

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT

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PUBLIC SERVICE COMMISSION

CASE NO. : HO-86-139

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

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Missouri Public Service Commission

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Hearing of the Public Service
Commission, held at Jefferson City,
Missouri, commencing on the 6th day
of April, 1987.

CASE NO. HO-86-139

In the matter of the investigation of
steam service rendered by Kansas City
Power & Light Company.

BEFORE:

MARTHA S. HOGERTY, Presiding,
DEPUTY CHIEF HEARING EXAMINER.
WILLIAM D. STEINMEIER, Chairman,
CHARLOTTE MUSGRAVE,
ALLAN G. MUELLER,
CONNIE B. HENDREN,
JAMES M. FISCHER,
COMMISSIONERS.

REPORTED BY:

BARBARA A. SKALLA, CCR
DEBBIE J. TWEEDY, RPR
SHELLIE E. BYERS

Missouri Public Service Commission

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P R O C E E D I N G S

(Written Entries of Appearance filed.)

EXAMINER HOGERTY: Come to order. The Commission has set for hearing at this time Case No. HO-86-139, in the matter of the investigation of steam service rendered by the Kansas City Power & Light Company.

The parties are directed to make their entries of appearance, beginning with the company.

MR. ENGLISH: Mark G. English and Jeannie Sell Latz, 1330 Baltimore Avenue, Kansas City, Missouri, 64105, attorneys for applicant, Kansas City Power & Light Company.

MS. YOUNG: Mary Ann Young and Douglas C. Walther, Post Office Box 360, Jefferson City, Missouri, 65102, appearing on behalf of the Staff of the Missouri Public Service Commission.

MS. BJELLAND: Let the record reflect the appearance of Carol L. Bjelland and Curtis Hanrahan, appearing on behalf of the Office of the Public Counsel and the public. Our address is Post Office Box 7800, Jefferson City, Missouri.

MR. BREGMAN: Martin J. Bregman, 818 Kansas Avenue, Topeka, Kansas, 66612, appearing on behalf of The Kansas Power and Light Company.

MR. SANDS: Barry Gene Sands and Ilus W.

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1 Davis, 1700 City Center Square, Kansas City, Missouri,
2 64105, appearing on behalf of the so-called customer
3 intervenors.

4 MR. KELLY: William C. Kelly, Post Office
5 Box 899, Jefferson City, Missouri, 65102, appearing for
6 intervenor State of Missouri.

7 Madam Hearing Examiner, this hearing will
8 address issues that are not of direct interest to my client.
9 And, for that reason, I request leave to be excused from
10 those portions of the hearing that are not of direct
11 interest to the State.

12 EXAMINER HOGERTY: You may be excused.

13 We'll commence with the company's opening
14 statement.

15 Mr. English.

16 MR. ENGLISH: Thank you, your Honor.

17 May it please the Commission, KCPL and its
18 predecessor companies have provided central station steam
19 distribution service to downtown Kansas City for over 80
20 years, with Grand Avenue Station supplying steam for about
21 the past 60 years. Supplying steam has been a minor part of
22 Grand Avenue's role because, until the retirement of the
23 electric facilities at Grand in 1985, it was primarily an
24 electric generating plant; and the great majority of its
25 costs were allocated to electric service. Now that

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1 electricity is no longer produced at Grand Avenue, the costs
2 of producing steam there are now shifted entirely to the
3 steam customers. The shifting of Grand Avenue's costs from
4 KCPL's electric customers to its steam customers reflecting
5 the change in usage at the plant has been occurring for more
6 than a decade.

7 In Case No. 18,463 and succeeding rate
8 cases, KCPL proposed and this Commission accepted allocation
9 methodologies which gradually shifted cost responsibility to
10 the steam customers as Grand Avenue's electric role
11 decreased. Even with this gradually-increasing allocation
12 of cost to steam service, the price of steam rose
13 dramatically. In the period from 1977 through 1982, KCPL
14 was granted increased steam rates of 11 percent in 1977,
15 6 percent in 1978, 10 percent in 1980, and 19 percent in
16 1982. But, even with these substantial increases, KCPL did
17 not cover its steam operating costs between 1978 and 1983.

18 Although steam service has generally been
19 priced below its true cost for many years, more and more
20 steam customers were leaving the system; and many potential
21 customers were opting for gas and electric heating
22 alternatives because steam service, although priced below
23 cost, was not economically attractive to them.

24 Steam service has always been a small part
25 of KCPL's operations, accounting for less than 2 percent of

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1 its revenues But KCPL has always believed that it was an
2 important service to downtown Kansas City. The contribution
3 of this service to Kansas City, though, has to be weighed
4 against the current and potential financial viability of
5 central station steam service.

6 In 1981, against the backdrop of continued
7 reductions in customers and sales, increasing steam losses
8 over the previous three years, prices below the cost of
9 service, and the scheduled electrical retirement of Grand
10 Avenue at the end of the decade, KCPL performed a formal
11 study of its steam heat business. The study made various
12 short and long-term recommendations; and many of them, such
13 as resolution of steam losses and centralization of steam
14 management, were implemented. This 1981 study was built
15 upon in the next year by KCPL's long-range steam heat
16 planning study. Both studies recognized that acquiring a
17 large high load factor customer could be one way back to
18 profitable operations. And KCPL was able in 1982 to secure
19 such a large customer, Corn Products.

20 The agreement with Corn Products, with an
21 initial term extending to 1987, had the effect of tripling
22 KCPL's annual steam sales. CPC's new load, along with no
23 change in electric steam allocation factors in KCPL's 1983
24 electric rate case, allowed KCPL to withdraw its then
25 pending steam case. KCPL thus believed that, with the

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1 signing of the CPC agreement in late 1982 and the
2 commencement of steam deliveries in April of 1984, that the
3 viability of its steam system was greatly improved.

4 The validity of the major recommendation of
5 the 1981 and 1982 studies, obtain a large customer, was
6 borne out by the fact that its steam operation boasted a
7 profit in 1984 and 1985. However, shortly after CPC started
8 taking steam, it informed KCPL that it was selling its
9 facilities to National Starch.

10 The sale was completed in 1985, and KCPL
11 successfully negotiated a five-year steam contract with
12 National Starch but only for about one-fourth of the
13 anticipated annual steam load of the CPC agreement. This
14 reduction in load once again resulted in operating losses
15 for the steam system. KCPL did not wait for the sale of
16 National Starch--or to National Starch to become final
17 before it started to investigate possible solutions to the
18 problems once again confronting its steam system.

19 In August, 1984, KCPL once again addressed
20 the obstacles facing the system; and this effort culminated
21 in the downtown steam system conversion study in early 1986.
22 The study examined in depth various alternatives for
23 continuing central station steam distribution service, along
24 with alternatives for steam production on the customer's
25 premises. The downtown steam service plan which KCPL has

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1 presented to the Commission for approval in this case is
2 based upon the study's findings.

3 KCPL's downtown steam service plan,
4 essentially an abandonment plan, provides for the phasing
5 out of steam distribution service from Grand Avenue by
6 December 31, 1990. KCPL proposes to provide certain space
7 heating equipment to its steam customers at no cost to them,
8 with the customers assuming ownership of that equipment
9 December 31, 1995.

10 Each steam service customer, as the phaseout
11 progresses, will be offered the option of either receiving
12 steam service from an on-site electric boiler or becoming an
13 electric space heating customer of KCPL. If the customer
14 chooses space heating equipment and it is more expensive
15 than the corresponding boiler, the customer will, in that
16 case, reimburse KCPL for the difference in the capital cost.

17 The plan provides that KCPL will own,
18 install, and maintain the electric steam boilers if those
19 customers will continue to be steam customers served under
20 the applicable steam tariff of KCPL. KCPL will own and
21 install the electric space heating equipment, but those
22 customers will be responsible for maintenance and will be
23 billed under the applicable electric tariff. As of
24 January 1, 1996, all converted customers will become
25 electric customers of KCPL; and all will be served under the

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1 applicable electric service tariffs. The plan provides that
2 KCPL will continue to offer building energy use studies at
3 the facilities of each steam customer to determine the
4 appropriate sizing of the on-site equipment.

5 In conjunction with its plans, KCPL also
6 filed tariffs designed to increase steam heat revenues by
7 about \$5.8 million. KCPL has stipulated to a revenue
8 deficiency dollar amount of about \$3.2 million, although
9 Staff does not recommend a rate increase in this case.

10 KCPL proposes three steam rate alternatives,
11 depending on the Commission's disposition of its plan.
12 Should the Commission authorize KCPL to terminate steam
13 service and to offer electric equipment to its steam
14 customers, KCPL proposes that this \$3.2 million increase be
15 phased in in four equal percentage annual increases of about
16 13.5 percent per year with no deferral or carrying cost
17 recovery.

18 Should the Commission authorize KCPL to
19 terminate steam service before 1991 but not to offer
20 electric equipment, KCPL is willing to forego the
21 \$3.2 million rate increase in order to compensate its
22 customers to the extent permitted for the costs they will
23 incur in converting to a new heating source.

24 Should the Commission reject the plan, KCPL
25 will continue to operate the steam system in the interim and

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1 request that the \$3.2 million increase be immediately
2 reflected in rates.

3 I'd like to briefly touch upon a few further
4 aspects of KCPL's position before concluding. A key concept
5 of KCPL's plan is the offering of free boilers or
6 alternative electric space heating equipment to its steam
7 customers at no initial capital cost. KCPL views this offer
8 as a cost of going out of the steam business, a kind of
9 compensation to its customers. It believes that this offer
10 is a fair type of compensation since it gives the customers
11 the precise electrical equipment needed to supply their
12 heating needs.

13 KCPL does not think that the Promotional
14 Practices Rules apply to this situation of termination of
15 service. But if the Commission believes that the rules do
16 apply, KCPL requests an exemption for this unique case.
17 KCPL as well does not object to KPL-Gas Service being
18 allowed to offer free gas boilers to existing steam
19 customers. And, in such a case, the customers who choose
20 electric equipment could be billed at the appropriate
21 electric tariff. And those who choose gas equipment could
22 be billed under the appropriate gas tariff. We have no
23 objection to the steam customers being able to freely choose
24 that heat system, be it electric or gas, that appears to be
25 in their best interests.

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1 The fundamental disagreement among the
2 parties is whether central station steam distribution
3 service is viable in downtown Kansas City, whether it is
4 operated by KCPL or another. KCPL believes that it's very
5 clear that the present system cannot compete successfully
6 with gas or electric heating options. Present steam prices
7 at about \$10 per Mlb. are currently in existence and will
8 certainly be less competitive if rates are raised 66 percent
9 to cover the existing revenue deficiency.

10 Staff has criticized KCPL management actions
11 in the late 1970s and up until 1982 but does not quantify
12 the effects of such actions. It is worthy of note that
13 these criticisms were not voiced during any of four steam
14 rate cases Staff audited during this time period. More
15 importantly, KCPL has provided evidence that places these
16 criticisms in perspective. Staff's own economic analyses,
17 predicated on a hypothetical efficient operator who has
18 acquired KCPL's system for free, when adjusted only for the
19 present cost of gas, shows that this efficient operator--

20 MS. YOUNG: Madam Hearing Examiner, may I
21 object at this time? Company has indicated that Staff's
22 testimony states that the system will be provided free to
23 the purchaser. I don't believe that is in the testimony.

24 EXAMINER HOGERTY: The record will reflect
25 what the testimony states.

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1 Proceed.

2 MR. ENGLISH: Thank you, your Honor.

3 Staff's own economic analyses, when adjusted
4 only for the present cost of gas, shows that this efficient
5 operator would need about a 30 percent rate increase over
6 present levels. And, if Staff's analysis is corrected for
7 other factors, such as recognition of property taxes, it
8 proves that this hypothetical efficient operator would need
9 to increase rates more than 70 percent over present levels.
10 Thus, KCPL believes that Staff's management prudence issue
11 is irrelevant.

12 Even if KCPL were not burning at the present
13 age facilities and significant indirect costs allocated to
14 steam operations; that is, if KCPL were the Staff's
15 hypothetical efficient operator, rates would still need to
16 increase by around 70 percent, which is about the same
17 increase required on KCPL's existing system.

18 Similarly, Staff's criticisms of KCPL's
19 steam marketing effort does not include quantification.
20 KCPL has provided evidence that, even if Staff's
21 hypothetical efficient operator acquired all possible
22 customers within KCPL's service territory, which is
23 extremely unlikely, this operator would still need a rate
24 increase of about 45 percent over the present rates.

25 Commercial customers, which have a load

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1 factor, a low load factor, are not the salvation of the
2 steam system. Witness that the AT&T building, with over
3 1.2 million square feet of space, would add only about
4 \$85,000 in gross revenues per year.

5 The above recitation of testimony is at the
6 crux of KCPL's decision not to put up its system for sale.
7 It may appear to be a logical financial solution for KCPL
8 but would not significantly change the economics of the
9 situation. Whether hypothetical or real, a central station
10 steam distribution system cannot be operated profitably in
11 downtown Kansas City. KCPL's plan addresses this reality
12 and offers to its customers a heating alternative with no
13 initial capital cost. KCPL thus requests that the
14 Commission approve its plan to phase out its steam system
15 and to offer boilers and other electric space heating
16 equipment in compensation to its existing steam customers.

17 Thank you very much.

18 EXAMINER HOGERTY: Ms. Young.

19 MS. YOUNG: Thank you, Madam Examiner.

20 If it please the Commission, KCPL has made
21 it clear in its filing in this case and the testimony and
22 also Mr. English's statement this morning that it wants out
23 of the central steam heat business in downtown Kansas City,
24 Missouri. The company's testimony cites that the reason for
25 this is that the system has deteriorated, customers have

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1 been lost, and the system has been operating at a loss in
2 recent years.

3 The Staff's evidence will show that,
4 although the system is not exactly in mint condition and
5 although there have been operating losses, these reasons are
6 not adequate to excuse the company from its public service
7 obligation. The system's condition is due to the
8 inattention and mismanagement on the part of KCPL, and
9 reduced sales levels are due to the demarketing efforts of
10 KCPL regarding steam.

11 What standards should be applied by the
12 Commission to determine whether KCPL should be allowed to
13 terminate central steam service? Staff Witness
14 Featherstone's direct testimony states that the Staff's
15 recommended standard would include the following elements:
16 A showing that the public convenience and necessity no
17 longer requires continuation of central steam service in
18 downtown Kansas City, a showing that central steam service
19 is not a viable utility service in downtown Kansas City, a
20 showing that the company has examined all reasonable
21 alternatives to discontinuance of the service, and a showing
22 that the customers will be as well or better off without
23 steam service.

24 Has the company met the standards? In the
25 Staff's opinion, no. The termination will be disruptive and

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1 inconvenient for its customers. Company Witness Beaudoin
2 admits as much. The Staff Consultant Witness Fuller
3 points out the inconveniences that would be avoided if
4 central steam is continued.

5 The Staff's evidence shows that not all
6 alternatives were considered. Most notably is the failure
7 to consider sale of the system, despite the extremely high
8 cost of the conversion plan. In addition, the company, in
9 its alternatives considered in the conversion plan, did not
10 look at installation of gas and oil-fired package boilers at
11 Grand Avenue Station and ignored the gas-fired, on-site
12 boiler alternative for its customers.

13 The customers will not be as well or better
14 off if they convert to electric boilers. The company's
15 proposal does not allow for clear evaluation of the impact
16 of that conversion so that an economic choice can be made by
17 the customers. In fact, Staff Consultant Witness Dahlen's
18 analysis shows that central steam service is more economical
19 in the long run than on-site gas or electric boilers.

20 KCPL is willing to pay a price to be allowed
21 to get out of the steam business. What is the price? We're
22 not sure of its dollar value. The company's analysis
23 includes ranges of capital costs for the boilers and other
24 operating expenses. However, there is no evidence of a
25 cost/benefit analysis to the company overall of this plan.

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1 The Staff's testimony, in fact--excuse me. Company Witness
2 Beaudoin estimates that the capital cost of the on-site
3 boilers alone is from eleven to \$23 million. The Staff has
4 attached in its testimony a copy of a document which
5 indicated at one time the company was looking at an
6 estimated total cost of \$50 million.

7 If the Commission approves the conversion
8 plan as submitted and all customers take advantage of the
9 boiler offer, the total price tag will be the \$23 million
10 cost of the on-site boilers, plus almost \$1/2 million for
11 the energy audits, plus \$3 million for additional electrical
12 distribution needed downtown, plus \$1 1/2 million annually
13 for operation and maintenance of the boilers at the
14 customers' premises until they're turned over to the
15 customers. However, even the company doesn't believe that
16 all of its customers would take up the offer; so perhaps
17 they only have \$11 million at risk for the boiler costs.

18 Staff's testimony shows that rehabilitation
19 of the central steam system would range from \$2.675 million
20 for a short-term, quick-fix rehabilitation to \$11.8 million
21 for long-range rehabilitation. This is much less than the
22 possible \$30 million total of the items that I listed
23 earlier, which is the price that the company is willing to
24 pay for the privilege of being absolved of their obligation
25 to continue to provide steam service.

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1 Should the company be permitted to pay this
2 price? In the Staff's opinion, no. KCPL's customers and
3 ratepayers are ill served by the plan. The Staff cannot
4 recommend that the company be allowed to buy out its
5 certificate at a cost considerably greater than Staff's
6 rehabilitation estimate when they have refused to even
7 consider the option of selling the system at almost no cost
8 to the company. Sale of the system would also allow the
9 company to avoid all capital costs listed above and
10 operating costs, plus avoid the continuing operating loss of
11 the system.

12 As pointed out above, the testimony of
13 Mr. Dahlen indicates that the electric boilers are the most
14 expensive option for the customers also in the long run.
15 The free boiler offer, in the Staff's opinion, is a clear
16 violation of the Commission's Promotional Practices Rule and
17 should not be permitted. The boilers, as well as the energy
18 audits, are being provided as an inducement to the steam
19 customers to select electric service rather than natural gas
20 service when KCPL discontinues central steam service.

21 Thank you.

22 EXAMINER HOGERTY: Ms. Bjelland.

23 MS. BJELLAND: Madam Examiner, Public
24 Counsel waives its opening statement.

25 EXAMINER HOGERTY: Mr. Bregman.

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1 MR. BREGMAN: Thank you. I'm going to do
2 mine standing up.

3 Commissioners, Madam Hearing Examiner, KPL's
4 interest in this case is very limited. We're really only
5 here because of KCPL's proposal to provide electric steam
6 boilers at no charge to its customers. And, as a result,
7 I'll be in and out of the hearing room as well. I plan on
8 being here today and back on Friday.

9 We agree with the Staff that the proposal
10 violates the Promotional Practices Rule. What KCP&L is
11 proposing is to provide equipment free as an inducement to
12 customers using electric service in the future, and that's
13 clearly in violation of the rule. Their justification for
14 it seems to be twofold. One is that this is a unique
15 occurrence. And today Mr. English has requested that the
16 Commission grant an exemption to them in the event it finds
17 the proposal violates the Promotional Practices Rule.

18 On that score, I would point out that the
19 grounds for exemptions from the Promotional Practices Rule
20 are very limited. And it will be our contention that the
21 requirement--and I believe it's that there's no competitive
22 service available--that that requirement is not met in this
23 instance. Clearly, there are competitive alternatives.
24 Electric steam boilers can be competed with but with gas
25 boilers. Continuation of central steam by another operator

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1 would be another option.

2 Secondly, KCP&L has suggested that the plan
3 provides compensation to customers for their going out of
4 business. The reason that KCPL is going out of business is
5 because it can't make money in its operation. It's charged
6 rates below operating costs for many years. It hasn't made
7 a rate of return for most of the period since 1981. And, in
8 fact, even if their phasein of rates is allowed, they'll
9 continue not to make a rate of return for the next couple of
10 years. That fact in itself indicates that these customers
11 have received a lot of compensation. The shortfall between
12 the cost of the service and what they've paid has been
13 compensation to these customers. They've been given
14 compensation in advance if, in fact, abandonment is allowed.

15 Additionally, the kind of compensation that
16 KCPL is offering or wants to offer is suspect. Rather than
17 giving cash, they want to give coupons redeemable for
18 electric boilers. They make the statement in their
19 testimony that you can determine what size of equipment is
20 required and, as a result, you can determine approximately
21 what the cost of it is. You can come up with a dollar
22 amount on a customer-by-customer basis.

23 If compensation really is the issue, if
24 compensation is really what KCP&L wants to offer, there's no
25 reason why they can't reach into their shareholders' pockets

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1 and give that cash to the customers rather than giving them
2 free equipment. That would give the customers a choice.
3 That would give compensation, and it would ensure that the
4 customers could do whatever they felt was appropriate. They
5 could put it in electric steam boilers if that was the
6 option they chose. They could put it in gas boilers if they
7 chose. They could take a trip to Tahiti if they chose. But
8 there wouldn't be a violation of promotional practices
9 because, even though there would be consideration, there's
10 no inducement because there's no strings attached to that
11 payment.

12 We have suggested in our testimony really
13 only an alternative really covering the situation that if
14 the Commission doesn't agree with us and finds that the plan
15 is appropriate. Our testimony--Mr. Lennan will testify on
16 Friday--suggests that we would put in gas boilers if KCP&L
17 is allowed to put in electric steam boilers. We would put
18 them in at no cost; and we would charge a rate equivalent,
19 on a Btu basis, to the steam rate which would allow us to
20 make a little money on the deal.

21 We're not willing to go into this and give
22 away gas boilers and charge the gas rates. Our gas rates
23 would not allow us to recover any of that investment, and
24 we're not interested in taking money out of our
25 shareholders' pockets and giving it to the customers. We're

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1 only looking for the opportunity to compete on an equal
2 basis. So the proposal that Mr. English has made--and I
3 believe it's in Mr. Beaudoin's rebuttal testimony--is not
4 one that's acceptable to KPL. We think that the
5 alternatives that are appropriate are the ones that put
6 KCP&L and KPL in an equal position to compete. We think
7 that the proposal violates promotional practices, and we
8 urge you to reject it.

9 Thank you.

10 EXAMINER HOGERTY: Mr. Sands.

11 MR. SANDS: Madam Examiner and
12 Commissioners, Mr. Davis and I are here before the
13 Commission in this proceeding representing a group of 11
14 building owners which, for convenience, we have referred to
15 as the customer intervenors. And I emphasize "customer" in
16 this respect because that's what each of these entities is.

17 They range in size from a small optical
18 company, Denson One Hour Optical, to the largest bank in
19 Kansas City, Missouri, Boatmen's First National Bank of
20 Kansas City. We have not-for-profit entities involved in
21 our group. We have the Catholic Church involved in our
22 group. We have businesses involved in our group. We
23 represent a cross section of the users. And despite their
24 differences in size and their business or not-for-profit
25 activities, all these intervenors have one thing in common

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1 in terms of these proceedings: They support the KCP&L plan
2 to discontinue central service steam.

3 There seems to be some inherent incredulity
4 and skepticism when a customer supports the actions or, in
5 this case, proposals of a utility. And certainly this case
6 has been no exception in that regard. You ask why would a
7 customer intervene in support of KCP&L? In this case, the
8 answer is relatively simple. The intervenors agree that
9 steam is not as viable today as it once was and it's now
10 time to abandon it in favor of other heating alternatives.

11 As the area served by the steam loop began
12 to develop, steam made a great deal of sense, both from an
13 economic standpoint and also from a safety standpoint. As a
14 matter of economics, a great deal of steam was available;
15 and it was a cheap source of energy. As to safety, central
16 steam was a much safer alternative than having large on-site
17 boilers on the premises. It was cleaner. Kansas City is a
18 clean city today because buildings have not been burning
19 coal.

20 However, what was true in the 1930s or the
21 1950s or perhaps even the 1960s and '70s is not necessarily
22 true in the 1980s. As Mr. English has pointed out, the
23 price of steam has escalated rapidly in the last 15 years.
24 Advances in technology have now made it possible for on-site
25 equipment, whether it be gas or electric, to be safely and

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1 economically utilized. The intervenors believe that it is
2 time to accept the reality of a deteriorating central steam
3 system and to move forward. And we believe that the KCP&L
4 plan accomplishes this purpose.

5 The Staff testimony addresses the alleged
6 failure of KCP&L to maintain and promote the central steam
7 system and also criticizes the failure of KCP&L to attempt
8 to sell the system. The Staff asks that the Commission
9 reject the KCP&L plan to discontinue central steam.

10 Last week we heard from a task force group.
11 And I believe that we have, as an exhibit in these
12 proceedings, a report prepared by a group by examining the
13 prospects of waste energy as an alternative. However,
14 whether we're dealing with the sale of the system or the
15 building of a waste energy system, it seems that the central
16 steam system must be maintained in order for either of those
17 alternatives to work. To these issues, the intervenors
18 would simply say that the current state of central steam is
19 a reality, regardless of who is responsible for it.

20 These intervenors are concerned about
21 possible disruptions of service. They are concerned about
22 the all too frequently required repairs of the system,
23 necessitating pedestrian and automotive traffic disruptions,
24 creating a high potential for injury. They are concerned
25 that more and more customers will seek alternative systems,

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1 leaving those who remain with ever increasing steam rates.
2 To wait for a potential buyer or the implementation of a
3 waste energy system simply keeps them prisoners to the
4 uncertainty that has been central service steam for too many
5 years now. And even if we assume the existence of a
6 purchaser out there for the steam system or investors who
7 are willing to implement a waste energy system, these
8 customers have no guarantee that the cost to them as
9 consumers will not far exceed what they are currently
10 paying.

11 Collectively these intervenors own property
12 in Kansas City valued at approximately \$50 million. They
13 pay steam rates of approximately a quarter million dollars
14 per year. We would hope that these factors will be
15 considered by the Commission when it does take into
16 consideration the proposed sale or the prospect of a waste
17 energy alternative.

18 The KCP&L proposal has been objected to by
19 the Staff insofar as the provision of on-site equipment is
20 concerned as a prohibitive promotional practice. The
21 intervenors disagree. As their testimony has indicated, the
22 customers affected by this proposal are all existing KCP&L
23 customers. We're not looking at new hookups. The capital
24 outlay required for an alternative heating system is not
25 insignificant and, for many of these intervenors and other

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1 users, could conceivably work a financial hardship. The
2 KCP&L proposal alleviates this.

3 This is not to say that all these customers,
4 the intervenors included, would necessarily choose electric.
5 Each will have to make its own economic decisions in this
6 regard. However, we feel that it is only equitable that
7 some form of compensation flow to the affected customers
8 from KCP&L. And, as the intervenors have noted in the
9 Hearing Memorandum, if the cost of the heating equipment is
10 deemed by this Commission to be a proper compensation, then
11 the customers should have the right to choose between cash
12 and the equivalent equipment.

13 Now, so far in these opening remarks, I've
14 directed my comments to two issues of concern to these
15 customer intervenors, their support for the discontinuance
16 of central district steam and compensation and incidental
17 promotional practices consideration. The intervenors are
18 also vitally concerned with a third issue in this case, and
19 that is rates. From the inception of their involvement in
20 these proceedings, the customer intervenors have steadfastly
21 maintained their opposition to a rate increase; and they
22 remain so opposed today.

23 I mentioned earlier that steam rates have
24 risen dramatically in the last 15 years. The customers have
25 borne these increases. And they feel that it would now be

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1 inequitable for them to pay more to finance KCP&L's
2 conversion proposal.

3 Madam Examiner, as is the case with
4 Mr. Bregman and Mr. Kelly, there are certain issues in these
5 proceedings that are extremely important to our intervenor
6 clients. And, for those matters, we will certainly be
7 present for the proceedings. There are others that have
8 less bearing, and we would ask to be excused from those
9 portions of the proceedings. And, with that, I thank you
10 for your time.

11 EXAMINER HOGERTY: You may be excused.

12 Mr. Kelly.

13 MR. KELLY: Thank you.

14 May it please the Commission, the State
15 believes that its concerns in this case are stated
16 succinctly in one paragraph, Paragraph C, on Page 5 of the
17 Hearing Memorandum. I'm confident that the Commission will
18 read and hopeful that it will heed the concerns we've
19 expressed. I shall not burden the record further with
20 comment at this time. Thank you.

21 EXAMINER HOGERTY: Mr. Finnegan, do you wish
22 to make an appearance?

23 MR. FINNEGAN: Yes, I do. Appearing on
24 behalf of Jackson County, Jeremiah D. Finnegan,
25 4225 Baltimore, Kansas City, Missouri, 64111.

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1 EXAMINER HOGERTY: Do you wish to make an
2 opening statement?

3 MR. FINNEGAN: Yes, I do.

4 EXAMINER HOGERTY: You have 10 minutes.

5 MR. FINNEGAN: All right. I won't need that
6 much time.

7 It's refreshing that Jackson County, for
8 once in a steam case, is supporting the Staff's position
9 100 percent. As the Commission may recall, in the 1983
10 case, Jackson County led a group of steam customers actually
11 supporting the company's allocation of the steam for Grand
12 Avenue Station and opposing the Staff's proposed allocation
13 of the Grand Avenue Station between electric and steam. In
14 the 1985 Wolf Creek rate case, Jackson County opposed both
15 the company and the Staff with respect to the premature
16 retirement of the Grand Avenue Station as an electric plant
17 and replacement of its peak load capacity with base load
18 capacity produced at Wolf Creek. We were not successful on
19 that one. In this case, we are supporting the Staff
20 100 percent.

21 And I'd like to point out that Jackson
22 County is a large steam customer. Its steam bill last year
23 approximated \$357,000, which I believe is more than the
24 total of Mr. Sands' 11 customers' bills. In addition, the
25 City of Kansas City, which is, I believe, the largest steam

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1 customer on the system at this time with usage probably two
2 to three times that of the County of Jackson, is also
3 supporting the Staff 100 percent in its proposals.

4 There's no question that the future of steam
5 heat is at stake in this case. The question of whether or
6 not there will be a customer base available for any other
7 entity or governmental body which may wish to operate a
8 steam--central district steam heating system in downtown
9 Kansas City, either as presently operated or with the
10 addition of waste energy, is being eroded away by the
11 tactics adopted by Kansas City Power & Light in this case.

12 This case perhaps demonstrates the epitome
13 of monopolistic arrogance and disdain for the regulatory
14 authority of this Commission. It's not surprising that
15 Kansas City Power & Light has treated the steam system as
16 something that perhaps is out of the regulatory scheme. If
17 the Commission will recall, in the 1983 rate case Order,
18 KCP&L was ordered that the next time they filed an electric
19 rate case, they were to file a steam rate case. KCP&L filed
20 not one, but two electric rate cases in Wolf Creek. They
21 filed one and dismissed it and filed another one. And at no
22 time did they follow the Commission's Order to file a steam
23 rate case at that time. In addition, KCP&L was ordered, in
24 the Commission's 1983 Order, to present a phase-out schedule
25 for the Grand Avenue Station. The Commission will recall

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1 that there was no phase-out schedule produced. Instead,
2 KCP&L decided to prematurely retire the Grand Avenue Station
3 four years' ahead of its scheduled retirement date as an
4 electric plant.

5 In this case, KCPL started with promotional
6 practices, prohibitive promotional practices, unlawfully
7 discriminatory prohibitive promotional practices, and signed
8 up four customers with the offer of free electric boilers
9 and took them off the steam system. They were attempting to
10 do more when the Commission stepped in in the Wolf Creek
11 rate case and put a moratorium on such practices. It's not
12 surprising that, with this offer of the free boilers, there
13 has been a division in the steam customers' regard for
14 whether or not steam is a viable alternative in the future.

15 We're talking hundreds of thousands of
16 dollars in some cases. And this offer to me is tantamount
17 to a bribe to steam customers to support Kansas City Power &
18 Light in their efforts to terminate and dismantle an
19 existing steam system in the face of growing central
20 district steam heating applications throughout the country,
21 including across the state of Missouri in the St. Louis
22 area.

23 It is with great pleasure that we were able
24 to say that we support the Staff. The Staff has presented
25 an admirable case. They have evidenced--a great deal of

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1 time and effort has been expended on behalf of the downtown
2 steam system and the future thereof, and we are supporting
3 the Staff 100 percent. This is fortunate because of the
4 lack of funds, or otherwise Jackson County perhaps would
5 have been able to present a parallel case with the Staff.
6 However, funding is tight. And, as a result thereof, my
7 participation may be sporadic in this case. And, at certain
8 times, I may be asked to be excused. But I hope to be here
9 and hope to see steam heat here long after 1990.

10 Thank you.

11 EXAMINER HOGERTY: We will proceed to
12 marking of exhibits for today's witness.

13 Off the record.

14 (EXHIBIT NOS. 1 TO 13 WERE MARKED BY THE
15 REPORTER FOR IDENTIFICATION.)

16 EXAMINER HOGERTY: Back on the record. You
17 may call your witness, Mr. English.

18 MR. ENGLISH: Thank you, your Honor. KCPL
19 calls Mr. Bernard J. Beaudoin to the stand.

20 (Witness sworn.)

21
22 TERMINATION OF CENTRAL STEAM SERVICE ISSUES:

23 BERNARD J. BEAUDOIN testified as follows:

24 DIRECT EXAMINATION BY MR. ENGLISH:

25 Q. Would you please state your name and by whom

1 you are employed.

2 A. My name is Bernard J. Beaudoin. I'm
3 employed by Kansas City Power & Light Company,
4 1330 Baltimore Avenue, Kansas City, Missouri.

5 Q. Are you the same Bernard J. Beaudoin that
6 caused to be prefiled certain direct testimony that has been
7 identified as Exhibit 12?

8 A. Yes.

9 Q. Are you also the same Bernard J. Beaudoin
10 that caused to be prefiled certain rebuttal testimony that
11 has been identified as Exhibit 13?

12 A. Yes.

13 Q. Do you have any changes or corrections to be
14 made in either Exhibit 12 or Exhibit 13?

15 A. No.

16 Q. If I asked you the questions contained in
17 these exhibits, would your answers today be the same as in
18 these two exhibits?

19 A. Yes.

20 Q. Do you wish to adopt the exhibits, 12 and
21 13, as your direct and rebuttal testimony in these
22 proceedings?

23 A. Yes, I do.

24 MR. ENGLISH: Your Honor, I will defer
25 offering Exhibits 12 and 13 until Mr. Beaudoin completes

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1 his time on the stand; and I offer him for cross-
2 examination.

3 EXAMINER HOGERTY: Ms. Young.

4 MS. YOUNG: Thank you, Madam Examiner.

5 CROSS-EXAMINATION BY MS. YOUNG:

6 Q. Good morning, Mr. Beaudoin.

7 A. Good morning.

8 Q. The first area I'd like to address with
9 you this morning concerns the company's conversion plan and
10 your direct testimony regarding the plan. First, could you
11 please explain your role in the process of developing the
12 conversion plan?

13 A. Yes. I chaired a task force of company
14 personnel who looked into the problem of going out of the
15 central station steam business. I assembled a team of
16 engineers and rate people to take a look at the situation,
17 which culminated in the downtown conversion plan that's
18 attached as an exhibit to my testimony.

19 Q. And was your role as an active chairman
20 rather than a tie breaker in terms of votes?

21 A. No. I was an active chairman, yes.

22 Q. Did you help select or did you select the
23 members of the team?

24 A. I suggested certain members, yes. But they
25 were also suggested by other officers of the company.

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1 Q. And did you have a major role in directing
2 the preparation of the plan itself?

3 A. Yes.

4 Q. On Page 9 of your direct testimony, you
5 state--it's an answer that continues over from Page 8 at the
6 bottom--that the alternatives examined by the company showed
7 that it was not economically feasible to continue central
8 steam service. What was the measure for economic
9 feasibility that was used?

10 A. The measure that was used was, as shown in
11 our study that's attached to my testimony, that the
12 long-range cost of continuing in the central station steam
13 business, in view of the fact that we were experiencing a
14 reducing customer base, was more expensive than an
15 alternative of supplying on-site electric boiler production.

16 Q. And, as I understand the study, that
17 considered both the capital costs and the O&M type costs; is
18 that right?

19 A. Yes. The economic analysis considered both.

20 Q. What are the company's intentions regarding
21 its steam certificate of convenience and necessity in the
22 event the Commission authorizes it to discontinue central
23 steam service?

24 A. It would no longer be necessary.

25 Q. On Page 9, you refer to the building energy

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1 use studies of customer facilities. Isn't it true,
2 Mr. Beaudoin, that the energy audits referred to were
3 undertaken because of a problem of undersizing of the test
4 boiler installation at the American Formal Wear building
5 which caused dissatisfaction of the customer there?

6 A. No, that's not true. We intended all along
7 to offer energy studies to our customers as part of this
8 program. The energy studies were useful in identifying the
9 size of boiler required. It turned out in that case--and
10 you can pursue this with Mr. Mandacina, if you wish. But,
11 as I understand, the energy audit was instrumental in
12 discovering that particular problem. And it was really--
13 points out the need for the test boiler program, in the
14 first place, to uncover these kinds of problems. In this
15 case, in one out of five, we did have a problem and
16 recognized it.

17 Q. And is your testimony that the energy audit
18 was conducted prior to the installation of that test boiler?

19 A. You could check that with Mr. Mandacina.
20 I'm not sure in that particular case.

21 Q. I will. Thank you. The last sentence on
22 Page 9 of your--I'm sorry. The last sentence on Page 10 of
23 your testimony characterizes the company's plan as a
24 "... method of continuing steam service to downtown
25 Kansas City" Does the company maintain that the

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1 provision of steam through on-site boilers is a provision of
2 steam service by KCPL?

3 A. Yes, it is. In those instances where
4 customers need steam, that certainly is the continuation of
5 steam service, albeit in another form of production.

6 Q. For which is that you actually provide
7 electricity to the site which is then converted into steam;
8 is that correct?

9 A. That's correct.

10 Q. On Page 11 of your direct testimony, on
11 Lines 20 through 22, we see the first mention of the
12 potential impact of conversions to electric boilers on
13 winter electric load. What is the potential effect of the
14 conversion plan on summer electric load?

15 A. I don't recall that figure, but we can get
16 that for you. It's much less obviously because the steam
17 load is much lower in the summer. Even under the conversion
18 plan, even if a customer uses electric heating equipment,
19 he obviously would not use it in the summer. The only thing
20 that would be left would perhaps be water heating, if that's
21 a use. But there would be some load.

22 Q. Is it true that National Starch is not
23 eligible to receive an electric boiler under the terms of
24 the conversion plan?

25 A. That's correct.

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1 Q. Why is that so?

2 A. Because they're a special purpose industrial
3 customer with a special contract.

4 Q. To your knowledge, did the company ever
5 consider installing an electric boiler at National Starch?

6 A. When National Starch was considering taking
7 over the contract from CPC International, it did look at the
8 possibility of installing an electric boiler because they
9 had to weigh the economics of adopting the CPC contract,
10 which had certain penalties in it. They had to weigh that
11 against the economics of an electric boiler. I also
12 suppose, since they're a large gas user, they looked at gas
13 boilers as well. Obviously, we didn't provide that
14 information to them.

15 Q. And that would have been a plan for National
16 Starch itself to install a boiler, or would KCPL have been
17 involved in that process?

18 A. That would have been a plan for National
19 Starch to install a boiler.

20 Q. Has the company attempted to sell National
21 Starch on the idea of becoming an all-electric customer
22 after steam service is discontinued?

23 A. I think you'll have to direct that one to
24 Mr. Graham. I'm not sure of that.

25 Q. To your knowledge, has the company contacted

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1 National Starch at all regarding its plans after the system
2 is terminated?

3 A. I'm not sure. Please direct that one to
4 Mr. Graham as well.

5 Q. Let me try one more in that area. Do you
6 know what the effect would be on KCPL's summer peak if
7 National Starch's steam load were converted to electric
8 load?

9 A. I don't know.

10 Q. Do you know which of the company witnesses
11 may?

12 A. Mr. Graham would know. He'll know it by the
13 time he gets up on the stand.

14 Q. Still on Page 11, on Lines 22 to 24 there,
15 we see a reference to one alternative which would have
16 continued to serve five large customers with one electrode
17 boiler. Can you identify who those five customers were?

18 A. I believe they're listed in our conversion
19 study. If you give me a moment, I'll find it. At the time
20 we did the study, the five customers were the Vista Hotel;
21 the Muehlebach Hotel, which is now closed at the moment; the
22 Kansas City Club; the Roe Bartle Convention Center; and the
23 Jackson County Detention Center.

24 Q. Can you tell me how those five customers
25 were selected for the alternative?

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1 A. I can verify this with Mr. Mandacina; but I
2 believe the reason they were selected is because of their
3 strategic location on the high pressure system, that it lent
4 itself possibly to a combination of five customers that
5 could be served from one boiler.

6 Q. Now, for anybody who knows downtown
7 Kansas City, it's probably obvious that these were not
8 chosen for their physical proximity to each other. In fact,
9 isn't it true that, to serve both Bartle Hall and the County
10 Detention Center, that you virtually either go past or
11 adjacent to the Jackson County Courthouse and the Federal
12 Building and that you would be within one or two blocks of
13 the City Hall, Union Station, and the Municipal Courts
14 Buildings, as well as the State Office Building?

15 A. I believe that's correct, but there are
16 other combinations. We were not necessarily married to
17 these particular ones. There are other combinations that
18 could be investigated. If you took 130 customers and
19 permutated the combinations, it would get exhaustive. So
20 there are other combinations that could be considered, and I
21 think our plan is flexible enough to consider that.

22 Q. Isn't it true that the City of Kansas City
23 is your largest steam customer if you aggregate all the
24 buildings of the City?

25 A. I believe that's correct.

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1 Q. And Mr. Finnegan stated this morning that
2 the County is also a large customer. And, of course, the
3 detention center is one of the facilities they have, the
4 courthouse, and the court of appeals?

5 A. I believe so. Some of these customers are
6 large enough that one single boiler would be a fairly heavy
7 undertaking in itself. And our plan presumes that we would
8 supply them individually.

9 Q. Also, as you mentioned, the Muehlebach Hotel
10 was included on the list and is now closed for renovations,
11 I believe?

12 A. That's correct.

13 Q. Why was the Muehlebach selected for
14 inclusion?

15 A. Well, at the time, it wasn't closed at the
16 time we did the study; and it's intended to be opened again.
17 Now, whether they go with steam, electric, or gas is still
18 up in the air. But, at the time we did the study, we went
19 with customers who were on the system.

20 Q. Why didn't the alternative consider the
21 large customers that are proximately located there in that
22 government building area?

23 A. It was just another combination that wasn't
24 suggested at the time. But I believe, since that time,
25 those customers, at least the City customers, have

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1 approached the company to offer an alternative that would
2 link them together. And I believe we have supplied a study
3 for that purpose. I think Mr. Graham can address that, if
4 you want, if you like.

5 Q. That study was supplied to interested
6 customers?

7 A. The City, yes.

8 Q. And why didn't the company examine the
9 alternative of serving these five customers with an oil-gas
10 combination boiler rather than an electrode boiler?

11 A. The company doesn't offer gas service.

12 Q. But the company does use gas service to
13 generate the steam right now for all the customers; is
14 that correct?

15 A. That wasn't the case at the time we did the
16 study. We were still coal-fired.

17 Q. On Page 14 of your direct testimony, you
18 mention that sale of the system may be a logical financial
19 solution for the company. Why do you characterize it that
20 way?

21 A. Because I think, on appearances, it is very
22 easy to say that the company should turn around and sell the
23 system at a nominal price to another buyer and then leave it
24 and sell the customers down the river without considering
25 the effect on their financial situation. The way the

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1 company looked at it is it had an obligation to these
2 customers. It's been serving them for over 80 years,
3 obviously not all of them over 80 years. And it felt that
4 it had to do something to compensate them for the
5 inconvenience of switching from one form of steam service to
6 another.

7 The mere fact that we would sell it to
8 another buyer in no way guaranteed that the buyer could
9 serve the customer cheaper than Kansas City Power & Light.
10 And I believe there's ample testimony in this case to show
11 that the price of steam is inevitably going to rise by as
12 much as 70 percent. So the customer (sic) felt a moral
13 obligation to continue to serve these customers, as well as
14 it made--it made good business sense for the company to do
15 so.

16 Q. Isn't it true that sale of the system would
17 allow the company to get out of the steam business as it
18 desires without requiring the payout of the capital cost
19 dollars, the O&M dollars, the energy audit dollars, and the
20 ongoing operating losses?

21 A. On the surface, that appeared true. But the
22 dollars the company is willing to invest for these customers
23 to become electrical customers will be recouped in later
24 years through the electric rates. So it is a sound business
25 decision to do this.

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1 Take a look at our test boiler program. If
2 you look at the amount of consumption by the four test
3 boilers in this past year, you'll find that, if they had
4 been charged the electric heating rates, the commercial
5 electric space heating rates, they would have paid less for
6 their steam than what we're currently charging our steam
7 customers, let alone the rate increase we need to continue
8 to serve them from a central production facility. If you
9 not only examine that, but you look at the incremental--if
10 you really want to look at the hard economics, look at the
11 incremental cost of serving these customers in the winter.

12 Our marginal cost of producing electricity
13 is about one cent a kilowatt-hour, yet these customers would
14 be contributing nearly four cents a kilowatt-hour. The
15 capitalized value of that difference in revenue over
16 20 years could equal the cost of providing these facilities.
17 It all depends on how you look at the business situation.
18 That's the way we look at it. It's an off-peak source of
19 customer load.

20 Q. Are you suggesting that the company will be
21 fully recouped for all its expenses through that alternate
22 source of electric customers?

23 A. If not fully, pretty closely fully.

24 Q. Now, Mr. English mentioned in his opening
25 statement that these are free boilers. Under that

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1 scenario, are these really free boilers that are being given
2 to the customers?

3 A. What we give to the customers is the upfront
4 capital costs of installing the boiler. At the higher steam
5 rates, eventually there would be some contribution to the
6 capital costs. That's why we don't feel we're putting our
7 stockholders at a disadvantage by offering this alternative.

8 Q. What's the real difference between the plan
9 to turn them into electric customers and make the money back
10 off them that way versus offering some kind of financing
11 program?

12 A. Under the financing program, the customer
13 can go out and install any type of boiler.

14 Q. And you might lose him and lose the
15 opportunity to recoup the money through the electric rates?

16 A. Sure. That's right. That's why we're
17 willing to do it.

18 Q. You mentioned an analysis that is included
19 in your rebuttal testimony regarding the test boiler
20 customers and the electric versus steam. Have you provided
21 the workpapers in support of that analysis to the Staff at
22 this time?

23 A. I believe the Staff has received all of the
24 information on the test boiler program. Perhaps the only
25 thing they haven't done is received or done the arithmetic

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1 that I just described. I'd be glad to supply it to you.

2 Q. Okay. Thank you. Mr. Beaudoin, I'm sure
3 you're familiar with the KCPL fiscal recovery plan, are you
4 not?

5 A. Yes.

6 Q. Now, is it true that that program is
7 basically one of minimizing expenses of the company and that
8 it includes percentage reductions in construction budgets,
9 coal inventories, operating and maintenance budgets, and
10 civic and charitable contributions?

11 A. Yes, that's true. It also includes the cost
12 of converting people to--customers to steam boilers too.

13 Q. How much money has been authorized for that
14 purpose in the company's budget?

15 A. I believe, in the five-year construction
16 budget, we made the assumption, for the purposes of
17 contingency, that all our customers would accept our offer.
18 As I have mentioned in our conversion program, we don't
19 really think they all will take it; but I think we've--
20 we've allowed up to \$25 million.

21 Q. So there's \$25 million right now built into
22 the company's construction budget for the purpose of paying
23 for these boilers?

24 A. If it should come to pass, yes.

25 Q. Over what time period?

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1 A. Through 1990.

2 Q. And do you know in what time frame that line
3 item, or however you would describe it, was inserted into
4 the company's budget?

5 A. I believe it was distributed from 1987
6 through 1990, perhaps on a levelized basis.

7 Q. And when was the decision made to put it in
8 the budget?

9 A. The last time we prepared the construction
10 budget, which would have been the fall of '86.

11 Q. And what will be the budgetary source of the
12 \$1 1/2 million annual O&M for the test boilers that are
13 installed? I'm sorry. Not the test boilers. But, in the
14 event the boilers are installed, where will that money come
15 from?

16 A. Operation and maintenance expenses.

17 Q. And is that currently included in the budget
18 for those appropriate years?

19 A. Yes, because remember we have to continue
20 operating the central steam system in the interim; so we
21 have to budget for it.

22 Q. And what about the budgetary source for the
23 \$3 million of additional electric distribution facilities
24 downtown?

25 A. That one is even more--that, again, is

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1 contingent upon the number of customers that accept our
2 conversion program. But I believe that 3 million is in
3 the budget as well under the distribution budget for
4 substations. Recall that, in our testimony, the effect of
5 the conversion of the downtown steam system only had the
6 effect of determining when the timing of that substation
7 addition would take place. And the timing of it is still up
8 in the air, depending on the number of customers who
9 convert. If, in fact, only half the customers converted, we
10 don't actually need the substation for that purpose; but we
11 will need it for electric load downtown.

12 Q. In light of those facts, is that amount
13 included in an electric distribution budget or a steam
14 distribution budget?

15 A. It would be electric distribution.

16 Q. And the same distinction on the construction
17 budget for the boilers. Is that on the electric side or the
18 steam side?

19 A. That would be on the steam side, but it's
20 just a line item.

21 Q. And for the O&M also? That's included in
22 the steam as opposed to the electric?

23 A. I believe so, the steam accounts.

24 Q. Under Scenario C1A--and the reference that I
25 make--the source of this number that I'm looking at is from

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1 Page 7.4 of the conversion plan. Have you got that page?

2 A. Yes.

3 Q. The first line describes Scenario C1A as
4 "100% Conversion - All customers receive steam from an
5 on-site electric or electrode boiler. The entire steam
6 distribution system is retired." Under the Labor Levels
7 column, the entry there is "22 men." Can you describe for
8 me what these employees would be doing under the conversion
9 scenario?

10 A. I can tell you in general terms, but I
11 believe Mr. Mandacina could be much more detailed than I
12 could. Essentially during the period where we still own the
13 boilers, they would have to start the boilers in the fall
14 and close them down in the spring and do the maintenance
15 required to do so. I think Mr. Mandacina can elaborate on
16 that.

17 Q. Okay. Thank you. On Page 15 of your direct
18 testimony, in the first full paragraph from Lines 4 through
19 6, you refer to the inconvenience and hardship to the
20 customers in the transition from central steam to other
21 service. Can we agree that, besides the upfront capital
22 conversion costs, the customer may be inconvenienced or
23 burdened by, for example, the loss of valuable space in his
24 or her building taken up by the boiler equipment which may
25 be parking spaces or storage space in that building?

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1 A. Well, it's true the customer has to give up
2 some space; but it's been our experience in our test boiler
3 program that that has not been an undue hardship. The
4 hardship we talk about is essentially the financial
5 hardship. He also gets the reliability of having the source
6 on site, being served with electricity, less chance of an
7 outage. He would not be affected by outages. If there was
8 such an outage in another building, he wouldn't be affected.

9 Q. Yet, at the same time, once the company
10 turns over ownership of the boiler, if there are outage
11 problems, it's all the customer's responsibility, isn't it?

12 A. Yes, it is. But the electric boilers have
13 been very reliable.

14 Q. 100 percent?

15 A. You can check with Mr. Mandacina.

16 Q. Also, once the boilers are installed and
17 within the ownership of the customers, won't the customers
18 be responsible for dealing with any regulatory requirements
19 imposed on boilers, such as fire codes and operator
20 regulations for boilers?

21 A. You can check that with Mr. Graham who's
22 probably familiar with them. But my general opinion is it
23 would be no more burdensome and probably less burdensome
24 than the ones they have to undertake with gas boilers at the
25 present time.

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1 Q. Is it possible that a customer will have
2 higher property insurance costs because there is a boiler
3 sitting in his basement or on his roof?

4 A. I don't know.

5 Q. Is it possible that some of the customers,
6 once the company discontinues maintenance, will have to hire
7 an employee or pay someone to operate and maintain the
8 boiler?

9 A. Well, chances are most buildings now have
10 building maintenance people; and we don't see that the
11 additional burden of this to be overwhelming.

12 Q. Does the company still intend to file a
13 steam rate case in 1990?

14 A. Well, we'll have to cross that bridge in
15 1990. It depends on the outcome of this plan.

16 Q. If the company's original rate phasein, as
17 adjusted down to the 3.2 million, were approved by the
18 Commission, does anything prevent the company from turning
19 around and filing another rate case in the interim during
20 that phase-in period?

21 A. Legally there is nothing to prevent the
22 company from filing another case. Obviously, if it did, it
23 would be based on a cost of service that would be reviewed
24 by this Commission.

25 Q. Okay. Please turn to Schedule 1 of your

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1 direct testimony. On Page 2 of the Revision to Report,
2 there is a reference in the third full paragraph where KCPL
3 is seeking an Accounting Order from the Commission
4 permitting depreciation of the on-site boiler or alternate
5 electric heat equipment. Has the company sought such an
6 Accounting Order at this time?

7 A. No, it hasn't. It's awaiting the outcome
8 of this case.

9 Q. Similarly, on Page 5 of that same document,
10 Recommendation 7 is to ask for a Depreciation Authority
11 Order to recover depreciation reserve deficiency. Has this
12 been done at this time?

13 A. No, it hasn't.

14 Q. In the event that the Commission requires
15 customers who take electric boilers to be treated as
16 electric customers, would the company still retain ownership
17 and maintenance responsibilities for the boilers as under
18 its original plan?

19 A. If the customer becomes an electric
20 customer, I believe our plan is that he would assume
21 operation and maintenance responsibilities.

22 Q. Turning to the question of potential sale of
23 the system, you referred earlier to a nominal price to be
24 paid for the system. What would you consider a nominal
25 price to be?

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1 A. I have not decided what that is.

2 Q. What would a reasonable price be?

3 A. I haven't determined that.

4 Q. Does it have some relation to the book value?

5 A. That would be one consideration. Another
6 would be the potential income from the customers. There are
7 various ways of valuing a business.

8 Q. How much would it cost the company, in your
9 opinion, to go through a request for proposal process as
10 recommended by the Staff?

11 A. I have no idea. I don't imagine it would be
12 real expensive.

13 Q. And how long would the process take, in your
14 opinion?

15 A. Probably three months.

16 Q. Why is the company so adamantly opposed to
17 trying the market to see if a buyer exists who could come in
18 and continue the steam service?

19 A. For two reasons. First is that we believe--
20 and I think it's supported in our testimony--that even if we
21 took the assumption that there would be a willing buyer--
22 and I'll even concede that there may be a willing buyer out
23 there. Mr. Finnegan has even admitted that perhaps the City
24 might be a willing buyer. --it's our position that the
25 economics of the situation now, whether KCPL operates the

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1 system or whether a third-party operator operates the
2 system, either one will require, in the long run, more than
3 a 70 percent rate increase to operate the system, given even
4 the assumptions that Mr. Dahlen has made in his testimony
5 and adjusted by Mr. Levesque.

6 So we could go through the exercise. We
7 could go through the exercise of requesting proposals and
8 maybe even find a willing buyer at some price. But it's
9 still our position that the customers would not--it would
10 not be in the best interest of the customers to do that
11 because they would still face steam rate increases. The
12 second reason is we feel, in the long run, that they'd be
13 better off being electric customers of Kansas City Power &
14 Light.

15 Q. And both those observations are your
16 opinion, right?

17 A. No. They're backed up by fact.

18 Q. But we have no way of knowing that those
19 positions are accurate?

20 A. Well, we certainly know what the projected
21 cost of steam is. There is enough evidence in this hearing
22 to show that at least a 70 percent increase in steam is
23 required. So that means that--

24 Q. Now--go ahead.

25 A. Excuse me. Also, we know what the current

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1 price of electricity is. And I've already stated that
2 even the current electric rates are competitive with our
3 current steam rates, which is only \$10 an Mlb. I'm sure
4 Mr. Lennan, when he testifies, will tell you that gas is
5 cheaper than everything. So, based on facts we know today,
6 the alternative of electricity or even gas in the short run
7 is cheaper than current steam rates. And there's ample
8 evidence in this--or will be, when this case is over, to
9 show that at least a 70 percent increase in steam rates is
10 required to make the steam--central steam profitable.

11 Q. Isn't it true that Mr. Dahlen's testimony
12 states that no steam rate increase is required necessarily
13 by a new purchaser or new operator of the system?

14 A. That's his testimony, but we have obviously
15 made adjustments for that. We don't agree with his
16 assumptions.

17 Q. Doesn't Mr. Dahlen's testimony also purport
18 to show that the central steam option is indeed the lowest
19 cost short-term and long-term option?

20 A. Well, there are some flaws in his analysis;
21 and we've pointed those out in our rebuttal testimony.

22 Q. But that is what his testimony states?

23 A. That's what his testimony is.

24 MS. YOUNG: I believe that's all the
25 questions I have on cross-examination.

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1 EXAMINER HOGERTY: Ms. Bjelland.

2 MS. BJELLAND: Public Counsel has no
3 questions.

4 EXAMINER HOGERTY: Mr. Bregman.

5 MR. BREGMAN: I have a few.

6 CROSS-EXAMINATION BY MR. BREGMAN:

7 Q. Good morning, Mr. Beaudoin.

8 A. Good morning.

9 Q. I can never remember how to pronounce your
10 name.

11 Your testimony, I think, indicates that KCPL
12 is currently experiencing an operating loss on the system;
13 is that correct?

14 A. You mean a financial loss?

15 Q. Financial operating loss?

16 A. Yes.

17 Q. In other words, you're not generating enough
18 revenue to cover the costs of operating the system?

19 A. That's very clear.

20 Q. And, by that, that's not even considering a
21 return on your investment?

22 A. That's the definition of an operating loss,
23 yes.

24 Q. So, in other words, you're not getting
25 enough money to cover just the cost of running the plant?

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1 Is that what we're saying?

2 A. Correct.

3 Q. In 1981, the rates did not cover the cost of
4 service; is that correct?

5 A. I believe that's correct.

6 Q. Do you know whether or not you were
7 suffering an operating loss at that time?

8 A. I know our rates were not sufficient to
9 cover our total revenue deficiency. Whether they were
10 covering operating loss and a return, I don't know at the
11 moment.

12 Q. And that situation was the case in '81 or
13 '82, and I believe a rate case was filed in 1982; is that
14 correct?

15 A. Right. And I believe the Commission granted
16 both rate increases.

17 Q. And do you know at that point whether the
18 rate increase was sufficient to generate--did you ask for
19 your full rate of return in that case?

20 A. I believe we did.

21 Q. So you were generating a profit at that time
22 in '82?

23 A. I believe the revenue deficiencies, as
24 approved in those cases, were based on Staff's cost of
25 service in both cases; so I presume that they included a

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1 return on the investment.

2 Q. Was there also a filing in 1983?

3 A. Yes, there was.

4 Q. And that showed a deficiency based on your
5 figures?

6 A. Yes. That showed a deficiency without the
7 inclusion of--well, at that time, CPC International as a
8 large customer.

9 Q. And, as I understand the situation, when the
10 contract was reached with CPC, KCP&L withdrew the filing
11 before CPC came on line; is that correct?

12 A. No. KCPL withdrew the filing under two
13 conditions, that CPC did sign a contract and that the
14 Commission accepted the allocation of Grand Avenue as it had
15 in the previous case. Once those two conditions were
16 satisfied, then KCPL withdrew the case.

17 Q. Wasn't the withdrawal effected before you
18 started serving the load at CPC?

19 A. That's true. But we had essentially an
20 agreement for a contract.

21 Q. And then you made--I guess you brought CPC
22 on line in 1984?

23 A. Right.

24 Q. And, at that point, as a result of that
25 load, you were able to make a profit; is that correct?

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1 A. Yes. We were covering our operating losses
2 at that time.

3 Q. Were you making the rate of return that you
4 had requested in your '83 filing?

5 A. I'd have to check that. I don't know.

6 Q. And then, in 1984, I believe--excuse me.
7 '85, I believe, National Starch bought the plant; is that
8 correct?

9 A. They bought out CPC's contract, yes; and it
10 was renegotiated.

11 Q. And the load went back to about one-quarter
12 of what it had been previously?

13 A. That's right.

14 Q. And, again, at that point then in 1985, you
15 began to sustain operating losses?

16 A. Yes.

17 Q. And you continued to sustain those losses in
18 '86 and '87; is that correct?

19 A. Yes.

20 Q. Do you know what the total operating losses
21 are or have been for those three years; '85, '86--

22 A. I know last year it was about
23 \$1 1/2 million.

24 Q. When you do one of these energy audits for a
25 customer, you're able to determine essentially what kind of

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1 plant he will need to heat his facilities; isn't that right?

2 A. Well, you know what his energy load is, yes.

3 Q. So you can tell what size boiler is going to
4 be needed?

5 A. That's one of the purposes, yes.

6 Q. And you can come up with basically a dollar
7 amount of cost to install that plant, can't you?

8 A. Yes.

9 Q. And it's your position, as I understand it,
10 that installing the boiler for free is compensation for your
11 going out of the central steam business; is that correct?

12 A. Well, it's to alleviate the burden on the
13 customer. I mean, we could go out of the central station
14 steam business and pay nothing to the customer. There's no
15 obligation on the part of Kansas City Power & Light to
16 provide any compensation, but we feel a moral obligation to
17 make the transition as painless as possible. But also we
18 feel it's a good business decision as well over the long
19 run.

20 Q. And the reason you're willing to make the
21 payment, in essence, to the customer in the form of a boiler
22 is to get the electric business down the line; isn't that
23 right?

24 A. Sure. We have a certain obligation to our
25 shareholders as well.

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1 MR. BREGMAN: Thank you. I have no further
2 questions.

3 EXAMINER HOGERTY: Mr. Sands.

4 MR. SANDS: We have no questions of this
5 witness.

6 EXAMINER HOGERTY: Mr. Kelly.

7 MR. KELLY: No questions, Madam Examiner.

8 EXAMINER HOGERTY: Mr. Finnegan.

9 MR. FINNEGAN: Yes. I have a few.

10 CROSS-EXAMINATION BY MR. FINNEGAN:

11 Q. Mr. Beaudoin, you would agree that you are
12 regulated by the Public Service Commission in your
13 operations of the Kansas City Power & Light steam plant; is
14 that correct?

15 A. Yes.

16 Q. And, as I understand, you are a corporate
17 officer of Kansas City Power & Light Company?

18 A. Yes.

19 Q. Now, it's my understanding also that,
20 through your testimony, you indicate that the reason you
21 have not considered the sale of the steam system is because
22 it's not in the best interest of your customers?

23 A. That's our position, yes.

24 Q. Now, that's pretty altruistic; but isn't it
25 your duty to consider the stockholders of Kansas City

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1 Power & Light Company and what's in their best interest?

2 A. Most certainly. That's why we are willing
3 to provide electric boilers.

4 Q. By providing electric boilers, then you're,
5 like, killing two birds with one stone, are you not? You
6 first sell off your excess off-peak electric power that you
7 have as a result of Wolf Creek. And, secondly, you
8 eliminate competition from a central district steam heating
9 company for such electric sales in the future, would you
10 not?

11 A. Is that a statement or a question?

12 Q. That's a question.

13 A. I'm sorry.

14 Q. Does it not kill two birds with one stone,
15 eliminates competition and sells excess electricity?

16 A. The company doesn't view it that way. The
17 load shape of our electric system is a fact of life. And,
18 in the interest of our shareholders and our other
19 ratepayers, we are bound to do everything we can to try to
20 flatten out that load from an economic viewpoint. It really
21 has nothing to do with Wolf Creek.

22 Q. By providing boilers to--electric boilers to
23 present steam customers, you would, in effect, sell
24 electricity of which you have excess capacity, right?

25 A. It's a well-known fact that our winter load

1 is about 60 percent of our summer load. And, therefore, if
2 we could sell electricity to our steam customers and add
3 130 megawatts to our winter load, we would be doing a
4 service to our other ratepayers as well as to our
5 stockholders.

6 Q. And, by providing steam--electric boilers to
7 steam customers, you would be eliminating a potential
8 customer for a central district steam heating system, would
9 you not?

10 A. I believe the elimination of central steam
11 customers is going to be an economic fact of life. Just by
12 pure economic competition between the gas company and the
13 electric company, the number of steam customers will
14 deteriorate. Our projections are based on historical fact.
15 And I've already testified that the impending cost of
16 central steam will, by itself, drive away those customers.

17 Q. That's a nice statement. But now would you
18 answer my question, which was: Would you not eliminate
19 competition from a potential central district steam heating
20 company if you were to convert present steam customers to
21 electric boilers?

22 A. The need for a central station steam
23 alternative would disappear.

24 Q. What year did KCPL sign its last new steam
25 heat customer?

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1 A. I believe it was the Vista International.

2 Q. Do you know what year that was?

3 A. Mr. Mandacina can give you the exact date.
4 I believe it was in either '84 or '85.

5 Q. What year did Kansas City Power & Light
6 begin to publicize its intention to get out of the steam
7 heat business?

8 A. I don't believe we actually publicized it
9 until we met with our customers in June of '85. But it's
10 been a well-known fact, I believe, in our steam cases since
11 the late '70s that the eventual retirement of Grand Avenue
12 would change the economics of steam distribution. And many
13 of our customers have seen the writing on the wall by the
14 fact that many of them have converted to gas boilers over
15 that period of time.

16 Q. Do you know how many have converted to gas
17 boilers in the last five years?

18 A. Mr. Graham can provide you an exact figure,
19 but I believe it's around 40.

20 Q. Would he be the same one to ask about how
21 many have converted to electric boilers?

22 A. Yes.

23 Q. You indicated that the customer that you
24 provide with a free electric boiler is still considered by
25 KCPL as a steam customer. Would the same be true if a

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1 customer had his own electric boiler installed, even if it
2 were not provided free by KCPL?

3 A. Under that situation, he'd be an electric
4 customer. And, as I've noted in our rebuttal testimony, we
5 have no problem with considering all electric boiler
6 customers as electric customers if the Commission should
7 decide.

8 Q. You indicated on Page 6 of your prepared
9 testimony that one of the factors in the events leading to
10 the development of the plan to terminate steam service was
11 the retirement of Grand Avenue Station as an electric plant;
12 is that correct?

13 A. Yes.

14 Q. And that retirement was at the request--the
15 premature retirement was at the request of Kansas City
16 Power & Light, was it not?

17 MR. ENGLISH: I object. He's assuming that
18 the retirement of Grand Avenue electric facilities in 1985
19 was premature.

20 EXAMINER HOGERTY: Sustained.

21 MR. FINNEGAN: I'll restate the question.

22 BY MR. FINNEGAN:

23 Q. Prior to and in the 1983 rate case, was not
24 Grand Avenue Station projected to be retired in 1990 as an
25 electric plant?

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1 A. I believe, at that time, that was the
2 general time frame in which it would be retired.

3 Q. And it was at that time that certain of the
4 boilers that were used to produce electricity would have
5 been about 40 years of age; is that correct? Boilers--
6 turbines, I believe.

7 A. Approximately that age.

8 Q. And, in the 1985 rate case, the Wolf Creek
9 case, KCPL proposed the termination of the Grand Avenue
10 Station upon the startup or the bringing Wolf Creek on
11 line and in the system; is that not true?

12 A. Yes. I believe we proposed retirement as
13 the commercial operation date of Wolf Creek.

14 Q. In KCPL's plan to provide electric boilers,
15 you indicated that you're paying the upfront capital cost of
16 the electric boilers; is that correct?

17 A. That's right.

18 Q. What range have these upfront costs been in
19 in the four installations that you've made?

20 A. Mr. Mandacina can give you the exact
21 amounts, if you wish.

22 Q. At Page 14 of your prepared testimony, you
23 talk about that you were seeking an 120 percent increase
24 when you filed this case. Is that now a 54 percent increase
25 that's being sought, the 3.2 million?

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1 A. I believe it's about 66 percent.

2 Q. And, on Page 15, you talk about an annual
3 operating loss of 2.1 million under current test year costs.
4 Has that figure changed, been reduced as a result of
5 settlement negotiations?

6 A. I haven't recalculated it.

7 Q. Would you say it's been reduced, though?

8 A. Well, if the cost of service is a fair
9 representation of the true cost of operating the business
10 and we don't get the increase, then the operating loss has
11 not changed.

12 Q. The amount has not changed?

13 A. It was an estimate at the time.

14 Q. You made a response to one of Ms. Young's
15 questions concerning the local--or the building maintenance
16 people would be able to take care of the electric boilers
17 that are on the place; is that correct?

18 A. Either electric boilers or electric heating
19 equipment, whichever the case may be.

20 Q. You're saying that someone that sweeps the
21 floor and washes windows and empties wastebaskets would also
22 be--should be entrusted with a complicated--or an electric
23 boiler to maintain it and repair it?

24 A. Well, I presume the building owners have
25 more qualified people than that to do that.

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1 Q. And, if they don't, they would have to
2 employ one, would they not?

3 A. Just like they would if they installed an
4 air conditioner, which they probably already have.

5 Q. Your recent analysis--but this would be an
6 additional cost to the customer over and above the cost of
7 present steam service, would it not?

8 A. It may or may not be. If, in fact, he has
9 to hire somebody, that would be true. But it's not clear to
10 me that the people who already service their air
11 conditioning system couldn't as well service the boiler
12 system since they're at two different times of the season
13 anyway.

14 Q. Your last answer, of course, assumes that
15 the building owner has an air conditioning repairman on the
16 payroll 365 days of the year and has nothing to do in the
17 wintertime?

18 A. Well, he either has people on the payroll or
19 he contracts for such service. The fact that he has to--
20 if, in fact, he has to incur additional costs, obviously he
21 has to factor that into his analysis of whether to accept
22 our plan in the first place, just like he has to look at
23 the cost of electricity, he has to look at the cost of gas
24 and the cost of operating a gas boiler. He has to look at
25 all those factors. I'll concede that.

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1 Q. Your recent analysis that steam customers
2 who have been provided electric boilers by the company would
3 have done better under electric rates--

4 A. Uh-huh.

5 Q. --is that just comparing rates; or does that
6 also include the costs to the customer to operate and
7 maintain the system, which KCP&L is now doing under the
8 steam rate?

9 A. That's the cost of the electric rate versus
10 the steam rate.

11 Q. No other incremental factors are included
12 then?

13 A. No.

14 Q. One other thing. You mentioned that the CPC
15 contract was renegotiated when National Starch took over the
16 operation over there; is that correct?

17 A. Yes.

18 Q. Wasn't National Starch obligated under the
19 terms of the contract, under the terms of CPC's contract, to
20 take the same requirements as CPC was?

21 A. I don't believe so. You can ask
22 Mr. Mandacina about that since he was instrumental in
23 negotiating it, but I don't believe they were.

24 Q. There was no provision for assignment?

25 A. There was provision for assignment, but

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1 the assignee did not have to take the contract. As a matter
2 of fact, that's one of the points in the negotiations, that
3 they had to determine whether they wanted to take assignment
4 of the contract or follow up some other alternative.

5 Q. With respect to the transmission line that
6 was built across the river, is that line capable of serving
7 other customers in Clay County other than just National
8 Starch at this time?

9 A. I believe it's connected directly to
10 National Starch; but Mr. Mandacina can answer that, if you
11 want. We'll address it to him.

12 MR. FINNEGAN: That's all the questions I
13 have.

14 EXAMINER HOGERTY: Questions from the Bench.
15 Commissioner Mueller.
16 Commissioner Hendren.

17 COMMISSIONER HENDREN: Just a few.

18 QUESTIONS BY COMMISSIONER HENDREN:

19 Q. Is the steam plant, the steam produced from
20 that, used for heating purposes only by all customers?

21 A. I believe they use it for heat and process.
22 Mr. Graham, who's familiar with each of the customers, could
23 give you some more detail on that. But it's not only heat.

24 Q. So would he be the one that I would address
25 any questions about the effect on the load capacity,

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1 et cetera?

2 A. Yes.

3 Q. If you own the boiler that is on the
4 customer's premises and that boiler does go out between 1990
5 and 1995, assuming that you were out of the steam business
6 at that point, that customer would have no other alternative
7 to steam?

8 A. Well, if it went out between the '90 and '95
9 period, we'd have to replace it. But, after that, the
10 customer would own it, yes.

11 Q. But he would have--until replacement or
12 repair, he would have no alternate source?

13 A. Between '90 and '95, that's correct. We
14 contemplate shutting down the central system as of December,
15 1990.

16 Q. But, up until that point, you would still be
17 connected to him through the central system; and he would
18 actually have a backup in case that his generator went out,
19 his boiler went out?

20 A. Between now and 1990, that would essentially
21 be correct unless we actually cut the pipes off. But I
22 don't believe at this time we would--we would just shut off
23 valves at this point.

24 Q. And, if the company were allowed to phase
25 out the system through 1990, is there any reducing cost to

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1 the company upon each customer that would drop off the
2 system?

3 A. Well, certainly the basic price of fuel
4 would be reduced as the consumption dropped off, yes.

5 Q. You can reduce the amount of steam that
6 you're producing?

7 A. Yes, to the extent that we can turn off
8 steam laterals around the system. Obviously, if we have to
9 keep a high pressure pipe hot to serve a customer down at
10 the end, we don't--we do consume some fuel in keeping the
11 pipe hot. But, as a general rule, as customers are
12 disconnected from the system, we would save fuel.

13 Q. And, if I understand--

14 A. And maintenance. Excuse me. And
15 maintenance on those sections of the line as well.

16 Q. And, if I understand your testimony, if the
17 customer is converted to the electric rates today,
18 considering no other cost, they would be better off than
19 under the steam?

20 A. They're about to break even at a \$10 per
21 Mlb. steam rate, current rate.

22 Q. And, under your company's phase-in plan on
23 the electric rates versus the phase-in plan on the steam
24 rates, will that remain the case during the next five years?

25 A. Yes, because under the phasein of the steam

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1 rates, steam rates will--for the sake of discussion, if the
2 3.2 million were phased in over four years, steam rates
3 would increase at about 13 1/2 percent per year over the
4 next four years. The electric space heating rate would
5 remain stable except for slight adjustments for the phase-in
6 plan that we have now filed in Missouri.

7 Q. Under the increases, as customers dropped
8 off, your revenue deficiency would increase; but you would--
9 the company would lock themselves in to the 3.2 million and
10 not file any additional rate cases during that period of
11 time?

12 A. Yes.

13 COMMISSIONER HENDREN: Thank you.

14 EXAMINER HOGERTY: Commissioner Fischer.

15 COMMISSIONER FISCHER: Thank you.

16 QUESTIONS BY COMMISSIONER FISCHER:

17 Q. You indicated in your testimony that, if the
18 steam customers were charged electric rates, it would cover
19 the incremental costs of providing that service on the
20 electric side and also make a contribution toward the
21 capital costs of the electric boiler program?

22 A. That's right.

23 Q. Is there a study anywhere that's been done
24 concerning what would be the overall rate of return, on a
25 fully allocated basis or an embedded basis or any basis, on

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1 what kind of rate of return that program, taken as a whole,
2 would have?

3 A. Well, we haven't made any specific study
4 because we don't know just what pattern of customers would
5 take us up on our plan. But I think, in the interim, in the
6 short run, while we're phasing out the old system, even at
7 the rate increase that we've requested, the cost of
8 providing a rate of return on that business would be
9 adequate.

10 What we wouldn't be recovering, in the short
11 run, is the capital investment that we'd have to make in the
12 new system. But the return from the electric rates would
13 make a contribution to that. I don't believe, in the short
14 run, it would cover both.

15 Q. So it would--if I understand what you're
16 saying, it would cover--it would be an adequate rate of
17 return for that portion of the business; but you'd probably
18 have to subtract off capital costs, the hearing costs on
19 that to determine--

20 A. Right. We recognize, even in this phase in,
21 that we're not going to cover 100 percent of our costs.
22 What we're looking for is a long-run solution to the
23 problem. And that's where I believe the economics will
24 prove out.

25 Q. Well, over the life of the agreement, would

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1 you expect to have somewhat of a shortfall, even if you do
2 take into account the capital costs?

3 A. In the short run, yes, we'd have a
4 shortfall.

5 Q. But what about in the long run?

6 A. In the long run, I believe the rates would
7 be adequate to cover the investment.

8 Q. On Page 2 in your rebuttal testimony, you
9 indicated that KCP&L would have no objection to Kansas
10 Power and Light offering free gas boilers. But, if I
11 understood your testimony, you would then modify your
12 pricing plan. And I wanted to understand the differences
13 between your proposed plan and your modification if KPL-Gas
14 Service did end up being authorized to give free gas
15 boilers.

16 A. Our statement there is a combination in
17 response to KPL-Gas Service's offer to offer free boilers at
18 the equivalent Btu rate, as well as Mr. Ketter's testimony
19 on the basis that we should be pricing the electric boilers
20 at the electric heat rate. We have no objection to pricing
21 them at the electric heat rate. And, if you want to have
22 heads-on competition with the gas company, we feel both
23 should be priced at their applicable filed rates.

24 Q. Under Kansas City Power & Light's conversion
25 plan, who would bear those capital costs of the conversion

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1 plan? Is it the other electric ratepayers, or is it the
2 shareholders?

3 A. In the short run, it's the shareholders that
4 bear it because that investment will not be in our electric
5 rate base or in our steam rate base at that point, for that
6 matter.

7 Q. And that would be assured through an
8 Accounting Order or how?

9 A. Well, the purpose of requesting or proposing
10 to request an Accounting Order is just to identify the
11 amortization of that investment over the ten-year period
12 that we were proposing to first phase out the steam business
13 and phase out the ownership of the electric boilers. We
14 feel that we need an Accounting Order to accomplish that so
15 everybody understands what we're doing, because it's
16 different than a depreciation rate.

17 Q. I understood--and maybe I misunderstood--
18 Mr. Bregman's opening statement to indicate that the gas
19 company was not willing to provide free gas boilers when
20 it's taken out of the shareholders' pockets. Do you have an
21 understanding that there is a difference between your
22 proposal there and what Gas Service is suggesting?

23 A. Well, I'm perfectly clear on what our
24 proposal is.

25 Q. Okay. I can ask the Gas Service witness.

1 There were a couple statements that--and I
2 think it's on Page 6 of your rebuttal testimony--that many
3 of KCPL's steam customers would be better off economically
4 as electric customers. Does that assume no additional rate
5 cases beyond the company's existing phase-in plan or--

6 A. It's based on two facts. The fact that
7 steam rates are going up inevitably based on our analysis.
8 And it takes into account the fact of our phase-in plan as
9 now filed with the Commission. I recognize that, in the
10 phase-in steps, if they're allowed to go in, it will have
11 some effect on our electric space heating rates. What we're
12 talking about, for the sake of discussion, is 2 percent per
13 year versus 13 1/2 percent per year over the next four
14 years.

15 Q. I guess what I was asking is there's no
16 assumption of any additional rate increases on the electric
17 side?

18 A. No, there is not. But, as you well know,
19 Kansas City Power & Light, in its last case, actually filed
20 for a decrease in its electric space heating rates. And we
21 feel that, even at the current level, the electric space
22 heating rate is compensatory. So I wouldn't expect, other
23 than what--beyond what the phase-in effect is on electric
24 heating rates, that we would be asking for an increase in
25 the space heating rate. That's all subject to perhaps a

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1 rate design case that we may have in 1989, but the world--as
2 we see it today, that's the way I view the future.

3 Q. Is there a study or a calculation somewhere
4 in the record that you're familiar with that shows me the
5 difference between steam rates and current, existing
6 electric rates or proposed electric rates?

7 A. I don't know of one specifically. We can
8 give you the comparison. But there's roughly a 3-to-1 ratio
9 between the cents per kilowatt-hour and the dollars per Mlb.
10 So, if your electric heat rate is 3 1/2 cents a kilowatt-
11 hour, that equates roughly to \$10 1/2 an Mlb. of steam,
12 which is approximately where our current steam rate is.

13 Q. So it's basically break even right now for
14 you?

15 A. That's right.

16 Q. Mr. Beaudoin, what would Kansas City Power &
17 Light's thought be if the Commission permitted the
18 termination of steam service by 1991 and permitted the
19 conversion plan and rate plan that you've filed but also
20 required that you enter into good faith negotiations with
21 any interested buyer in the meantime, make the--basically
22 the first two points contingent upon your finding a willing
23 buyer?

24 A. Well, we'd have to review our position
25 because right now our position is, even if we found a

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1 willing buyer, we do not believe that the willing buyer
2 would provide steam at an economic rate to our present steam
3 customers. We believe that the steam rate has to go up in
4 the order of 70 percent for that new buyer even to be made
5 whole, whether he is regulated or unregulated.

6 Q. Of course, that's something the prospective
7 buyer would also have to determine, I guess?

8 A. Right. But I think, as a Commission, you'd
9 have to ask yourself whether that prospective buyer, even if
10 he's willing to buy at a price that we're willing to sell
11 it, will, in fact, provide steam at a rate that is
12 compensatory and economical to the customer. We believe
13 that, even if the system is sold, the new buyer will have to
14 raise rates. And, at that point, the gas company and the
15 electric company will be in there competing; and he will not
16 have 130 customers to deal with by the time he's bought the
17 system.

18 We believe it's inevitable that the number
19 of customers will drop off in the system, and we're aware
20 that--and Mr. Graham can talk to this. But we're aware
21 there are other customers that are just waiting on the
22 sidelines to determine whether the Commission is going to
23 approve our plan or not, and they may go off the system
24 anyway. So I couldn't guarantee to a new buyer that he'd
25 have 130 customers after I sold the system to him. And, if

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1 he loses customers, as you know, that changes the economics
2 drastically of the system.

3 COMMISSIONER FISCHER: Thank you very much.

4 EXAMINER HOGERTY: Commissioner Musgrave.

5 QUESTIONS BY COMMISSIONER MUSGRAVE:

6 Q. Mr. Beaudoin, besides the Vista Hotel, which
7 was the most recent customer that you added to the system,
8 what was the next most recent customer who came on the sytem
9 and approximately what year?

10 A. I don't have that here, but Mr. Graham has a
11 list of all the customers that have been added in the last
12 15 years. If you'd direct that to him, he--

13 Q. Was it sometime ago?

14 A. I believe it wasn't that long before the
15 Vista Hotel, maybe a couple of years preceding that.

16 Q. How many customers have left your system for
17 some other type of heat source in the last, say, five years?

18 A. In the last five years, I believe we've lost
19 at least 30 customers to the gas company.

20 Q. And it's been to gas?

21 A. Uh-huh. And there have been some to
22 electric. Again, Mr. Graham has got the complete list, if
23 you'd like it.

24 Q. Have you lost any customers because
25 buildings have been demolished or burned out on the steam

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1 loop over the last five years?

2 A. Over the last five years, my recollection is
3 that we've lost over 80 customers; and more than a third to
4 a half were to the wrecking ball. They were demolished
5 completely.

6 Q. About what would you say the average age of
7 the buildings are that you serve?

8 A. Pretty old. But Mr. Graham could tell you
9 that.

10 Q. Pretty old to you? Would that do it?

11 (Laughter.)

12 A. At least as old as I am.

13 Q. We'll leave that to--

14 A. Well, we've been in the business over
15 80 years; so there are probably some that are that old.

16 Q. At the prime of the steam system, how many
17 customers do you think you had?

18 A. We had--in 1950, we had, as we show in our
19 study, about 400 customers.

20 Q. When you have steam service from Kansas City
21 Power & Light and you happen to be the building owner, how
22 much service or attention does Kansas City Power & Light
23 give to that particular building with reference to the steam
24 and the maintenance of the steam system?

25 A. Well, again, Mr. Graham could elaborate or

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1 Mr. Mandacina. But, in the central system, we supply the
2 steam to the meter inside the building. And then, from that
3 point on, the internal steam system is the property and the
4 responsibility of the customer.

5 Q. So, in all probability, any building that's
6 using steam service now would have somebody that would be
7 able to turn on the valves or read the gauges?

8 A. Yes, I believe so.

9 Q. And it would not be an additional employee
10 that would be necessary to continue that service?

11 A. That would be my conclusion.

12 Q. Do you provide any kind of chill water
13 service at all to these buildings that you serve for steam?

14 A. I don't believe we provide any chill water
15 at this time. Again, Mr. Graham can verify that.

16 Q. Do you know what type of heating the Federal
17 Office Building in Kansas City uses? Are they on the steam
18 system?

19 A. They're on the steam system, yes.

20 Q. How much notice does a building owner
21 usually give you before they leave the system? Do you have
22 a contract with these people? Do you say "You have to let
23 me know 30 days ahead or a year ahead before you leave the
24 system" or what?

25 A. I believe there's very little notice

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1 requirement because they're treated like other utility
2 customers, like electric utility customers. If they decide
3 to leave and go to a gas system, they really aren't under
4 any obligation to notify us except to turn off the steam.

5 Q. Have you been notified by the federal
6 government that they're going to leave the Kansas City
7 Power & Light steam loop?

8 A. I don't know. I don't know that.
9 Mr. Graham, again, I guess, could respond to that.

10 Q. He's going to be busy.

11 A. Well, Mr. Graham is our marketing
12 representative and knows the customers in detail.

13 Q. Has anybody expressed interest, to your
14 knowledge, that they're interested in buying the steam
15 system?

16 A. I believe, from time to time, we've had
17 inquiries into the status of the steam system and whether
18 Kansas City Power & Light is interested in selling it.

19 Q. Has it been by government entities?

20 A. I don't know for sure. Mr. Mandacina, who
21 is the head of our steam system, would be the one to ask
22 that question. It would come to him.

23 Q. In your opinion, if a government entity
24 bought the steam system hypothetically and operated it,
25 would they be regulated by the Missouri Public Service

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1 Commission?

2 A. Usually, if it's a municipal system, it's my
3 understanding they would not. But I'll defer to other legal
4 interpretations.

5 Q. National Starch is the company in Clay
6 County that bought Corn Products; is that correct?

7 A. Yes.

8 Q. Was National Starch a customer of
9 Kansas City Power & Light anyplace else in Kansas City
10 before they went to Clay County?

11 A. I don't know. Again, I guess Mr. Graham
12 could answer that.

13 Q. It's been reported in the Kansas City press
14 that there has been some interest by some members or some of
15 the officers of Kansas City Power & Light that they might be
16 interested in contributing or donating the real estate where
17 Grand Avenue Station is to some community activity that
18 would be beneficial to the area. Along those lines, has
19 there been any value placed on that property down there as
20 far as would be contributed to the Aquarium?

21 A. No, I don't think a specific value has been
22 attached to it. But, if it were donated, the remaining book
23 value of the plant would have to be written off as a loss.
24 So whatever the net plant value of Grand Avenue is, which
25 is--I believe is around \$3 million, but I'd have to check

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1 that.

2 Q. Do you know how much land area there is down
3 there?

4 A. No, I don't. But we can supply that through
5 another witness.

6 Q. Well, I didn't know whether you would
7 consider it 5 acres or 10 acres or 50 acres.

8 A. Well, it was large enough to support a small
9 coal pile and steam station; so it's a significant amount of
10 land.

11 Q. If the property were not donated and this
12 Commission granted you the opportunity to leave the
13 business in 1990 and there was no--nothing else, would you
14 clear that ground? Do you foresee that?

15 A. In the long run, I believe we would have to.
16 The experience at our Northeast Station has been that we've
17 had to demolish the building and return the land to its
18 original use. I believe before we did that, though, we'd
19 probably explore the use of the building for other purposes
20 in conformance with plans down there to develop that section
21 of the river key area.

22 Q. The river front area?

23 A. The river front, yes.

24 COMMISSIONER MUSGRAVE: That's all I have.

25 Thank you.

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EXAMINER HOGERTY: We'll be in recess until
12:30. Excuse me. 1:30.

(The noon recess was taken.)

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1 EXAMINER HOGERTY: Come to order.

2 Redirect?

3 MR. ENGLISH: Three questions, your Honor.

4 WITNESS BERNARD BEAUDOIN RESUMED THE STAND

5 REDIRECT EXAMINATION BY MR. ENGLISH:

6 Q. Mr. Beaudoin, on what party's proposed
7 revenue deficiency were the KCPL steam rate cases in 1981
8 and 1982 based on?

9 A. They were based on KCPL's rate case.

10 Q. In questioning with Mr. Bregman you
11 mentioned that the KCPL energy audits would allow the
12 sizing of heating plant for steam customers. Is this plant
13 limited to any specific heating source?

14 A. No. The information provided by the audits
15 would be used as well for gas installations as well as
16 electric installations.

17 Q. In questioning from Judge Hendren you
18 mentioned that after the steam customers are converted to
19 on-site heating but before 1991, they would be able to use
20 Central Station steam distribution service as a backup. Do
21 you remember that?

22 A. Yes. I remember the question. I'd like to
23 clarify that. While the pipes are still in the street, it
24 would require some effort and expense to reconnect the
25 customers once they are disconnected.

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1 MR. ENGLISH: Thank you, Mr. Beaudoin. No
2 further questions.

3 EXAMINER HOGERTY: Any recross, Ms. Young?

4 MS. YOUNG: Yes.

5 RE-CROSS-EXAMINATION BY MS. YOUNG:

6 Q. Mr. Beaudoin, you mentioned in answering a
7 question put to you by Commissioner Fischer the electric
8 space heating rate and the ratio between the electric and
9 steam. And I believe you quoted a per kilowatt hour cost
10 for steam heating of either 3.2 or 3.5 cents. Do you recall
11 which it was?

12 A. It's about 3.5.

13 Q. Okay. And is that the current space heating
14 rate of the company?

15 A. Yes, it is.

16 Q. And is that scheduled to change under
17 tariffs recently filed by the company?

18 A. I believe it would change a little bit with
19 the phase in rates. As the phase in rates are phased in,
20 there is a proportional effect on the heating rate.

21 Q. And would that new rate be 3.79 cents?

22 A. I'd have to go back and look at how the rate
23 design stipulation was agreed to as to what--how a 2 percent
24 phase in is reflected in the electric space heating rate.

25 Q. But would it be accurate that any increase

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1 in that electric space heating rate would alter this three
2 to one ration between the electric and steam rates that you
3 mentioned?

4 A. No. The ratio would stay the same. It's
5 the ratio between the space heating rate and the reflection
6 of it in terms of a steam rate. In other words, the
7 equivalent steam upon an Mlb basis is roughly three
8 times adjusted for the appropriate conversion fact is there
9 or roughly three times what the cents per kilowatt hour rate
10 expressed in dollars per Mlb.

11 In other words, if the electric space
12 heating rate were 4 cents, to make the math easy, then the
13 equivalent steam rate would be approximately \$12 an Mlb.
14 There are other conversions obviously in there.

15 Q. Now, if I interpreted a part of your
16 interchange with Commissioner Musgrave accurately this
17 morning, you were discussing Mr. Doyle's announcement late
18 last year of the company's intent to donate Grand Avenue
19 Station to the Friends of the Aquarium.

20 A. Yes. She made that remark.

21 Q. And did that announcement deal only with the
22 actual site upon which Grand Avenue sits and the building as
23 it stands today?

24 A. Yes, both the site and the building.

25 Q. Does the company own any additional property

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1 in that area?

2 A. I don't know the division of the property
3 beyond Grand Avenue.

4 Q. For example, do you know whether the coal
5 handling area was included in the area to be donated?

6 A. I don't know.

7 Q. If the property is donated to the Friends of
8 the Aquarium, will the company be eligible for a tax
9 deductino to the best of your knowledge?

10 A. I believe there will be a tax effect, yes.
11 You can verify that with our tax department.

12 MS. YOUNG: No further questions. Thank
13 you.

14 EXAMINER HOGERTY: Ms. Bjelland?

15 MS. BJELLAND: No questions.

16 EXAMINER HOGERTY: Mr. Bregman?

17 MR. BREGMAN: No questions.

18 EXAMINER HOGERTY: Mr. Sands.

19 (No response.)

20 EXAMINER HOGERTY: Let the record reflect he
21 is not present; neither is Mr. Kelly.

22 Mr. Finnegan?

23 MR. FINNEGAN: No questions.

24 EXAMINER HOGERTY: The witness may be
25 excused.

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1 (Witness excused.)

2
3 EXAMINER HOGERTY: We'll be in recess until
4 10 o'clock tomorrow morning.

5 WHEREUPON, the hearing of this case was
6 adjourned until 10 a.m., Tuesday, April 7, 1987.

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