can reflect what
18 he testified to.

19 A. I don't recall. If that's what he said,
20 that's fine.

21 Q. Regarding these discussions with the Staff,
22 you, I believe, mentioned discussions on the test boiler
23 project; but then in response to questions with Mr. English
24 talked about a meeting, is that correct, which--was there
25 more than one discussion? Was there only one meeting? Do

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1 you recall?

2 A We came to Jefferson City here to meet with
3 the Staff; and as far as I remember, that was the only
4 meeting.

5 A. There may have been other discussions by
6 phone with our rate department people.

7 Q. Who was in attendance for the company at
8 that meeting?

9 A. Myself and Bob Sullivan, and I can't recall
10 if anyone else was.

11 Q. And you mentioned the Staff personnel who
12 were in attendance and that possibly you didn't recall all
13 of them. Were any of the Staff representatives at the
14 meeting attorneys?

15 A. I don't know what they were.

16 Q. Who is the current manager of utility steam
17 operations at the company?

18 A. Mr. Al Blair.

19 Q. At the time of the meeting regarding the
20 test boiler program, isn't it true that the company
21 presented the program as a means of enabling the company to
22 disconnect some customers from what they conveyed to the
23 Staff were leaky, older steam lines, that they wanted to do
24 this for better efficiency of the steam system?

25 A. That was one of our original intents in the

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1 test program. We pursued the direction of trying to obtain
2 customers to participate in the test program initially
3 based on their physical location geographically on that
4 system. That didn't work very well.

5 Q. Isn't it true that that was the only purpose
6 that was presented to the Staff at that meeting?

7 A. I don't think so, no. We tried to explain
8 to them the whole purpose of the test project with respect
9 to an ensuing conversion plan. One of the ways of
10 implementing that was by starting on the ends of lateral--
11 old lateral runs.

12 Q. You mentioned the relative economics of gas
13 and steam prices in several cities. Those were St. Louis,
14 Philadelphia, and which other city?

15 A. I think the question was based on the aspect
16 of where Catalyst Thermal had installed plants, and I think
17 they're in Baltimore and Philadelphia.

18 Q. Okay. Baltimore was the one I missed. Are
19 you aware of the relative gas and steam prices in the city
20 of Omaha?

21 A. Not very well, no.

22 Q. Is it likely that there would be a closer
23 relationship in Omaha than on the east coast?

24 A. Closer relationship to what?

25 Q. Would they be closer to competitive in

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1 Omaha, most likely?

2 A. Oh, most likely, in general I would assume
3 they are. The Omaha system is considerably different than
4 some of other systems in that they generate chilled water as
5 well as steam, and they have a four-pipe system that--they're
6 not just selling steam as a part of their product. They're
7 selling chilled water too, so it's not really apples to apples
8 comparison. It's a different package.

9 Q. How does that relate to the price of natural
10 gas that I asked you about?

11 A. The competitive aspect of what their is with
12 respect to a gas boiler in a building. I think it's
13 directionly related.

14 Q. What about the nature of the gas and steam
15 prices in Tulsa? Are you aware of that?

16 A. I don't know off the top of my head. I'm sure
17 we could find out for you.

18 Q. And what about Minneapolis?

19 A. Again, no.

20 Q. And Birmingham, Alabama?

21 A. I think I had seen something in one of the
22 data requests or something, but I don't know off the top of my
23 head. We can look it up for you.

24 MS. YOUNG: Madam Examiner, I don't have any
25 further questions. I would at this time like to offer

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1 Exhibit 20 into the record and provide that to the other
2 Commissioners who have come into the hearing room since I
3 distributed it.

4 In addition, I'd like to reserve the right
5 to provide additional testimony from the Staff in response
6 to Mr. Mandacina's testimony about the meetings on the test
7 boiler program.

8 MR. ENGLISH: Your Honor, I would object to
9 that reservation of the right. Under the Order of the
10 Commission, we have direct, rebuttal, surrebuttal and then
11 we have oral examination. Cross-examination brought out the
12 discussions with the Staff, and I do not believe that there
13 is any procedure or necessity in order to reserve the right
14 that I don't believe exists under the rules.

15 EXAMINER HOGERTY: Your objection will be
16 overruled. Staff may respond to any questions specifically
17 regarding that meeting that was brought out today.

18 MS. YOUNG: Thank you. Also Madam Examiner,
19 if I could point out regarding the questions about whether
20 the aquarium project would result in dismantling or
21 demolition of the Grand Avenue Station building.

22 I would just refer I believe it was
23 Commissioner Fischer to Schedule 23-3 of Staff witness
24 Haskamp's direct testimony. There's a newspaper article
25 that indicates it's intended for the building itself to be

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1 utilized.

2 COMMISSIONER FISCHER: Thank you.

3 EXAMINER HOGERTY: Exhibit 20 has been
4 offered and is received.

5 (EXHIBIT NO. 20 WAS RECEIVED IN EVIDENCE AND
6 MADE A PART OF THIS RECORD.)

7 EXAMINER HOGERTY: The witness may be
8 excused.

9 (Witness excused.)

10
11 MR. ENGLISH: Your Honor, since
12 Mr. Mandacina is now excused, I will offer Exhibit 14, which
13 is his direct testimony. This is his only appearance on the
14 stand.

15 EXAMINER HOGERTY: Hearing no objection,
16 Exhibit 14 is received.

17 (EXHIBIT NO. 14 WAS RECEIVED IN EVIDENCE AND
18 MADE A PART OF THIS RECORD.)

19 EXAMINER HOGERTY: Company may call its next
20 witness.

21 MS. LATZ: Kansas City Power & Light calls
22 Robert H. Graham to the stand.

23 (Witness sworn.)

24
25 ROBERT H. GRAHAM testified as follows:

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1 DIRECT EXAMINATION BY MS. LATZ:

2 Q. Please state your name and by whom you are
3 employed.

4 A. I'm Robert H. Graham. I am employed by
5 Kansas City Power & Light Company.

6 Q. Are you the same Robert H. Graham who
7 caused to be prefiled certain direct testimony identified as
8 Exhibit 15 and certain rebuttal testimony identified as
9 Exhibit 16?

10 A. I am.

11 Q. Do you have any changes or corrections to
12 make to your prefiled direct or rebuttal testimony?

13 A. In the direct testimony I refer to the
14 communications with the customers, and they were expanded
15 upon this morning, the additional communication that would
16 be sent to the customers regarding the public hearing.

17 Q. Do you have any other changes or corrections
18 to make to the prefiled direct or rebuttal testimony?

19 A. I do not.

20 Q. Other than this one addition which you just
21 indicated, if you were asked these same questions today
22 which are in Exhibit 15 and 16, would your answers still be
23 the same?

24 A. Yes.

25 Q. Do you wish to adopt Exhibits 15 and 16 as

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1 your direct and rebuttal testimony?

2 A. Yes.

3 MS. LATZ: Several questions were deferred
4 to Mr. Graham yesterday which we could go through now. A
5 few more have been referred to him today, which I kind of
6 need to get in order, so we could approach it in one of two
7 ways. I could ask him the questions first which were
8 referred to him yesterday and then come back on redirect and
9 ask him the questions which were referred to him today, or
10 we could wait until redirect to address all of those. Do
11 you have a preference?

12 EXAMINER HOGERTY: You may proceed with the
13 questions from yesterday.

14 BY MS. LATZ:

15 Q. Mr. Graham, there were several questions
16 asked yesterday about the customer National Starch who
17 replaced CPC when it was sold. Concerning that customer,
18 one of the questions which was asked, Have we ever have done
19 anything or talked with National Starch about converting to
20 an electric heating system?

21 A. We initially looked at their system or their
22 loads when we found that they were going to take over or
23 purchase the plant from CPC. And we explored putting in an
24 electrode boiler at their location to satisfy their steam
25 needs at that time.

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1 Q. Have there been any recent conversations
2 with National Starch about what their plans for the heating
3 system are, immediate plans for the heating system?

4 A. We have talked about what their plans are
5 beyond the term of the contract, and they say they still
6 have it under study, that they have not made a decision at
7 this time.

8 Q. What would the summer load of National
9 Starch be?

10 A. They are running about 30,000, 30,000 to
11 40,000 Mlbs. per hour.

12 Q. There was a question yesterday which talked
13 about linking together some of the city buildings. And a
14 study was referred to which the city asked Kansas City
15 Power & Light to prepare. Do you have some additional
16 comments about that study that you could make which were not
17 able to be supplied yesterday?

18 A. Yes. The city of Kansas City, Missouri,
19 asked us to take a look at the government buildings, which
20 would be the state, the federal, the county, and city
21 buildings. I think there's some nine buildings in an area
22 adjacent--relatively close to each other.

23 And the study was to see if it would be more
24 economical to have one regional boiler, if you will, or
25 boiler plant to serve those customers as opposed to

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1 individual boilers. And the study found there was
2 substantial more first cost to install a regional boiler as
3 opposed to putting a boiler in each individual building, as
4 was suggested in our audit of these buildings, the big
5 difference being the cost of land and the cost of a building
6 to house a new plant.

7 Q. There was another question asked yesterday
8 concerning any kind of requirement that the owners of these
9 electric boilers in their own buildings might have to comply
10 with. Do you have any idea of what kinds of requirements
11 there are for owners of electric boilers?

12 A. It's dependant upon the pressure. If they
13 have 15 pounds of pressure, like all these boilers now that
14 we were putting in, there is no requirement for an operator
15 or anything different than they would have to maintain their
16 existing steam system throughout their building.

17 Q. A question was also asked yesterday
18 concerning the effect on the summer load given that all of
19 the steam customers that we have would choose to take part
20 in our plan and install electric boilers. There was some
21 testimony on that this morning also, but I believe we
22 deferred to you if you have an exact figure of what this
23 decrease in summer load would be?

24 A. Our summer load goes down to, like, 10,000
25 to 20,000 pounds per hour, and that would be on the order of

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1 three to six megawatts

2 Q. There was also a question yesterday
3 concerning the federal buildings, if they have indicated to
4 us any intent of leaving or changing their heating system?

5 A. None that we know of. We have checked with
6 GSA as recently as this week, and they have stated that they
7 are waiting until the order comes down in this case to see
8 what their options are.

9 Q. And I took note of one final question from
10 yesterday. Was National Starch a customer of the company
11 before they bought the CPC facilities?

12 A. Certainly not as a steam customer or as a
13 substantial customer. They may have had a sales office or
14 something in Kansas City, but they operated no plant in our
15 service territory.

16 MS. LATZ: I'll reserve offering
17 Mr. Graham's testimony since he is scheduled to be on the
18 stand at a later date and will now tender him for cross-
19 examination.

20 EXAMINER HOGERTY: Mr. Walther.

21 CROSS-EXAMINATION BY MR. WALTHER:

22 Q. Good morning, Mr. Graham.

23 A. Good morning.

24 Q. Mr. Graham, in the event that KCPL's
25 conversion plan is approved, how many KCPL employees would

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1 be involved in maintaining the electric boilers?

2 A. Well, that depends on how successful we are,
3 how many boilers we obtain. It would be proportionate to
4 the number of boilers. We think that probably one
5 technician can probably handle anywhere from 20 to 30, but
6 we'll need more experience as the numbers would get larger.

7 Q. On a total company basis, that being steam
8 and electric, isn't it true that National Starch is a better
9 customer for KCPL than Corn Products? In other words, does
10 National Starch use more electricity than Corn Products?

11 A. That's correct.

12 Q. Am I correct that your job is Kansas City
13 Power & Light Company's director of commercial operations?

14 A. That was my title up until January 1. I
15 have essentially the same responsibilities but a little
16 different title now.

17 Q. In your position do you have responsibility
18 over the company's commercial operations offices?

19 A. In Missouri, yes, I do.

20 Q. And do these offices have the responsibility
21 for new customers of Kansas City Power & Light Company?

22 A. Yes, they do.

23 Q. Could you briefly describe what that
24 responsibility involves?

25 A. Well, in the case of a new customer, once we

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1 have knowledge of a customer wanting new service, we contact
2 the customer, find out all the information we can, who will
3 design the job, what the size of the project is, get a time
4 schedule. And at that time we would also try to find out
5 what his--in determining loads we would determine whether or
6 not he's going to use electric heat and so forth. We would
7 offer to make any energy analysis and rate analysis based on
8 the systems that he intended to use.

9 Q. Are they concerned with your large
10 commercial and industrial customers as well as residential?

11 A. Yes.

12 Q. Do these large commercial and industrial
13 accounts include steam customers?

14 A. Yes, they do.

15 Q. So is it correct that Kansas City Power and
16 Light Company's marketing of steam is conducted under your
17 supervision?

18 A. That's correct.

19 Q. Does Kansas City Power and Light Company's
20 commercial operation department prepare functional plans?

21 A. Yes.

22 Q. And are you responsible for the preparation
23 of those plans?

24 A. Yes.

25 Q. Could you briefly explain what functional

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1 plans are?

2 A. Well, basically the goals and objectives
3 that you're trying to accomplish and how you will pursue
4 your business.

5 Q. How do you go about preparing those? Do you
6 talk with upper level management, or do you develop
7 objectives yourself for your own--

8 A. Well, you look at the corporate goals and
9 objectives and then develop the goals and objectives in your
10 particular area that will support the corporate goals and
11 objectives.

12 Q. How often are they prepared?

13 A. They've been prepared annually for the last
14 several years.

15 Q. Is it correct that in June of 1985
16 Kansas City Power & Light Company informed its steam
17 customers that it was seeking alternatives to central steam
18 service?

19 A. In June of '85, that's correct. We had a
20 meeting with all our steam customers at their invitation.

21 Q. In the history of Kansas City Power & Light
22 steam system, are you aware if there has ever been a
23 marketing department dedicated solely to marketing steam?

24 A. No, not solely, at least in my time. There
25 were at times where I think an engineer was assigned that

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1 that was his basic responsibility.

2 Q. Are the company personnel involved in the
3 marketing of steam also involved in the marketing of
4 electricity?

5 A. Yes.

6 Q. Would I be correct if I said that the
7 company steam marketing program consists of providing
8 potential customers with rate schedules and in some cases
9 doing rate calculations for those customers?

10 A. That's not all. We would be involved in
11 energy analysis. We might help the customer develop the
12 loads of the building so that we could do a proper energy
13 analysis.

14 Q. Are these energy analysis that you're
15 referring to generally done in response to an inquiry by the
16 customer?

17 A. At the time of the initial contact we would
18 volunteer to do this. And it depends upon the customer, how
19 sophisticated he is or what kind of people he has employed
20 to help him develop this project. In some cases they come
21 with loads that have already been studied and a pretty
22 complete analysis. Others have nothing more than just a
23 concept of the building.

24 Q. Do you often find--let me rephrase the
25 question.

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1 In the event that you get the impression
2 that a customer has already made up his mind as to whether
3 he wants electricity or steam, do you follow up on that or
4 do you just go with what the customer says and not proceed
5 any further?

6 A. I think we would always review the aspects
7 of both systems. We're always competing against gas. We
8 would always want to be sure that our most competitive
9 system was being considered.

10 MR. WALTHER: Could I have this marked as
11 Exhibit 21 for purposes of identification?

12 (EXHIBIT NO. 21 WAS MARKED BY THE REPORTER
13 FOR IDENTIFICATION.)

14 MR. WALTHER: Let the record reflect that I
15 am showing Exhibit 21 for purposes of identification to
16 counsel.

17 EXAMINER HOGERTY: It will so reflect.

18 BY MR. WALTHER:

19 Q. Mr. Graham, I'm handing you what has been
20 marked as Exhibit No. 21 for purposes of identification.
21 There are two sheets in that exhibit. Would you identify
22 that, please.

23 A. This is Data Request 199 (sic) from the
24 Staff.

25 MS. LATZ: Your Honor, I believe I have a

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1 different data request if it's 199.

2 MR. WALTHER: I believe it's 191.

3 THE WITNESS: The one I have is 191.

4 BY MR. WALTHER:

5 Q. 191?

6 A. Yes.

7 Q. Would you identify--I'm sorry. Is that your
8 signature--

9 A. That's correct.

10 Q. --on the bottom of the page. And is that a
11 true and accurate copy of what you sent Staff in response to
12 their data request, I mean the second page?

13 A. Yes, that's correct.

14 MR. WALTHER: At this time I'd like to ask
15 that Exhibit 21 for purposes of identification be admitted
16 as Exhibit 21.

17 EXAMINER HOGERTY: Exhibit 21 is received.

18 (EXHIBIT NO. 21 WAS RECEIVED IN EVIDENCE AND
19 MADE A PART OF THIS RECORD.)

20 BY MR. WALTHER:

21 Q. Mr. Graham, would you read--on the first
22 page of Exhibit 21 would you read into the record the two
23 questions that Staff asked?

24 A. The first question is, For companies,
25 builders, and developers that decided to go totally electric

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1 and all other new construction from 1980 forward (including
2 the Vista Hotel and the Jackson County Jail) was there ever
3 any discussion between KCPL and the companies, builders, and
4 developers as to alternative sources of power (e.g. Steam
5 vs. All Electric vs. Gas). If so, was there any other
6 consideration to go to steam versus electric? What was
7 KCPL's involvement or input?

8 Q. Would you read the answer that you provided
9 to Staff?

10 EXAMINER HOGERTY: Mr. Walther, since that
11 matter is already in the record, I don't think it is
12 necessary to ask the witness to read it into the record.
13 You could ask him questions on that.

14 BY MR. WALTHER:

15 Q. Would you agree that the answer on Page 2
16 provides a typical scenario as to Kansas City Power & Light
17 Company's approach to the marketing of steam?

18 A. Pardon me. I was looking at the--

19 Q. Would you agree that the answer you provided
20 Staff, which is Page 2 of Exhibit 21, describes the typical
21 approach of Kansas City Power & Light Company regarding the
22 marketing of steam?

23 A. I think it is general.

24 Q. Would you identify Corn Products Corporation
25 for the record, please.

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1 A. Corn Products?

2 Q. Yes.

3 A. Well, it was a steam--it was a company that
4 did business in North Kansas City and was an electric
5 customer and then later was a steam customer.

6 Q. Was Corn Products a large base load steam
7 customer?

8 A. Oh, yes.

9 Q. What is the significance of having a large
10 base load steam customer on a system such as Kansas City
11 Power & Light Company's steam system?

12 A. Well, to give you base load, to give you
13 load around the clock every day of the year. And this was
14 very significant in that the operation of plant was much
15 more efficient. It brought the load levels up to where you
16 could burn coal year around and lower your fuel costs
17 significantly. You could spread the cost of operating the
18 plant and the system over a greater number of pounds
19 therefore reducing the cost for each pound.

20 Q. So you would agree that a customer such as
21 Corn Products was a very positive thing for the system as
22 well as for the other customers of the system?

23 A. Yes, I would.

24 Q. In 1981 was Corn Products outside of
25 Kansas City Power & Light Company's downtown steam system

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1 service territory?

2 A. Yes, it was.

3 Q. Would a company in Kansas City Power &
4 Light's position in 1981 discourage or consider not
5 connecting a customer such as Corn Products to its steam
6 system?

7 A. Well, you mean due to its location?

8 Q. Just in general.

9 A. Well, we always were looking for a high load
10 factor, high load customer for the system. We had had
11 others adjacent to the plant such as Schlitz Brewery. It
12 had been a high load factor, high use customer before it
13 left. And, yes, we were always looking for that type of a
14 customer.

15 Q. Did Kansas City Power & Light Company
16 consider not adding Corn Products?

17 A. Well, the big problem with Corn Products was
18 the fact that it was remote and outside of our service
19 territory, plus the Missouri River was in between. And
20 anybody's ability to get a line across a bridge to serve it
21 was--have always been of great concern.

22 MR. WALTHER: Will you please mark this as
23 Exhibit 22 for purposes of identification.

24 (EXHIBIT NO. 22 WAS MARKED BY THE REPORTER
25 FOR IDENTIFICATION.)

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1 MR. WALTHER: May the record reflect that I
2 am showing what has been marked as Exhibit 22 for purposes
3 of identification to counsel.

4 BY MR. WALTHER:

5 Q. Mr. Graham, could you identify this
6 document?

7 A. I don't have one.

8 Q. I'm sorry. I'm handing you what's been
9 marked as Exhibit No. 22 for purposes of identification.
10 Could you identify that document?

11 A. It seems to be a Kansas City Power & Light
12 memorandum to J. R. Miller. It's signed by J. M. Evans.

13 Q. What is the position of Mr. Miller?

14 A. He's the senior vice-president of
15 operations.

16 Q. And what is the position of Mr. Evans
17 within the company?

18 A. I think he is vice-president of production,
19 SPO.

20 Q. Do you recognize the signature?

21 A. I assume that's his signature. I'm not that
22 familiar with it.

23 Q. You have no reason to believe that's not his
24 signature?

25 A. I have no reason to think otherwise.

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1 MR. WALTHER: At this time I'd like to offer
2 Exhibit No. 22 for purposes of identification into the
3 record as Exhibit 22.

4 EXAMINER HOGERTY: Exhibit 22 is received.

5 (EXHIBIT NO. 22 WAS RECEIVED IN EVIDENCE AND
6 MADE A PART OF THIS RECORD.)

7 BY MR. WALTHER:

8 Q. I refer you on Exhibit 22 to the first page
9 under the heading Steam Service to Corn Products. And take
10 time to read that answer or to read that portion of the
11 letter.

12 Before going any further, what is the date
13 on that letter?

14 A. January the 21st, 1981.

15 Q. Does that--am I correct in saying that that
16 paragraph contains basically what you answered before
17 regarding the company's decision as to--or the
18 considerations they looked at in deciding whether or not to
19 serve Corn Products?

20 A. Well, he had concern about crossing the
21 bridge and the river crossing and the fact that there was no
22 direct obligation to serve.

23 Q. Am I correct in saying that the last
24 sentence of that paragraph, that first paragraph under the
25 heading Steam Service to Corn Products, the last sentence

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1 states, "New market penetration together with this
2 obligation to serve should be discouraged at this time"?

3 A. What was the question?

4 Q. Am I correct in stating that the last
5 sentence of that paragraph states, "New market penetration
6 together with this obligation to serve should be discouraged
7 at this time"?

8 A. Yes.

9 Q. Mr. Graham, would you agree in the early
10 part of the 1980s Kansas City Power & Light Company improved
11 the operation and maintenance of its steam system?

12 A. Yes, I think the testimony shows that,
13 starting in '82 particularly.

14 Q. What was the marketing approach of the
15 company during the period it was upgrading its system?

16 A. Well, I don't know that it changed
17 substantially. We had always marketed whatever was our most
18 competitive situation, whether it be steam or electric. And
19 based on the customer preference also, we felt at one time
20 that if Corn Products provided us the load that will let us
21 be more competitive, that we would be in a position to try
22 to recoup some of the load that we had lost. But then
23 before that situation really developed, Corn Products
24 disappeared.

25 Q. Would you agree that during the time--or

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1 during the time period that the system was being upgraded
2 that the company's emphasis on marketing actually turned to
3 electric heat?

4 A. During that time, no, I wouldn't necessarily
5 agree to that.

6 MR. WALTHER: Would you please mark this as
7 Exhibit 23 for purposes of identification. And let the
8 record reflect that I am showing Exhibit 23 for purposes of
9 identification to counsel.

10 (EXHIBIT NO. 23 WAS MARKED BY THE REPORTER
11 FOR IDENTIFICATION.)

12 BY MR. WALTHER:

13 Q. Mr. Graham, I'm handing you what has been
14 marked as Exhibit 23 for purposes of identification. Would
15 you please identify that document?

16 A. Yes. It's Data Request No. 578, steam case
17 HO-86-139, dated January 23, 1987.

18 Q. And is that your signature on the second
19 page of Exhibit 23 for purposes of identification?

20 A. Yes, it is.

21 Q. Is this a true and accurate copy of what you
22 sent Staff?

23 A. Yes, it would appear that it is.

24 MR. WALTHER: At this time I'd like to move
25 that Exhibit 23 for purposes of identification be admitted

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1 into evidence as Exhibit 23.

2 EXAMINER HOGERTY: Exhibit 23 is received.

3 (EXHIBIT NO. 23 WAS RECEIVED IN EVIDENCE AND
4 MADE A PART OF THIS RECORD.)

5 BY MR. WALTHER:

6 Q. I'd like to refer you to Question No. 1 on
7 Exhibit 23. You refer to the new construction in downtown
8 Kansas City starting with the City Center Square to the most
9 recent projects. When was City Center Square constructed?

10 A. I think in the late '70s. 1977 I believe it
11 went on line.

12 Q. And when--you refer from City Center Square
13 to the most recent projects. When were the most recent
14 projects constructed?

15 A. They're still under construction. One
16 Kansas City Place is still under construction, and it's
17 supposed to be completed early next year. AT&T, it is just
18 now opening for business. It's been completed for a few
19 months.

20 Q. When was Jackson County Jail constructed?

21 A. Jackson County Jail, it's been on about
22 three years, I believe. It went on in 1983.

23 Q. So it was being constructed in the early
24 '80s?

25 A. At least the planning. It probably took a

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1 couple of years to build.

2 Q. I refer you to the second paragraph of the
3 first answer of Question 1.

4 MR. WALTHER: Madam Examiner, I'm just going
5 to ask him to read that brief sentence into the record.

6 THE WITNESS: As steam from the distribution
7 lost its competitive position in the latter part of this
8 period, the emphasis on marketing turned to electric heat.

9 As I stated earlier we always tried to be as
10 competitive as we could because we're always selling our
11 products against gas. If the cost of the steam operation of
12 a building were greater than the electric, you're going to
13 push the electric. You could hardly go to a customer and
14 suggest to him that he should use a system that had the
15 greater total cost of owning and operating.

16 Q. So you would agree that your emphasis at
17 this point turned to electric heat?

18 A. I think we were forced to offer electric
19 heat as an alternative to steam when steam became more
20 expensive. There were other things that changed other than
21 just the cost of the product. There was the design of the
22 buildings. The improvement in the heating and cooling
23 systems of a building changed rather dramatically where they
24 utilized a lot of the heat that was generated within the
25 core of the building to offset the scant losses in

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1 infiltration and fresh air requirements

2 MR. WALTHER: Could you please mark this as
3 Exhibit 24 for purposes of identification. And again let
4 the record reflect that I am showing Exhibit 24 for purposes
5 of identification to counsel.

6 EXAMINER HOGERTY: It will so reflect.

7 (EXHIBIT NO. 24 WAS MARKED BY THE REPORTER
8 FOR IDENTIFICATION.)
9 BY MR. WALTHER:

10 Q. Mr. Graham, I'm handing you a copy of what
11 has been marked as Exhibit No. 24 for purposes of
12 identification. It contains two pages, the first page
13 being the cover page; the second page being a narrative.
14 Could you identify Exhibit 24 for purposes of
15 identification?

16 A. The first page is the cover of the KCPLAN,
17 Revision One, February 1984. The second page is titled
18 Executive Summary.

19 Q. Are you familiar with the KCPLAN?

20 A. Well, yes. I read it when it came out. I'd
21 have to refresh my memory on this.

22 Q. But to your knowledge this is a true and
23 accurate copy of the KCPLAN?

24 A. It would appear to be.

25 MR. WALTHER: At this time I'd like to move

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1 that Exhibit 24 for purposes of identification be admitted
2 into evidence as Exhibit 24.

3 EXAMINER HOGERTY: Exhibit 24 is received.

4 (EXHIBIT NO. 24 WAS RECEIVED IN EVIDENCE AND
5 MADE A PART OF THIS RECORD.)
6 BY MR. WALTHER:

7 Q. Mr. Graham, what is the KCPLAN? What is the
8 function of the KCPLAN?

9 A. Well, as the title suggests, it's the
10 long-range system expansion alternative studies. This one
11 covered from '83 to 2002.

12 Q. So it sets the long-range goals for the
13 company? It sets the direction the company wishes to go?

14 A. In relation to the system.

15 Q. And what was the purpose of the '84
16 revision? I believe there was an '81 plan.

17 A. I'm not absolutely certain other than I
18 believe the KCPLAN is periodically updated.

19 Q. I'd like to refer you to the Executive
20 Summary that is Page 2 of Exhibit 24. And under the heading
21 of Purpose, after the first paragraph, does the--am I
22 correct in stating that it says that the KCPLAN '83 retains
23 the fundamental goals of the KCPLAN '81?

24 A. Yes, I've read it. Was there a question?

25 Q. Yes. That is what it says, am I correct?

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1 A. Yes.

2 Q. And the second goal listed there is to
3 devise programs to encourage off peak electrical usage and
4 thus use existing capacity more efficiently?

5 A. Yes, that's correct.

6 Q. So this plan which was reiterated in the '84
7 revision was also contained in the 1981 KCPLAN?

8 A. Apparently it was.

9 Q. Mr. Graham, just for the record would you
10 briefly explain the term "electric load"?

11 A. The electric load here we're talking about
12 the demand on the electrical system.

13 Q. And would you explain the term "steam load"?
14 Am I correct in saying that it's demand on the steam system?

15 A. Yes.

16 Q. When is your period of peak steam load?

17 A. During the coldest part of the winter.

18 Q. And when is your period of off peak electric
19 load?

20 A. During the winter, same time--not
21 necessarily the same time. Probably our lowest peak demand
22 on electrical system is in the fall or the spring.

23 Q. But the period of off peak electrical load
24 does overlap with your period of peak steam load?

25 A. That's correct.

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1 Q. Am I correct then in stating that conversion
2 of steam customers to electric customers would increase off
3 peak electric load?

4 A. If that were to occur, yes.

5 EXAMINER HOGERTY: Mr. Walther, we'll be in
6 recess until 1:15.

7 (The noon recess was taken.)

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1 EXAMINER HOGERTY: Back on the record.
2 Mr. Walther.

3 MR. WALTHER: Okay. I just have a few
4 more questions.

5 CROSS-EXAMINATION (CONTINUED) BY MR. WALTHER:

6 Q. Mr. Graham, would you agree that in August
7 of 1984 the Kansas City Power & Light Company made a
8 determination not to encourage the connection of new steam
9 customers to its steam system?

10 A. As of what date?

11 Q. August of 1984.

12 A. I don't think we really said we would not
13 hook up any more customers at that time. Certainly when we
14 filed the plan and announced to the customers that we were
15 going to go into a proposed phaseout plan was when we
16 actually quit taking new steam customers.

17 Q. But would you agree that there was a
18 decision made not to encourage--not to go after--

19 A. Once we were considering--once we felt with
20 the loss of Corn Products and the reduced loads of National
21 Starch, we became aware of the fact that it probably was not
22 going to be a real good choice, so we weren't actively
23 looking for particularly commercial customers to come on
24 which would be low load factor. Had there been another high
25 load factor customer available to us, I'm sure we would have

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1 looked into that very seriously.

2 Q. Who made the determination not to
3 encourage--

4 A. I don't know if that was really any
5 decision; I think that was just something that developed.
6 To say that there was one day we came out and announced and
7 said we're never going to encourage any more steam
8 customers, I don't believe I recall that happening just like
9 that.

10 (EXHIBIT NO. 25 WAS MARKED BY THE REPORTER
11 FOR IDENTIFICATION.)

12 MR. WALTHER: Let the record reflect that
13 I'm showing opposing counsel and other counsel Exhibit 25
14 for purposes of identification.

15 BY MR. WALTHER:

16 Q. Mr. Graham, I'm handing you what has been
17 marked as Exhibit 25 for purposes of identification. Could
18 you identify that document?

19 A. It's dated August 3, 1984. It's a
20 Kansas City Power & Light memorandum from B. J. Beaudoin to
21 A. J. Doyle and other officers and managers, directors at
22 Power & Light.

23 Q. And did you receive a copy of this?

24 A. This is--my name is checked off, and I am on
25 to whom it was directed.

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1 Q. And is that Mr. Beaudoin's signature?

2 A. It would appear so, yes.

3 MR. WALTHER: At this time I would like to
4 offer Exhibit 25 into evidence.

5 EXAMINER HOGERTY: Exhibit 25 is received.

6 (EXHIBIT NO. 25 WAS RECEIVED IN EVIDENCE AND
7 MADE A PART OF THIS RECORD.)

8 BY MR. WALTHER:

9 Q. Mr. Graham, I would like to refer you to the
10 last page of Exhibit No. 25. I think it's Page 4 of the
11 memorandum. And I refer you to the last two lines on that
12 last page. Would you agree that that memorandum states--
13 and I quote--"KCPL will no longer encourage the connection
14 of 'new' steam customers to the downtown network"?

15 A. Yes, that's what it says.

16 Q. Mr. Graham, are you aware of any rumors that
17 were circulating among your downtown steam customers in the
18 early 1980s that Kansas City Power & Light Company was
19 contemplating abandoning or terminating its steam system?

20 A. Not specifically. I'm sure there is always
21 talk about it. I think it was public knowledge that the
22 generation would eventually be phased out of Grand Avenue,
23 and there was concern about what would happen to the steam
24 system and the price of steam.

25 Q. Would you concede then that there may very

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1 well have been rumors circulating?

2 A. Yes, there could have been.

3 Q. Do you have any idea how such rumors could
4 have started?

5 A. Well, like I said, with the phaseout of
6 Grand Avenue as an electrogenerating station, it would
7 naturally be some concern, I think.

8 Q. When were Jackson County jail and the Vista
9 Hotel connected to the steam system?

10 A. Well, the Vista International went on in
11 December 1984. It may have been connected prior to that,
12 but that is the date that the service was put in the Vista
13 International's name. And the Jackson County jail or
14 detention center was connected November 1983.

15 Q. Did Kansas City Power & Light Company give
16 any consideration to not connecting those customers to the
17 system?

18 A. I don't believe it did. The commitment had
19 been made on those back probably around 1980, '81.

20 Q. But in that 1980, '81 timeframe, did they
21 give any consideration to not serving these customers? Did
22 they explore the possibility as to whether they would not
23 have to serve these customers?

24 A. Well, I think there is--I think you have
25 memos. We even looked at one this morning where we

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1 considered whether or not we would connect the jail. So it
2 was reviewed and the decision was made to connect them.

3 MR. WALTHER: At this time I have no further
4 questions.

5 EXAMINER HOGERTY: Ms. Bjelland.

6 CROSS-EXAMINATION BY MS. BJELLAND:

7 Q. Mr. Graham, I just have a couple questions.

8 Referring to the decision to add Corn
9 Products to the steam line, do you have any idea or can you
10 give me an estimate of the cost to run the line to them
11 across the river and what it cost to hook them up?

12 A. That line was designed and paid for by
13 Corn Products, and we believe it was something over
14 \$3 million.

15 Q. The entire cost of adding them to the system
16 was paid for by Corn Products?

17 A. As far as the line extension, it was all--
18 they take service at our property line.

19 Q. And then if you could please refer to Page 7
20 of your testimony. Beginning with the question on Line 13,
21 you refer to the energy audits that have been performed and
22 those yet to be performed. Can you tell me if the ten
23 audits that you referred to that were in progress at the
24 time you filed your testimony have been completed?

25 A. Yes, they have.

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1 Q. And approximately when was the last of those
2 ten completed?

3 A. Well, if they were in progress, they were
4 probably completed within about 30 days.

5 Q. Referring to the 28 audits which, according
6 to your testimony, were unscheduled at that time, has the
7 status of those audits changed and to what extent?

8 A. Yes, it has. I think in total we performed
9 about 104 audits.

10 Q. And how many are outstanding as of this date?

11 A. We have completed all audits that have been
12 requested; and we contacted customers to see if any
13 additional of those few remaining desired an audit, and they
14 do not.

15 MS. BJELLAND: Thank you. I have no further
16 questions.

17 EXAMINER HOGERTY: Mr. Finnegan.

18 CROSS-EXAMINATION BY MR. FINNEGAN:

19 Q. Following up on the question with the
20 audits, how much did these audits cost?

21 A. I think it cost a little over \$400,000.

22 Q. And who was bearing the cost of these
23 audits? The electric ratepayers? The steam ratepayers? Or
24 the stockholders?

25 A. I don't know how it's accounted for.

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1 Q. Now, you indicated in your testimony that
2 you hired Energy Masters Corporation to conduct these
3 audits?

4 A. That's correct.

5 Q. Were they instructed not to consider gas
6 boilers as an alternative to the replacement of steam?

7 A. Our instructions to them was to, you know,
8 audit the building and come up with an electrical
9 replacement system. They were not directed to perform any
10 audits for gas.

11 Q. The other day I asked a question--yesterday
12 I guess it was--for Mr. Beaudoin about how many customers
13 have left the system in the last five years and how many
14 have gone to gas and how many have gone to electricity. You
15 indicated you--

16 A. I think we've lost about 40-some customers.
17 Since '81, we've lost, I think, 42 customers to electric or
18 gas. I believe six of those went on electric.

19 Q. These were existing customers; is that
20 correct?

21 A. Yes, they were.

22 Q. And how many new customers were added in
23 that same period, in '81?

24 A. To the steam system?

25 Q. Yes.

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1 A. Since '81? Well, the two new buildings we
2 previously discussed, the Vista and the Jackson County jail,
3 were connected, a couple of rehab jobs were also connected
4 in that same time period.

5 Q. Was the Missouri Court of Appeals building
6 connected to steam?

7 A. Yes.

8 Q. There is reference to it in Exhibit 22, but
9 I see no comments on it at this point or in this exhibit.
10 That would also be considered a new building then?

11 A. Yes, it would. I don't recall when it went
12 on line though. I don't know how far back that went.

13 Q. Referring to Exhibit 22 and with reference
14 to the two paragraphs relating to steam service for
15 Jackson County jail, looking at Paragraph 1 it appears
16 that--

17 A. Pardon me. Exhibit 22, what's--

18 Q. This is the memo to J. R. Miller dated
19 January 21, '81.

20 A. Okay. Thank you.

21 Q. I'm sorry.

22 A. I didn't have mine.

23 Q. Do you have it now? With reference to the
24 steam service for Jackson County jail, there is two
25 paragraphs relating to that; is that correct?

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1 A. Yes.

2 Q. And in the first paragraph, the conclusion
3 seems to be that to hook this new--that you do not believe
4 that service can be refused to this customer; is that
5 correct?

6 A. Yes, that appears to be the conclusion.
7 Yes.

8 Q. And in the second paragraph, you indicate
9 that the customer ought to be advised that future cost of
10 steam might be rather high?

11 A. Yes.

12 Q. Does this appear to reflect some aggressive
13 marketing efforts on behalf of the steam department to seek
14 new customers?

15 A. I think it's an effort to be very fair with
16 the customer and to advise them what our true situation was
17 and what they might be exposed to in the future.

18 Q. Would this not appear to be a decision not
19 to encourage more steam customers or this particular steam
20 customer at this time?

21 A. I think it's an effort to let the customer
22 know the true situation so they can't come back later and
23 say, "Hey, you tied us into an old system and didn't warn
24 us."

25 Q. Now, in Exhibit 23, which is Data Request

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1 No. 578, on the second page you have a list of buildings and
2 the estimated revenue and Mlbs. of steam?

3 A. Yes.

4 Q. Are these annual revenues and annual Mlbs.
5 of steam that are projected for these buildings?

6 A. That's correct.

7 Q. With respect to the transmission line that
8 CPC built across the Missouri River, do you know what the
9 capacity of that line is?

10 A. Well, their peak load was anticipated to be
11 250,000 pounds an hour. And I believe it was designed to
12 carry that and, I would assume, with some safety factor.

13 Q. And do you know how much of that capacity is
14 now being used?

15 A. The load now of National Starch is in the
16 order of 40,000 pounds an hour.

17 Q. On Page 5 of your direct testimony, starting
18 on Line 12, you make a statement that "It was anticipated
19 that electric heating rates should remain around current
20 levels or possibly decrease, as the Company had requested a
21 decrease in the electric heating rate in its pending rate
22 case." Did that occur? Were you granted a decrease in your
23 electric heating rate?

24 A. We went to, I think, 3.691 and we had been
25 more like about 3.9--3.8, 3.9.

1 Q. And as a result of the recent settlement of
2 the second year of the Wolf Creek case, what is going to
3 happen to electric heating rate?

4 A. I believe the electric heating rate would
5 have received the same increase as all the rest of the
6 rates. And in this case, I think this results in there only
7 being a 2 percent increase on the heating rate.

8 Q. On Page 6 of your rebuttal testimony,
9 starting at Line 9, you make a statement that ". . .steam
10 has not been competitive in many instances with other forms
11 of heating energy." Are you referring here to gas?

12 A. Gas and electric.

13 Q. You're saying that steam presently is not
14 competitive with the electric rate?

15 A. You have to consider the total concept on
16 a Btu per Btu basis; utilizing resistance heat, the cost
17 might be greater. Using electric--when you consider the
18 total system and the configuration of the heating and
19 cooling systems, it often becomes more economical to go
20 total electric, as was the decision made by the consultant
21 that did like the AT&T pavilion.

22 Q. So you're saying on a million Btu basis,
23 electric would still cost more than the steam; but they're
24 due to reconfigurations of the heating of the building
25 itself? It may save energy costs?

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1 A. It may save energy costs to go total
2 electric, right.

3 Q. Even though the basic rate is bigger?

4 A. On the Btu basis, yes.

5 MR. FINNEGAN: That's all the questions I
6 have.

7 EXAMINER HOGERTY: Mr. Kennett.

8 MR. KENNETT: I have no questions of
9 Mr. Graham. Thank you.

10 EXAMINER HOGERTY: Any redirect?

11 MS. LATZ: No questions.

12 EXAMINER HOGERTY: The witness may be
13 excused.

14 (Witness excused.)

15
16 MR. ENGLISH: Your Honor, that completes
17 KCPL's direct case on the steam termination issues.

18 There were two questions that had been
19 asked, and none of the three witnesses that were up here
20 were familiar with them. They have to do with a reflection
21 of termination charges from the CPC contract and the cost of
22 audits.

23 As the Commission knows, KCPL and Staff have
24 agreed upon a \$3.2 million revenue deficiency figure which
25 is based upon Staff's cost of service models. On Staff

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1 Adjustment S-2, Staff amortizes the termination charges over
2 the life of the National Starch contract.

3 Staff Adjustment S-5 excludes the cost of
4 these energy audits. Therefore, the \$3.2 million revenue
5 deficiency or revenue requirement does not include any
6 costs for audits and includes some amortization of the
7 termination charges.

8 EXAMINER HOGERTY: Thank you.

9 MR. ENGLISH: You're welcome.

10 EXAMINER HOGERTY: Staff may call its
11 witness.

12 MS. YOUNG: Staff would call Mr. Cary
13 Featherstone to the stand.

14 (Witness sworn.)

15 _____
16 CARY G. FEATHERSTONE testified as follows:

17 DIRECT EXAMINATION BY MS. YOUNG:

18 Q. Would you please state your name for the
19 record.

20 A. Cary G. Featherstone.

21 Q. By whom are you employed, Mr. Featherstone?

22 A. Missouri Public Service Commission.

23 Q. Are you the same Cary Featherstone who has
24 caused to be filed in this case direct testimony which has
25 been marked as Exhibit No. 17, rebuttal testimony which has

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1 been marked as Exhibit 18, and surrebuttal testimony which
2 has been marked Exhibit 19 in this case?

3 A. Yes.

4 Q. Do you have any corrections or changes to
5 that testimony at this time?

6 A. Not to my knowledge.

7 Q. If I were to ask you the questions that
8 appear in those documents now, would your answers be the
9 same as they appear therein?

10 A. Yes.

11 Q. And do you adopt that as your prefiled
12 testimony in this case?

13 A. Yes.

14 Q. Mr. Featherstone, this morning Mr. Mandacina
15 testified regarding a meeting between Staff and the company
16 representative regarding the test boiler program. Were you
17 present at the meeting referred to by Mr. Mandacina?

18 A. No, I was not.

19 Q. Were you aware of the meeting?

20 A. Yes.

21 Q. And how did you learn of that meeting or why
22 were you aware of it?

23 A. As I recall, the company notified the
24 Commission's Staff that they wanted to come down to see
25 them. And we were tied up in the--it was December 1984. We

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1 were tied up with the Callaway hearings. I was sitting in
2 on those. And we sent two members of the accounting staff,
3 Michael Zimmerman and Kent Kaiser, to represent the
4 accounting staff.

5 Q. And in the course of the audit of this case,
6 did the Staff obtain any documents from the company's files
7 relating to that meeting?

8 A. Yes.

9 Q. And what was the nature of that document?

10 A. They were the handwritten notes by Mr. Bob
11 Graham who was also in attendance for the company in that
12 meeting.

13 Q. I'll hand you a document, Mr. Featherstone,
14 and ask if you can identify that as the document that you
15 have just described for the record?

16 A. Yes.

17 MS. YOUNG: And I would like to have that
18 document marked as an exhibit.

19 EXAMINER HOGERTY: Exhibit 26.

20 (EXHIBIT NO. 26 WAS MARKED BY THE REPORTER
21 FOR IDENTIFICATION.)

22 BY MS. YOUNG:

23 Q. How do you know that these are the notes of
24 Mr. Graham?

25 A. We obtained them through a document search

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1 of Mr. Graham's files.

2 Q. Does the document speak to an intent or are
3 there any notes here which would indicate to you that the
4 intention was to apply this to all customers or does it
5 appear to be directed to specific customers?

6 MR. ENGLISH: Objection. The document
7 speaks for itself.

8 MS. YOUNG: That's fine, your Honor.

9 BY MS. YOUNG:

10 Q. Mr. Featherstone, to your knowledge, has the
11 meeting in question ever been the subject of testimony
12 before this Commission in the past?

13 A. Yes. Mr. Cochran, who is an engineer with
14 the Commission's Staff, testified with regard to the test
15 projects in the KCPL/Wolf Creek audit in EO-85-185.

16 MS. YOUNG: If I could have another exhibit
17 marked, Madam Examiner. I have available a copy of that
18 portion of the transcript from the cases referred to by
19 Mr. Featherstone wherein Mr. Cochran's testimony on that
20 subject appears.

21 (EXHIBIT NO. 27 WAS MARKED BY THE REPORTER
22 FOR IDENTIFICATION.)

23 BY MS. YOUNG:

24 Q. Mr. Featherstone, have you reviewed all or
25 a part of the transcript, Volume No. 16, from Case

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1 Nos. ER-85-128, EO-85-185, and EO-85-224?

2 A. I've reviewed part of it.

3 Q. And to the best of your knowledge, is this
4 an accurate copy of the numbered pages that appear here?

5 A. Yes.

6 Q. Okay. Thank you.

7 MS. YOUNG: Madam Examiner, if I may, there
8 is one other area that we've had some questions I think from
9 both the Bench and counsel regarding the company's
10 intentions as to Grand Avenue Station and whether the
11 contribution is intended to be all or just a portion of the
12 property there.

13 At this time I would like to explore with
14 Mr. Featherstone what information the Staff has on that
15 subject since the company witnesses did not--were not able
16 to answer the questions.

17 EXAMINER HOGERTY: You may proceed.

18 BY MS. YOUNG:

19 Q. Mr. Featherstone, after the announcement of
20 the company's intent to donate Grand Avenue Station to the
21 Friends of the Aquarium, did the Staff request and have a
22 meeting with Mr. Doyle, the chief officer of the company?

23 A. Yes. I think the meeting was sometime in
24 the latter part of January of this year.

25 Q. And what is your understanding of the

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1 company's intentions regarding the gift of Grand Avenue
2 Station in terms of what it encompasses?

3 A. It was my understanding in talking with
4 Mr. Doyle that his intention was to give only the land and
5 the power plant, the land underneath the power plant and
6 that the coal yard and the facilities around the power plant
7 he had still claim to. He had no intentions of providing
8 that to the Friends of the Aquarium. And it is also the
9 electric substation which would still stay in the electric
10 rate base.

11 Q. Thank you.

12 MS. YOUNG: I have no further questions on
13 direct and would tender the witness for cross-examination.

14 MR. ENGLISH: Your Honor, according to the
15 Hearing Memorandum, KCPL is the only adverse party to
16 Mr. Featherstone; and therefore, I request that I be
17 allowed to go last on cross-examination.

18 EXAMINER HOGERTY: That's fine.

19 Ms. Bjelland.

20 MS. BJELLAND: Public Counsel has no
21 questions.

22 EXAMINER HOGERTY: Mr. Finnegan.

23 CROSS-EXAMINATION BY MR. FINNEGAN:

24 Q. Mr. Featherstone, just a couple of
25 questions. I just heard Mr. Graham testify that on a Btu

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1 basis, steam in Kansas City costs less than electricity.

2 Have your studies confirmed that?

3 A. Could you repeat the question, please?

4 Q. Okay. On a Btu basis, the steam in

5 Kansas City costs less than electricity?

6 A. I believe--let me check. I believe it does.

7 Steam in Kansas City costs less--

8 Q. On a Btu basis.

9 A. --on a Btu basis?

10 Q. Yes.

11 A. Yes.

12 Q. Do you have any differentials in that or

13 what the relative costs are?

14 A. When we looked at the information that was
15 addressed in Mr. Beaudoin's rebuttal testimony, we looked at
16 the test projects. And it was his claim that if the steam
17 bills were charged at the electric rate, that they would be
18 less than what would have been billed at the steam rate.

19 And we did an analysis that when you look
20 at--including taxes for the--including the electricity tax--
21 gross receipts taxes and sales taxes, that in one instance
22 the home savings is--the steam rate is less than the
23 electric; and in the three other instances for the project
24 boilers that are currently in service, that they were
25 marginally higher, the steam bills would have been higher.

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1 When you included the capital cost, either
2 on a 10-year or 20-year amortization, in all instances those
3 bills would have been far less, charging the steam rate than
4 the electric rate.

5 Q. Mr. Mandacina testified today that gas rates
6 were higher in St. Louis than Kansas City. Do you have any
7 knowledge as to that?

8 A. Yes. When you look at the differential, the
9 tariffs between Laclede and KPL Gas Service, on MCF basis,
10 Mr. Mandacina is correct that they are higher on MCF basis
11 alone by 36 cents. In other words, the Kansas City rate is
12 \$4.23 on an MMBtu basis; and for a small customer, the
13 Laclede rate is \$4.59. However, the customer charge is
14 greater in Kansas City so that you need to look at it on a
15 billed basis.

16 We've looked at it on a small, medium, and
17 large customer. And for a small customer, the rates, the
18 natural gas rates, on a comparable basis would be \$277
19 higher in downtown St. Louis. And on a medium customer,
20 they would be \$1,188 higher. And on a large customer, they
21 would be \$6,600 higher. That would be an annual bill.

22 Q. Are not the steam rates also higher in
23 St. Louis than they are in Kansas City?

24 A. Yes.

25 Q. Do you have a comparison of those?

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1 A. I believe in my rebuttal testimony,
2 Schedule 5-1, is a listing of that information we received
3 from a St. Louis operator of their tariff rates from
4 December 1984. They have three rates: contract,
5 noncontract, and interruptible. And in all instances,
6 except for the interruptible, including gross receipts tax,
7 I believe the rate, the steam rate, is higher in St. Louis.

8 Q. What is the Kansas City steam rate?

9 A. I've heard a figure the last couple days,
10 \$10.50 an Mlb.

11 Q. Where did you hear that from?

12 A. I know Mr. Beaudoin testified to it
13 yesterday.

14 MR. FINNEGAN: That's all the questions I
15 have. Thank you.

16 EXAMINER HOGERTY: Mr. Kennett.

17 MR. KENNETT: I have no questions for
18 Mr. Featherstone.

19 EXAMINER HOGERTY: Which of you is going to
20 cross-examination? Mr. English.

21 MR. ENGLISH: I drew the long straw, your
22 Honor.

23 CROSS-EXAMINATION BY MR. ENGLISH:

24 Q. Good afternoon, Mr. Featherstone.

25 A. Good afternoon, Mr. English.

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1 Q. Mr. Featherstone, could you give me again
2 the dollar per MCF charge that you calculated for KPL Gas
3 Service and that you compared to Laclede Gas just a few
4 minutes ago?

5 A. Kansas City was \$4.23.

6 Q. For MCF?

7 A. For MCF or for MMBtu. We use the same
8 conversion, one to one.

9 Q. What schedule is that under in the KPL rates?

10 A. KPL rates, that would be small. It's a
11 small customer.

12 Q. Would that rate, to your knowledge, be the
13 one that would be charged to a customer in Kansas City who
14 put in a gas boiler of, say, 200 boiler horsepower?

15 A. I don't know. The rates are the same for
16 small, medium, and large customer.

17 Q. So it doesn't matter what classification
18 they are in?

19 A. No, apparently not.

20 Q. That's the current rate for gas?

21 A. Yes, I believe so.

22 Q. As a general proposition, Mr. Featherstone,
23 should a regulated utility market its regulated services?

24 A. I would say generally any company, regulated
25 or unregulated, it is very important for them to protect

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1 their customer base or their revenues. I think it's even
2 more so in a regulated, a monopoly market.

3 Q. In what ways do you believe that a regulated
4 utility should protect its revenue and customer base?

5 A. Well, there's a lot of testimony that
6 Mr. Haskamp has submitted for Commission review that
7 addresses that very question. Certainly when the
8 Kansas City Power & Light steam utility started to see a
9 downward trend in their customer base and their Mlb. sales
10 in the early 1970s, they should have started to try to
11 promote their product to downtown Kansas City a little more.

12 Q. In what ways, Mr. Featherstone?

13 A. As I understand, one approach is just to
14 have a presence. When you're dealing with a very confined
15 or compressed service territory that the downtown community
16 has, you would be looking at dealing with almost a door-to-
17 door canvassing. You would be looking with working with the
18 developers, trying to attract as many of the new development
19 as you possibly can. And you would just have a presence
20 down there whether it would be on a day-to-day basis, going
21 door to door, seeing what's going to be going on in the
22 downtown community.

23 Q. In the Staff audit of this case, did it
24 uncover any customer complaints about the service?

25 A. As I recall, there was some documentation

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1 back and forth from the City of Kansas City that complained
2 about some rates that they were being charged. And they
3 complained--or the Vista Hotel who we interviewed complained
4 about the quality of steam that he was using for his laundry
5 facilities. And, indeed, he converted over to natural gas.
6 As I recall when I talked to the people from the Rodeway
7 Hotel, there was some complaint about outages and not being
8 notified.

9 Q. But these are all the customer complaints
10 that you were able to do--

11 A. That I saw.

12 Q. Would a steam utility, such as KCPL, still
13 be bounded by the promotional practices rules of this
14 Commission?

15 A. Do you say "should it"?

16 Q. In Staff's opinion, is it?

17 A. A steam utility bounded by the promotional
18 practice rule, yes.

19 Q. So whatever aggressive or marketing program
20 would have to live within the constraints of the promotional
21 practices rules in the Staff's opinion?

22 A. Yes.

23 Q. What about advertising, Mr. Featherstone?
24 Wouldn't aggressive advertising campaign fit in with an
25 aggressive marketing approach for a steam system in downtown

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1 Kansas City?

2 A. I don't know if an advertising program would
3 be necessary or needed. When you're dealing with 200
4 customers--like I said before, it's a confined area. You
5 can really go door to door and speak to them or call them up
6 and meet with them on a very firsthand personal basis. I
7 wouldn't expect that you would take out a billboard sign and
8 advertise the district heating system in downtown
9 Kansas City.

10 Q. The Staff in KCPL's last electric rate case
11 proposed various categories of advertising expense, some
12 allowable and some nonallowable. Would Staff's opinion of
13 allowable and disallowable steam advertising expense follow
14 along those lines?

15 A. They'd be allowable in the kind of--if you
16 want to call it advertising or just having a customer
17 presence. I think the Staff in that case addressed the
18 issue of was it cost justified. The advertising dollars
19 that you were expending, were you receiving revenues back in
20 kind or at least making some sort of contribution. And in
21 the Staff's view, and I guess the Commission view as well
22 because they accepted that position, they found that the
23 costs were not justified.

24 However, in the steam, the type of presence
25 or the type of customer relations that we're talking about

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1 is really no different than you're presently doing with your
2 electric operations. You're dealing daily with developers
3 in downtown Kansas City or throughout the rest of the
4 metropolitan area. Those kinds of costs are in rate base.

5 So I think there is a distinction to be
6 drawn from advertising or a mass media type of campaign as
7 opposed to the type of--really customer relations that
8 Mr. Graham and his people do.

9 Q. Has Staff done any study or cost benefit
10 analysis showing that if KCPL had marketed differently,
11 customers would have been retained?

12 A. We looked at some figures, and we also
13 requested as a backup or check from the company, that type
14 of information if you would have received the new
15 construction in downtown Kansas City type of thing, AT&T,
16 One Kansas City Place, the Wyandotte Plaza, and other
17 buildings, as well as if you would have retained the
18 customer's loss to natural gas. So we looked at that kind
19 of information.

20 Q. The question was: Did Staff do any
21 cost benefit analysis that showed that the type of marketing
22 that you suggest would have been successful?

23 A. I don't know as to we assigned any dollar
24 cost to it. We calculated revenues or what we would have
25 perceived to be the customer usage and the revenues

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1 associated with that usage.

2 Q. Now, you and other members of the Staff
3 actually interviewed customers, ex-customers, and
4 noncustomers of KCPL, didn't you?

5 A. Yes.

6 Q. Did any of your interviewees say that it
7 left the system because of reasons other than economics?

8 A. We interviewed several, and it's hard to
9 draw just a composite of all of them in one or two
10 sentences. But I think the general feeling was that it was
11 a foregoing conclusion that the steam system was old, and it
12 had perhaps had enough problems and was not going to be
13 continued with Kansas City Power & Light. So it was really
14 a foregoing conclusion. I don't know as we really addressed
15 the economics.

16 Q. Well, let's go specifically if you're having
17 problems drawing a composite. You interviewed One
18 Kansas City Place or people associated with One Kansas City
19 Place, didn't you?

20 A. Yes.

21 Q. And didn't the interviewee indicate that
22 a decision to go with electric rather than gas was purely an
23 economic one?

24 A. I don't have my notes up here. If I could
25 get those notes--

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1 Q. Sure.

2 A. Yes.

3 Q. And don't your notes also indicate that the
4 interviewee stated that the present cost of steam was, in
5 his word, "outrageous"?

6 A. Do you have the notes that I can refer to?

7 Q. I refer your attention to Page 2 of the
8 document entitled "Meeting Notes From Interview With
9 Executive Hills-Developer, One Kansas City Place Office
10 Building," Page 2, the second full paragraph, the fourth
11 line from the bottom, leading into the third line from the
12 bottom.

13 A. "Mr. Iseman indicated that back in 1972 when
14 they were looking at the Eighth and Cherry and Eleventh and
15 McGee Bell Buildings, they went steam but now the cost had
16 become outrageous."

17 Q. Was one of your interviewees also people
18 associated with the Rodeway Hotel in downtown Kansas City?

19 A. Yes.

20 Q. And didn't the interviewee state that steam
21 cost was about \$609 a room at the Rodeway and gas cost \$292
22 per room for the Central Hotel?

23 A. I know he had a problem with his bills. He
24 took over the management of the Rodeway I believe it was in
25 '84. And as I recall, the first heating season he started

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1 looking at alternatives. And then when he, I guess, was
2 advised of KCPL's plan, he started to intensify that effort.
3 And as I recall, he had several contractors come in writing
4 the bids. He had billing problems. He didn't like the cost
5 of gas--or excuse me. --of steam.

6 Q. But don't your notes also indicate that he
7 gave that comparison of steam versus gas per room at these
8 two properties?

9 A. It would be helpful--the notes are five
10 pages--four pages. I haven't looked at these for a while.

11 Q. I would refer you to Page 4, second full
12 paragraph.

13 A. He said when he compared the Central cost,
14 which was another hotel that they operated, they were \$292
15 per room using natural gas and Rodeway's cost was \$609 per
16 room for steam. So, yes.

17 Q. I would refer you now to the meeting notes
18 that Staff took--and I note that you were a participant--
19 where the interview was Tower Properties--

20 A. Yes.

21 Q. --because I'm going to have a question on
22 that.

23 A. Yes.

24 Q. On Page 3 of the meeting notes from your
25 interview with Tower Properties representatives, do I read

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1 it correctly to show that for the--I think it's the 1000
2 Walnut Building, natural gas would save the property owner
3 approximately \$33,000 a year over steam? At the bottom of
4 Page 3, please.

5 A. Yeah. I have the annual savings to be
6 \$46,000 for natural gas.

7 Q. Based on the base of electric?

8 A. Yes.

9 Q. It shows that steam would save approximately
10 \$13,000 a year?

11 A. Yes.

12 Q. So the differential of savings between
13 natural gas and steam would be roughly \$46,000 minus
14 \$13,000?

15 A. Yes.

16 Q. How do you market a \$33,000 a year price
17 differential?

18 A. I think KCPL will not market the \$33,000
19 price differential. However, there are others apparently
20 who want to market that differential and try to make up that
21 differential.

22 Q. My question is though, Mr. Featherstone,
23 how would you propose to market that sort of pricing
24 differential?

25 A. I would propose Staff's recommendation to

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1 seek another buyer who is interested in district heating and
2 would market in whatever manner that they would deem
3 appropriate. We only have to look to other cities that have
4 seen the same type of things that have happened to KCPL's
5 system. They apparently feel that their product is
6 marketable. They are marketing.

7 Q. Would you agree, Mr. Featherstone, that
8 marketability depends, among other things, on the relative
9 costs of the competing products?

10 A. Sure.

11 Q. Mr. Featherstone, in the rebuttal testimony
12 exhibits you filed, Schedule 2-14 to be exact, you show a
13 cost comparison for St. Louis steam that you obtained
14 through Catalyst. And it indicates that, even back in 1983,
15 Central steam costs several dollars of an Mlb. less than an
16 in-building boiler with gas fuel; is that correct?

17 A. What page are you on?

18 Q. Schedule 2-14, Mr. Featherstone.

19 A. Okay. And your question?

20 Q. Doesn't it show on there that Central steam
21 heat costs several dollars an Mlb. less than in-building
22 boiler gas fuel?

23 A. Yes.

24 Q. Is that the same situation that we face in
25 Kansas City?

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1 A. I would suppose if you take all the capital
2 costs that you would have to incur for natural gas
3 operation. When you look at that on that basis, you
4 probably are under natural gas. On an energy basis, I would
5 agree that natural gas is less.

6 Q. But here in St. Louis, Mr. Featherstone, it
7 shows that with a boiler and with gas fuel, looking at all
8 the costs, both capital and operating, gas according to the
9 thermal is not really competitive with their estimates of
10 central steam prices; is that true?

11 A. This graph shows that very definitely
12 they're under natural gas.

13 Q. Do you know what the gas price in Baltimore,
14 Maryland is?

15 A. No, I don't.

16 Q. Do you know what the gas price is in
17 Philadelphia, Pennsylvania?

18 A. No.

19 Q. Now, according to Mr. Cox's Schedule 6-1
20 in Case Nos. ER-77-118 through HR-82-67, Staff's aggregate
21 recommended revenue deficiency was about \$1,600,000 higher
22 than KCPL's aggregate recommended revenue deficiencies in
23 those cases. What, in your estimation, would have been the
24 effect on KCPL's customer base had Staff's revenue
25 requirements been accepted in these cases?

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1 A. Well, it would have certainly--if Staff's
2 level of a million six would have been reflected in rates,
3 it would have caused the rate to be higher. And all things
4 considered equal, then the customers would have to make
5 their choices based on that rate and probably would have
6 looked at alternatives.

7 Q. Given the past history that customers have
8 left the KCPL system with the rates at KCPL's proposed
9 levels, do you have an opinion on whether or not the same,
10 more, or less customers would have left if Staff's revenue
11 level had been built into rates?

12 A. No, I don't have an opinion. I don't know
13 whether they would or not.

14 Q. Out of those cases, Staff never alleged
15 marketing or management inefficiencies, did they, with
16 respect to steam?

17 A. No. In those cases--and I tried to allude
18 to this in my direct testimony--we were dealing with just a
19 revenue requirement case. We were looking sometimes in
20 conjunction with the electric operations, and it became just
21 a matter of allocating pieces of cost on a total company
22 basis to the steam operations. We were also not looking at
23 an abandonment case. We were not looking at a utility
24 requesting to be relieved of its public utility obligation.

25 So we looked at this case in a much

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1 different light, which I think is evident by the resource
2 and the amount of effort that the Staff put into this case
3 in contrast to previous or prior steam rate cases.

4 Q. So is it your testimony that Staff doesn't
5 look at management efficiency except in an abandonment case?

6 A. Not at all.

7 Q. That is the only scenario that you've given
8 me, that Staff has looked at management efficiency because
9 this is an abandonment case.

10 A. No. I tried to contrast the differences
11 between what we have done in the past in steam rate cases.
12 I worked on the '82 steam case in conjunction with KCPL's
13 '82 electric rate case.

14 You know, I know that we had a couple
15 meetings with regard to the line loss problem. As I recall,
16 Mr. Ashpaugh, who did revenues in that case, had a meeting
17 with Mr. Mandacina; and they were told at that time that
18 line losses were a problem. The company knew they were a
19 problem, and they were addressing them. So to that extent,
20 we didn't have really much to go on.

21 Q. Back in 1982, the steam losses were in the
22 high 30 percent; is that correct?

23 A. Yes.

24 Q. And Staff built that level into its revenue
25 deficiency?

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1 A. I believe in that case--and I looked at it
2 during the course of this audit, and it's been awhile--but I
3 believe there was like a five-year average. We were told
4 that there was an organization that was now structured to
5 address the problems of the steam plant, the steam
6 operations, and they had just really started their effort.
7 I believe we took a five-year average. And I can get the
8 information for it, but I believe it was like 30 percent.
9 At one point in the late '70s, the line losses--unaccounted
10 for losses was around 44 percent. So we did not build in as
11 high a level of losses as what the system achieved. It was
12 on its way down, I guess.

13 Q. Mr. Featherstone, what is the effect on
14 KCPL's steam rates today of KCPL not increasing distribution
15 on O&M expense before 1982?

16 A. Rates would be lower.

17 Q. Mr. Featherstone, when was the last time
18 KCPL had a rate increase for steam?

19 A. I believe the current rates were effective
20 the first part of June 1982.

21 Q. What is the basis of your statement then
22 that the rates would be lower today if KCPL increased
23 distribution on O&M expense prior to 1982?

24 A. I misunderstood your question.

25 Q. Let me repeat it then. Mr. Featherstone, in

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1 your opinion, what would be the effect on rates today if
2 KCPL had increased its distribution on M expense before
3 1982?

4 A. If they increased their distribution on O&M
5 expenses, they'd be higher.

6 Q. The rates today would be higher?

7 A. Yes.

8 Q. Mr. Featherstone, do you believe that
9 another fully regulated utility can successfully operate
10 a steam system in Kansas City?

11 A. I don't know. I guess our proposal is to
12 see if there is someone out there. We believe that other
13 systems exist where there have been an operator who has been
14 interested in taking it over in regulated and nonregulated
15 environments. I don't know what the bid process will find.
16 We've tried to leave it open and flexible to just--let's
17 look and see what--someone of any interest to come in and
18 what are they proposing.

19 I don't think we are interested, as a Staff,
20 to look in a lot of isolated instances and leave customers
21 stranded. So we would be very interested if the customer
22 base would go along with those proposals. But I would not
23 want to preclude or say that we would throw out prior to
24 testing the water, so to speak.

25 Q. Mr. Featherstone, are Staff's criteria for

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1 steam service abandonment in this case different than
2 Staff's criteria for abandoning steam service primarily by
3 pricing it out in St. Joseph, Missouri?

4 A. I don't think wholly it's different. I
5 don't believe the St. Joseph case is a model case. The
6 St. Joseph case, they had applied to abandon the system in
7 the early '70s--I believe in '74--and the Commission
8 rejected the proposal. They rejected it largely on the
9 grounds that we find ourselves and that there was still a
10 need and it was viable and there was still an interest. And
11 the customers were not necessarily going to be better off
12 without the steam system. They received a rate increase the
13 latter part of the '70s. And finally in 1980, then the
14 Commission, through really pricing the customer base off the
15 market, had little alternative by that time. It was so low
16 down on the death spiral, I don't think anyone could have
17 saved it.

18 Q. In the course of your employment with the
19 Commission, you have occasion to audit the books and records
20 of Union Electric, don't you?

21 A. The Staff does. I haven't personally.

22 Q. You've attached to your rebuttal testimony a
23 copy, I believe, of the Commission's Order in the case that
24 authorizes sale of the Union Electric system to Bi-State and
25 Thermal. Doesn't that Order reflect that some of the costs

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1 of the Ashley plant continue to be allocated to UE's
2 electric customers?

3 A. Yes. As I understand the Ashley plant with
4 Union Electric is in a very similar situation to what the
5 Grand Avenue plant was prior to the rework of the downtown
6 electric network, that they use the Ashley plant for a
7 backup to the electric system. So they have an agreement
8 with Union Electric to buy power--I'm sorry. They have an
9 agreement with Catalyst Thermal to buy power for that
10 reason. That's only up until the point in time when the
11 substation can be constructed in downtown St. Louis.

12 Q. But that exists at the present time, the
13 buying of power?

14 A. Yes.

15 MR. ENGLISH: Thank you, Mr. Featherstone.

16 EXAMINER HOGERTY: Questions from the Bench?
17 Commissioner Hendren.

18 COMMISSIONER HENDREN: No questions.

19 EXAMINER HOGERTY: Commissioner Fischer.

20 COMMISSIONER FISCHER: No.

21 EXAMINER HOGERTY: Commissioner Musgrave.

22 QUESTIONS BY COMMISSIONER MUSGRAVE:

23 Q. Mr. Featherstone, have you ever been to
24 downtown St. Joseph, Missouri?

25 A. Yes.

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1 Q. What, in your opinion, is the condition of
2 downtown St. Joseph, Missouri?

3 A. I hope nobody is here from St. Joseph. It's
4 a much smaller, less concentrated downtown.

5 Q. What would you say the economic life of
6 downtown St. Joseph, Missouri is?

7 A. When I was there in the early '80s, I was
8 there--in fact, that was the first rate case I went on with
9 the Commission--they were having a lot of people--a lot of
10 businesses moving to the shopping malls, going out to the
11 suburbs.

12 Q. Would you call it a dying downtown?

13 A. At that time. I'm not familiar with what is
14 currently going on in downtown St. Joseph, Missouri.

15 Q. Were the customers downtown, the businesses,
16 the department stores, were they on the St. Joseph Light &
17 Power steam loop?

18 A. It's my understanding they were, yes.

19 Q. Do you think that that had any bearing on
20 the reason that they had to leave the marketplace downtown
21 and go to the suburbs, the cost of steam there?

22 A. I don't know.

23 Q. With reference to the downtown steam loop in
24 Kansas City and the position that the Staff is taking, that
25 it would be possible for another company or entity to run

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1 the steam loop, do you think that it's economically
2 worthwhile or feasible to install all new lines to
3 distribute the steam?

4 A. The Staff consultants have provided
5 testimony on that very topic, and they have found that the
6 downtown system can still be viable. They're not running
7 all new lines. They're installing portions of lines, as I
8 understand their testimony. They're utilizing some of the
9 same plant facilities that are in current existence with the
10 idea that an operator will try to stabilize sales, stabilize
11 the customer base, try to cut costs through cost saving
12 measures and then address some of the long-term needs of the
13 system as they can turn things around as far as the
14 operations are concerned.

15 Q. But do you think that it would be important
16 or worthwhile to install for the present customers, the 130
17 that we've got on there, this 80-year old steam line that's
18 in the streets now to put in all new lines for these
19 customers?

20 A. It might be worthwhile from the system
21 reliability, but you would probably drive the cost up so
22 high that you wouldn't have any customers to serve. I think
23 it has to be done in a systematic way. It has to be done
24 with an operator who is going to do what Arkansas was
25 describing. I don't think that anyone can come in and just

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1 rip out or just even replace the distribution line.

2 Q. Do you think that a not-for-profit
3 organization could operate the steam plant in Kansas City?

4 A. Perhaps. I know St. Louis is kind of quasi.
5 The city owns the distribution system, and Catalyst Thermal
6 owns the production facilities.

7 Q. But we taxpayers don't view the city
8 government and county government as not-for-profit, do we?

9 The building boom that has taken place in
10 downtown Kansas City in the last several years--and
11 generally fairly well-occupied buildings--and those new
12 buildings that haven't hooked on to the steam line, does it
13 indicate to you that the steam system hasn't been a
14 consideration of people building new facilities downtown?

15 A. No. I know steam hasn't been a
16 consideration. I talked--

17 Q. Do you think possibly it's because of the
18 reliability or the economics?

19 A. I think it's the fact that Kansas City
20 Power & Light wants out of the steam business, and it wasn't
21 going to be available. I know I talked to the engineering
22 firm handling the AT&T pavilion, and they didn't even bother
23 to run their analysis for steam. He said he believed all
24 along that the steam system was gone, that KCPL was going to
25 abandon the system and it wasn't necessary to do that

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1 analysis.

2 Q. Have you talked to people who are not
3 particularly knowledgeable about the steam system in
4 Kansas City that are residents or familiar with that
5 community, and is it their general understanding too that
6 the steam system is going to be abandoned in 1990?

7 A. I would think anybody familiar with downtown
8 Kansas City had kept abreast of the business journals and
9 just the handouts. It is no secret; KCPL has publicized it
10 very openly that they want out of the business. So I would
11 suspect that by now, a very large percentage of the people
12 down there believe that at least the current structure is
13 to change in the future.

14 Q. Mr. Featherstone, do you have any idea how
15 much it costs to make a street cut to repair the steam
16 line?

17 A. I don't. Our consultants have addressed
18 that.

19 Q. Do you have any idea as to how long an
20 opening would be left before it was repaired and put back,
21 the street put back in useful condition?

22 A. No, I don't.

23 Q. Do you have any idea how many street cuts
24 have been made in the last five years downtown to repair the
25 steam lines?

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1 A. I know that every time I go to do an audit
2 at Kansas City Power & Light, I usually see street crews of
3 some fashion. It's either Southwestern Bell or someone is
4 down there on the streets. So there is a lot of activity
5 down there, particularly with the construction that's going
6 on.

7 Q. If the steam lines are buried as deep as
8 they said they are, it's probably a more complicated dig up
9 than for a telephone line, isn't it? I think we heard this
10 morning that they were 22 feet deep in some places. It
11 would take longer to dig up something 22 feet down than it
12 would 8 feet down, wouldn't it?

13 A. I don't know. I suppose it would.

14 COMMISSIONER MUSGRAVE: Thank you. That's
15 all I have.

16 EXAMINER HOGERTY: Redirect?

17 MS. YOUNG: Thank you, Madam Examiner.

18 REDIRECT EXAMINATION BY MS. YOUNG:

19 Q. Mr. Featherstone, I believe I heard you say
20 that for the St. Louis system that the city owns the
21 distribution system?

22 A. I believe they do.

23 Q. Okay. If as is applied here and asserted by
24 the company, steam is not competitive with gas, why are
25 there still customers who want to take Central steam

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1 service?

2 A. Well, I don't know if there's going to be an
3 agreement between the parties of whether one is economical
4 over another. I mean, you get into the situation where you
5 do the analysis and you look at rates. And depending on
6 what you want to show, you can--

7 Q. Well, if that were true, why would people
8 want to stay on the steam system?

9 A. They can avoid up front capital costs. It's
10 cheaper as far as first costs are concerned. It's less
11 disruptive because they've already got the system in place;
12 so they don't have any changeover from their hydraulics,
13 piping in the building to a boiler plant, space
14 requirements. And there is some operating cost associated
15 with it. You do have to have an operator when the boilers
16 get to a large enough degree.

17 I heard the testimony yesterday, and I guess
18 the company was trying to imply that that was very minimal.
19 I talked to the Commerce people, and they factor in in their
20 analysis a dollar per MCF for labor charge. So you have
21 those costs associated with both electric and steam plant--
22 or excuse me. --electric and gas plant that you do not have
23 with steam.

24 Q. And what will that labor cost be for?

25 A. For maintenance, operation of maintenance

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1 costs, inspections.

2 Q. Of the boiler itself?

3 A. Of the boiler, maintaining the boiler.

4 Q. Would it be possible, under any scenario,
5 that increasing your operation and maintenance expenses
6 could actually result in reduced rates, just say, cut your
7 line losses and generate additional revenues or cut expenses
8 in that area?

9 A. Well, certainly, if you increased your sales
10 and you cut cost, then you could reduce rates.

11 MS. YOUNG: No further redirect. Thank you.

12 EXAMINER HOGERTY: Ms. Bjelland.

13 MS. BJELLAND: No questions.

14 EXAMINER HOGERTY: Mr. Finnegan.

15 RECROSS-EXAMINATION BY MR. FINNEGAN:

16 Q. Mr. Featherstone, isn't one of the marketing
17 features offered in St. Louis a long-term fixed contract
18 with known rates for many years to come?

19 A. Depending on how you define "long
20 term." It's my understanding that their contract rate, as
21 they call it, is one year. And there is a 5 percent
22 discount for that.

23 Q. A 20-year contract?

24 A. I'm not familiar with that.

25 Q. Speaking of marketing, do you see an

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1 inherent problem in marketing products when the utility
2 offers competing products such as steam and electricity?

3 A. As long as they don't interfere with one
4 another, they generally will not have a problem marketing
5 it. The problem exists when they're in conflict or they're
6 in competition for the same customers. Clearly, that is
7 what has happened in downtown Kansas City, that KCPL, as a
8 corporate entity--let's face it, they're an electric
9 utility. 98, 99 percent of their revenues are electric
10 generated. And they have off-peak sales as a goal, as a
11 corporate policy. So they're not going to go in and compete
12 with themselves.

13 Q. The off-peak sales is also exacerbated by
14 the excess of electricity that KCPL has at this--stated at
15 the time?

16 A. I don't know if it's due to--whether it is
17 excess or capacity problems or not. I don't know. It's
18 just a corporate policy. KCPL has a problem with their
19 system load. They are not--or at least in the past not been
20 able to utilize their production facilities in a very
21 efficient manner. That's really not necessarily no fault of
22 their own. It's just generally the way it is in the midwest
23 with regard to electric utilities. They have a fairly low
24 load factor for utility the size that they are.

25 Q. If you would refer to Schedule 2 of your

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1 rebuttal testimony, particularly Schedule 2-63 through
2 2-65. Do you see the heading there on Page 2-63 of
3 "Benefits of District Heating & Cooling"?

4 A. Yes.

5 Q. Have you had opportunity to review those
6 statements regarding cost-efficiency, reliability, fuel
7 versatility, trash-to-energy, carefree operation and energy
8 management, eliminates space problems, and the bottom
9 line-locked in prices for 20 years?

10 A. Yes, I see that.

11 Q. Have you had an opportunity to review this?

12 A. I've glanced at this material.

13 Q. Would you agree that these are the benefits
14 of district heating and cooling?

15 A. Yes. We have a consultant who addresses
16 some of the benefits of Central district heating, Staff
17 Consultant Fuller in his testimony. Many of these same
18 types of things are in his testimony.

19 Q. I understand the bottom line of your
20 testimony is you want somebody to take a look and see if
21 they are interested in buying the system that could perhaps
22 offer the same benefits to the Kansas City metropolitan
23 area; is that correct?

24 A. Correct. I see no reason why, at this
25 juncture, that we should abandon steam service in downtown

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1 Kansas City. I see nothing that--at least the company has
2 shown. The evidence, I think, is clear in the record from
3 the Staff's perspective that it can still be viable with the
4 right set of circumstances.

5 Q. I believe also in this rebuttal testimony,
6 Exhibits--there is a list of the--Schedules 2-36 and 37--
7 showing the list of the new Thermal steam customers in
8 St. Louis in 1986; is that correct?

9 A. Yes.

10 Q. And on Page 2-38, it shows the load of these
11 customers, 2-38 and 2-39.

12 A. It's a projected Mlb. usage per year for
13 each customer. It's hooked to the system. And then there
14 is also a decrease of customers who have left, and they've
15 netted out to a total of 64,000 Mlbs. addition.

16 Q. Do you know what the growth in the St. Louis
17 system was prior to the sale by Union Electric to Thermal
18 and the commencement of operations by Thermal and Bi-State?

19 A. It was very similar to KCPL's. The
20 customers and the sales had diminished over time until
21 Thermal took it over.

22 Q. St. Louis is also experiencing a rebirth
23 downtown as is Kansas City, is it not, in buildings?

24 A. Yes. I think they've had considerable
25 construction down there.

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1 Q. These buildings listed here are not all new
2 buildings, are they?

3 A. No. In fact, one that was interesting--I
4 was involved with the Southwestern Bell audit in '83, and we
5 were watching the Southwestern Bell One Bell Center go up.
6 And I believe it went--if I'm not mistaken, I believe it
7 went electric. Catalyst is now hooked up to the
8 Southwestern Bell building. They're providing
9 humidification. And they've put in a sufficient capacity so
10 that at one point he believes that they can obtain the
11 heating load for the Bell building. I believe it was
12 constructed in--finished in December 1984.

13 Q. And some other buildings on this list, like
14 Union Market, has been there forever that I know of. The
15 Alverne Residence. The American Theatre has been downtown
16 for some years, or do you know that?

17 A. I don't know anything about the Union
18 Market. I know the Adams Mark Hotel is the one that's just
19 going up across from the Arch. And they--I believe it was
20 constructed sometime in '85, '86. And during the planning
21 stages or the development stages, the hearings were going on
22 down here. So they did not plan the building for heat load,
23 but this is kitchen facilities.

24 MR. FINNEGAN: That's all the questions I
25 have. Thank you.

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1 EXAMINER HOGERTY: Mr. Kennett.

2 MR. KENNETT: I have no questions of
3 Mr. Featherstone.

4 EXAMINER HOGERTY: Mr. English.

5 MR. ENGLAND: One question, your Honor.

6 RECROSS-EXAMINATION BY MR. ENGLISH:

7 Q. Mr. Featherstone, does Commerce Bank have
8 gas or electric boilers?

9 A. They're gas.

10 MR. ENGLAND: Thank you.

11 EXAMINER HOGERTY: Thank you,
12 Mr. Featherstone.

13 (Witness excused.)
14

15 EXAMINER HOGERTY: That concludes the
16 witnesses for today, does it not?

17 MS. YOUNG: Yes, it does.

18 EXAMINER HOGERTY: We will be in recess
19 until ten o'clock tomorrow morning.

20 WHEREUPON, the hearing of this case was
21 adjourned until 10 a.m., Wednesday, April 8, 1987.
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23
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25

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Handwritten Notes by R. H. Graham
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EXHIBIT NO. 27

Various Pages of Transcript in
Case Nos. ER-85-128, EO-85-185,
and EO-85-224

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