

Exhibit No.:
Issue: Overview/Policy
Witness: Terry Bassham
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2012-0174
Date Testimony Prepared: February 27, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

DIRECT TESTIMONY

OF

TERRY BASSHAM

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
February 2012**

DIRECT TESTIMONY

OF

TERRY BASSHAM

Case No. ER-2012-0174

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

2 A: My name is Terry Bassham. My business address is 1200 Main, Kansas City, Missouri
3 64105.

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

5 A: I am President, Chief Operating Officer (“COO”), and a member of the Board of
6 Directors of Great Plains Energy Incorporated (“Great Plains Energy” or “GPE”), the
7 holding company of Kansas City Power & Light Company (“KCP&L” or “Company”). I
8 am also the President and COO of KCP&L and KCP&L Greater Missouri Operations
9 Company (“GMO”) and I have recently been appointed by the GPE Board of Directors as
10 the new Chief Executive Officer replacing Michael Chesser effective June 1, 2012.

11 **Q: What are your responsibilities?**

12 A: My responsibilities include overall management of all aspects of GPE, including KCP&L
13 and GMO.

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

15 A: I hold a Bachelor of Business Administration degree in Accounting from the University
16 of Texas at Arlington and a Juris Doctor degree from St. Mary’s University School of
17 Law in San Antonio, Texas. I was appointed President and COO of GPE, KCP&L and
18 GMO in 2011 and as stated above, I will assume my new role effective June 1, 2012.
19 Prior to my current role, I served as Executive Vice President (“VP”) – Utility Operations

1 of KCP&L and GMO (2010-2011); Executive VP – Finance and Strategic Development
2 and Chief Financial Officer (“CFO”) of GPE (2005-2010) and of KCP&L and GMO
3 (2009-2010); and, CFO of KCP&L (2005-2008) and GMO (2008). Prior to that time, I
4 was employed by El Paso Electric for nine years in various positions including General
5 Counsel, Chief Administrative Officer and CFO. The remainder of my work career I
6 worked as an attorney in the primary practice of regulatory law.

7 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
8 **Commission (“Commission” or “MPSC”) or other jurisdiction?**

9 A: Yes. I have previously testified before the MPSC, Kansas Corporation Commission
10 (“KCC”), Federal Energy Regulatory Commission (“FERC”), the Public Utility
11 Commission of Texas, the New Mexico Public Service Commission and various
12 legislative committees of the Texas and New Mexico legislatures.

13 **Q: What is the purpose of your direct testimony?**

14 A: The purpose of my testimony is to:

- 15 1) Provide the MPSC with an overview of KCP&L’s and GMO’s operations and review
16 recent rate increases as a result of KCP&L’s Comprehensive Energy Plan;
- 17 2) Provide a summary of our rate increase request;
- 18 3) Provide an overview of the key drivers of our request;
- 19 4) Discuss the factors considered in making a rate increase request currently in the face
20 of a continued lagging local economy;
- 21 5) Describe the Company’s on-going efforts in controlling costs and managing our
22 business efficiently; and
- 23 6) Discuss some of KCP&L’s on-going initiatives.

1 **OVERVIEW OF KCP&L AND GMO**

2 **Q: Please discuss KCP&L’s and GMO’s operations and history.**

3 A: KCP&L was originally founded in 1882 and is recognized as one of the Midwest’s most
4 reliable and affordable energy suppliers. KCP&L is a wholly-owned subsidiary of GPE,
5 which are both headquartered in Kansas City, Missouri. GPE is a public utility holding
6 company which also owns GMO, formerly Aquila, Inc.

7 Through its regulated utility subsidiaries, GPE serves approximately 823,000
8 customers in 47 counties in Missouri and eastern Kansas including approximately
9 725,000 residences, 96,000 commercial firms, and 2,600 industrials, municipalities and
10 other electric utilities. KCP&L alone serves approximately 511,000 customers, including
11 approximately 451,000 residences, 58,000 commercial firms, and 2,100 industrials,
12 municipalities and other electric utilities. KCP&L’s electric service territory includes the
13 Kansas City metropolitan area and surrounding cities.

14 The Company’s retail revenues – reflecting service provided to residences and
15 businesses – averaged approximately 87 percent of its total operating revenues over the
16 last three years. Wholesale firm power, bulk power sales and miscellaneous electric
17 revenues accounted for the remainder of KCP&L’s revenues. Like most electric utilities,
18 KCP&L is significantly impacted by seasonality with approximately one-third of its retail
19 revenues recorded in the third quarter. Approximately 56 percent of KCP&L’s retail
20 revenues come from Missouri.

21 To serve its customers, on a combined basis, KCP&L and GMO own more than
22 4,300 mega-watts (“MW”) of base load generating capacity and almost 2,300MW of
23 peak load generating capacity. KCP&L’s capacity is diversified with ownership in four

1 large coal-fired generating stations, the Wolf Creek nuclear power generating station,
2 1,200MW of natural gas and oil-fired peaking capacity and 149MW of wind generating
3 capacity located in Spearville, Kansas. During 2011, in order to continue to meet state
4 renewable energy standards, KCP&L added additional renewable capacity by entering
5 into long-term power purchase agreements for additional wind and hydro generation.

6 On a combined basis, KCP&L and GMO operate and maintain approximately
7 22,000 miles of distribution lines and approximately 3,600 miles of transmission lines to
8 serve customers across their service territory. KCP&L's share of lines is 12,000 miles of
9 distribution lines and 1,800 miles of transmission lines.

10 KCP&L is one of the largest employers in the region. The Company employs
11 more than 3,000 employees, including more than 1,900 union employees. These
12 employees are active in the communities we serve and conduct our business and activities
13 under the guiding principle of "Improving Life in the Communities We Serve."

14 **RECENT RATE HISTORY**

15 **Q: Since 2006, KCP&L has received four rate increases. Why did the Company make**
16 **several rate increase requests?**

17 **A:** Prior to 2006, the Company had not requested a rate increase request in more than 20
18 years. In fact, rates had decreased over that period of time. However, it became evident
19 that a plan was needed to address growing demand in our region. So, in 2004, KCP&L
20 engaged in a highly collaborative process with its customers, community leaders and
21 regulators to develop a regional Comprehensive Energy Plan ("CEP") that outlined the
22 investments needed to meet our customers' needs for safe, reliable service.

1 **Q: What were the major components of the CEP?**

2 A. In the Non-Unanimous Stipulation and Agreement that was approved by the Commission
3 in Case No. EO-2005-0329, KCP&L committed to undertake commercially reasonable
4 efforts to make the following investments:

- 5 • To build 100MW of wind generation in 2006;
- 6 • To explore the potential for an additional 100MW of wind in 2008;
- 7 • Proceed with environmental investments related to Iatan 1 and La Cygne 1
8 for accelerated compliance with environmental regulations;
- 9 • To invest in Transmission and Distribution facilities and upgrades;
- 10 • To build 800-900MW of new coal-fired generation at the Iatan Station,
11 including state-of-the-art environmental equipment; and
- 12 • Propose a portfolio of Demand Response, Energy Efficiency and
13 Affordability Programs for approval by the Commission.

14 **Q: Has the CEP been successful?**

15 A. Yes it has. The CEP investments are delivering value to our customers and the entire
16 region. With the completion of the CEP, KCP&L has provided its customers with
17 renewable energy, reliable transmission and distribution, programs to manage their
18 energy usage, environmental upgrades to existing coal-fired generating facilities, and a
19 significant base load supply of electricity that will provide low-cost, reliable power for
20 decades.

21 **Q: Given the four rate increases the Company has sought and received since 2006, are
22 your rates competitive in this region?**

23 A: They certainly are. Even with the four recent rate increases under the CEP, KCP&L's
24 average retail electric rates range between 13% and 23% below the national average.

1 KCP&L's average residential customer (1,150kWh in summer, 760kWh in winter)
2 spends \$3.20 a day on electricity costs.

3 **Q: Do you feel like the electricity you supply customers is a good value for the money**
4 **people pay for it?**

5 A: Yes. There are several ways to look at the relative value of the electricity we supply.
6 First, we are one of the most reliable utilities in the Midwest. Over the last four
7 consecutive years, the independent firm P.A. Consulting has ranked the combined service
8 territories operating under KCP&L as the most reliable electric providers in the Midwest.
9 Reliability certainly is a key driver of customer value. Price is another significant
10 determinant of value. As mentioned previously, KCP&L's retail rates are still well below
11 the national average, even after the CEP. Additionally, the price of electricity for
12 KCP&L Missouri residential customers has risen 21% while usage for that same period
13 has increased 36%.

14 **SUMMARY OF RATE INCREASE REQUEST**

15 **Q: Please summarize the Company's rate increase request in this filing.**

16 A: KCP&L is requesting an increase in our revenue requirement of approximately \$105.7
17 million, which represents a 15.1% increase in rates. If approved, this would represent an
18 increase of \$0.48 a day for a typical residential customer.

19 This case is brought as a result of numerous factors with no single issue making
20 up the majority of the increase. The costs of doing business and serving its customers
21 have outpaced the Company's ability to maintain its current rates. Several factors driving
22 the need for a rate increase include:

- 1 a) **Decreases in off-system sales revenues due to lower energy prices in the**
2 **region.** Changes in the wholesale energy market, including a challenging
3 economy and low natural gas prices, have significantly impacted KCP&L's
4 ability to sell power outside its service territory. In addition to a reduction in off-
5 system sales margins, in recent months KCP&L has also lost several long-term
6 wholesale contracts once they expired. This reduction in revenue directly impacts
7 KCP&L's retail rates because these revenues historically directly reduced rates
8 for KCP&L's retail customers. Since 2007, for example, KCP&L retail customer
9 rates have been reduced by more than \$219 million (KCP&L total company) by
10 off-system sales margins, exclusive of the long-term wholesale sales contracts
11 that contributed additional reductions to retail customers' rates over this time.
- 12 b) **Infrastructure investments made to maintain reliability.** KCP&L provides
13 some of the most reliable electrical service in the country. The Company has
14 been named the most reliable electric utility in the region for four years in a row.
15 In order to maintain reliability, KCP&L continues to invest in its system. By
16 replacing equipment and improving technology, the Company will continue to
17 meet its customers' expectations.
- 18 c) **Final costs related to completion of the Company's new, state-of-the-art**
19 **supercritical Iatan 2 generating unit,** which was completed in August 2010 as
20 part of the Company's CEP.
- 21 d) **Regional transmission system investments.** KCP&L is a member of the
22 Southwest Power Pool ("SPP") Regional Transmission Organization ("RTO").
23 SPP and the other RTOs have followed the FERC's lead and have undertaken

1 extensive transmission system infrastructure improvement projects in an effort to
2 build out and refurbish the national transmission system. These improvements
3 will not only improve the electrical grid, resulting in improved regional reliability,
4 but will allow the delivery of renewable energy to this region. Part of this rate
5 increase reflects the Company's allocated share of SPP's transmission upgrade
6 costs and increases in associated SPP administrative fees.

7 e) **Investments required to meet Missouri's Renewable Energy Standard.** This
8 Standard requires investor-owned utilities to deliver at least 5% of its electricity
9 from renewable resources by 2014 and 10% by 2018. As stated previously, the
10 Company entered into purchase power agreements for wind generation in 2011.
11 These agreements will allow KCP&L to continue to comply with the Standard.

12 f) **Other operations and maintenance expenses.** These expense increases are
13 covered in the Direct Testimony of Company witness John Weisensee.

14 **Q: Is the Company requesting any additional regulatory mechanisms?**

15 A: Yes. In order to better manage regulatory lag for certain expenses, KCP&L is proposing
16 several expense trackers as part of this filing. These trackers will provide the Company
17 with a better opportunity to obtain full and timely recovery of the costs it incurs to serve
18 its customers. These expense trackers are more fully outlined in the Direct Testimony of
19 Company witness Darrin Ives and other Company witnesses in this case.

20 The Company is also requesting an interim energy charge ("IEC") which includes
21 a proposal to contain the off-system sales margin variances above or below the amount
22 included in the rates established in this case with some specific sharing properties.

1 **Q: Do you believe the Commission’s treatment of off-system sales (“OSS”) margins**
2 **throughout the CEP cases has been fair to the Company, given the risks it faced?**

3 A: No. The current system is not a fair or proper balancing of interests. The Commission
4 has recently set a flat amount for OSS margins as an offset in base retail rates, with any
5 amount earned in excess of the base amount returned to customers. Any shortfall from
6 the OSS margin offset in base retail rates has been unrecovered by the Company. I
7 believe it would be more appropriate to provide a symmetrical method which would
8 provide for recovery of any under-recovery, as well as returning to customers any over-
9 recovery of OSS margin. Because OSS margin is such a critical component of the
10 Company’s overall revenue requirement, it is not reasonable either to customers or to the
11 Company to set the OSS margin at a level and require the Company to absorb margins
12 below the level that is set and customers to keep anything above.

13 Company witness Tim M. Rush describes in more detail our recommendation that
14 the Commission approve an IEC in this proceeding to help address this imbalance
15 between customers and the Company.

16 **Q: What is KCP&L doing to keep costs down and reduce the requests for rate**
17 **increases?**

18 A: We manage our costs to maintain competitive electric rates and we recognize that rate
19 increase requests pose challenges for our customers. The Company has worked very hard
20 to manage the costs that can be controlled, which ultimately reduce the rate increase
21 request. Cost control measures the Company has taken include the following:

- 22 a) Organizational realignment and voluntary separation plan (“ORVS”);
- 23 b) Flat non-fuel operations and maintenance budgets;

- 1 c) Capital budget review and non-critical project delays;
- 2 d) Supply Chain Transformation Program;
- 3 e) Generation division benchmarking project; and
- 4 f) Continued flow-through of GMO acquisition synergy savings.

5 In 2011, the Company implemented an organizational realignment initiative,
6 coupled with a voluntary separation program, which will yield considerable customer
7 savings in years to come. In addition to the Company's usual efforts to keep its costs as
8 low as possible in light of the economic conditions affecting us and our customers, as
9 discussed in the Direct Testimony of Company witness Darrin Ives, KCP&L has
10 redoubled its efforts to control costs and conserve capital.

11 **Q: Why can't KCP&L delay a rate increase until the economy improves for customers?**

12 A: As part of the Regulatory Compact with customers, KCP&L is obligated to provide
13 reliable electricity to all customers. In order to maintain the ability to do so, it is
14 incumbent on the Commission to grant recovery of our prudently incurred cost of service
15 and an opportunity to earn a fair and reasonable return on our invested assets. The
16 Company has incurred significant additional costs over the last few years. Because the
17 Company's rates are set based on historical costs, these costs increases need to be
18 recovered in a timely manner through a rate increase request.

19 **Q: What steps has KCP&L taken to assist its low-income customers during these**
20 **difficult economic times?**

21 A: As described in the Direct Testimony of Company witness Jimmy Alberts, KCP&L has
22 continued its Economic Relief Pilot Program ("ERPP"). The ERPP is a fixed credit that
23 reduces electric bills for low-income customers. As Mr. Alberts more fully describes in

1 his testimony, due to the success of this program, the Company is proposing, as part of
2 this rate increase request, a significant expansion in the number of customers allowed to
3 participate, full funding of the program in retail rates, and additional focus for this
4 program on senior citizens.

5 **Q: Does KCP&L participate in other programs designed to assist its low-income**
6 **customers?**

7 A. Yes. KCP&L participates in Low-Income Weatherization Programs and a Dollar-Aide
8 Program designed to assist low-income customers with weatherization of their homes.
9 The Company also actively participates in community action programs, encourages
10 volunteerism among its employees, and makes charitable contributions intended to
11 benefit various segments of low-income and elderly customer groups.

12 The Company also has continued to offer more flexible payment arrangement
13 options and connects customers with LIHEAP funding and other financial assistance as
14 part of its Connections program. This program has helped thousands of customers during
15 a more challenging economy and has helped local community agencies reach the
16 customers in greatest need of payment assistance.

17 **ON-GOING KCP&L INITIATIVES**

18 **Q: Please give a brief overview of KCP&L's La Cygne Generating Station.**

19 A: KCP&L owns 50 percent of each of the two units and the common facilities at the La
20 Cygne Station. Westar Energy, Inc. ("Westar"), through its Kansas Gas and Electric
21 Company subsidiary, holds an equal share through ownership or sale/leaseback
22 arrangements. KCP&L is the operator of both units. La Cygne Unit 1 is a once through
23 supercritical cyclone coal-fired boiler rated at 816MW gross / 735MW net. La Cygne

1 Unit 2 is a pulverized coal-fired boiler rated at 717MW gross / 686MW net. La Cygne
2 Unit 1 was placed in commercial operation in 1973 and Unit 2 was placed in commercial
3 operation in 1977. Since the addition of Iatan Unit 2, La Cygne Station represents
4 approximately 26 percent of KCP&L's entire coal fleet MWh generation.

5 **Q: Why must KCP&L install new environmental equipment at its La Cygne**
6 **Generating Station?**

7 A: The Federal Environmental Protection Agency ("EPA"), through its 1999 Regional Haze
8 Rule and 2005 finalized amendments (also referred to as the Best Available Retrofit
9 Technology ("BART") Rule), has required state air quality agencies (Kansas Department
10 of Health and Environment ("KDHE") for Kansas) to identify whether visibility-reducing
11 emissions from sources subject to BART are below limits set by the state and whether
12 retrofit measures are warranted. KCP&L, as the operator of the La Cygne Generating
13 Station, executed its Regional Haze Agreement ("RHA") with the KDHE to install
14 emission control technologies to reduce emissions of fine particulates ("PM_{2.5}"), Sulfur
15 Dioxide ("SO₂"), and Nitrogen Oxide ("NO_x") from the La Cygne Generating Station no
16 later than June 1, 2015.

17 **Q: Can you describe KCP&L's decision to install new environmental equipment at its**
18 **La Cygne Generating Station?**

19 A: Certainly. As a traditional regulated utility, KCP&L is legally obligated to provide safe
20 and reliable electric service at reasonable rates. In order to fulfill this obligation to serve,
21 a utility must build enough generation, transmission and distribution assets to ensure the
22 adequate and reliable supply of power in the face of many uncertainties-e.g., demand
23 growth, fluctuations in the financial markets, changes in regulations, etc. This long-range

1 planning process requires supply decisions to be made years in advance of the projected
2 need based on forecasted assumptions. Importantly, utilities are required to do this
3 supply planning on a least cost basis. KCP&L determined that installing new
4 environmental equipment at La Cygne is its preferred least cost plan and that the La
5 Cygne Environmental Project proposed by KCP&L is a reasonable, reliable and efficient
6 part of its supply plan for meeting its obligation to serve in a cost-effective manner.

7 **Q: Is the La Cygne Environmental Project (“La Cygne Project” or “Construction**
8 **Project”) in the best interest of KCP&L’s customers?**

9 A: Yes it is. The La Cygne Environmental Project is in the best interest of KCP&L's
10 customers because it will allow the La Cygne Units to continue to provide low cost
11 energy in the most cost-effective manner for years to come. Based on extensive analysis
12 performed by KCP&L, the decision to retrofit La Cygne is the best option to meet
13 KCP&L’s supply obligations and to comply with federal and state environmental
14 obligations.

15 **Q: Is the Company asking for any recovery of the costs of the La Cygne Project in this**
16 **case?**

17 A: No. Under Missouri law, the Company is not permitted to include such investments in
18 rates until the plant is fully operational and used for service.

19 **Q: Please describe the La Cygne environmental retrofit project.**

20 A: KCP&L entered into an Engineer, Procure, and Construct contract with La Cygne
21 Environmental Partners (“LEP”) on August 26, 2011, immediately following the
22 approval of predetermination by the KCC on August 19, 2011. The La Cygne Project
23 includes the installation of wet scrubbers for flue gas desulfurization, baghouses with

1 pulse-jet fabric filter technology, induced draft fans, and a common dual-flue chimney for
2 both La Cygne Units 1 and 2, and a selective catalytic reduction (“SCR”) system, low-
3 NO_x burners (“LNBs”), and an over-fire air (“OFA”) system for La Cygne Unit 2.
4 KCP&L expects many construction jobs to be created in the region by the La Cygne
5 Project.

6 **Q: Has KCP&L communicated any information to the Commission Staff regarding the**
7 **KCC Predetermination of the La Cygne Project?**

8 A: Absolutely. KCP&L met with the Commission Staff, Office of Public Counsel (“OPC”),
9 and the Missouri Department of Natural Resources (“MDNR”) on two separate occasions
10 to date to present the status of the KCC predetermination and La Cygne Environmental
11 Project. We have been providing status reports to the Commission’s Engineering and
12 Audit Staff on a monthly basis. This project will be on-going for four years. We expect
13 to continue the open and transparent process that was our commitment under the CEP in
14 working with the Staff and parties over the life of the La Cygne Environmental Project.

15 **Q: Please explain what activities KCP&L has been engaged in over the past 12 months**
16 **to secure additional wind-based generation resources.**

17 A: KCP&L is committed to not only complying with its renewable energy obligations but
18 pursuing additional renewable energy options when they result in benefits to ratepayers.
19 In 2011, KCP&L negotiated two wind-based Power Purchase Agreements (“PPA”) for a
20 total of 231.9MW. In May 2011, KCP&L signed a PPA for 131.1MW that is expected to
21 be fully operational by the end of June 2012. In November 2011, KCP&L signed a PPA
22 for 100.8MW that is contractually obligated to be fully operational by December 31,

1 2012. Both PPAs will supply energy to KCP&L's customers in Missouri and Kansas for
2 a term of 20 years.

3 **Q: Has KCP&L been active in any other renewable energy related activity?**

4 A: Yes, KCP&L signed a PPA for 56MW of hydro-based generation from existing facilities
5 in Nebraska under the control of Central Nebraska Public Power Irrigation District. The
6 contract was signed on November 3, 2011 and delivery of energy will commence on
7 January 1, 2014. The term of the contract is 10 years. Kansas regulations allow this
8 hydro generation resource to be considered a renewable resource for meeting the Kansas
9 Renewable Energy Standards.

10 **Q: Will you explain any activity in regard to solar based generation that KCP&L has**
11 **been a part of the past year?**

12 A: With respect to solar generation, KCP&L has issued over \$1.5 million in solar rebates to
13 eligible customers since the Solar Photovoltaic Rebate Program tariff was initiated in
14 2010. Additionally, KCP&L has installed a 100kW solar facility at the Paseo High
15 School in Kansas City with an additional 80kW of solar to be installed in 2012.

16 **Q: Looking into the future what do you see as KCP&L's additions in the renewable**
17 **arena?**

18 A: KCP&L evaluates the addition of renewable resources as part of its resource planning
19 process. KCP&L also remains active in monitoring potential changes to renewable
20 energy requirements at both state and federal levels. When it is determined that new
21 renewable generation is cost effective for customers or required under law, KCP&L will
22 determine how to best meet the renewable additions for our customers.

1 **Q: What is the status of Smart Grid Demonstration Project?**

2 A: There are over 14,000 customers (meters) in the project area located in mid-town Kansas
3 City, MO, just east of the Country Club Plaza. The project area includes the Green
4 Impact Zone; a cooperative effort to focus federal stimulus funds on projects in a targeted
5 area of Kansas City, MO — bounded by 39th St. on the north, 51st St. on the south,
6 Troost Ave. on the west, and Prospect to 47th to Swope Parkway on the east. The Green
7 Impact Zone represents about 3,500 customers (meters) impacted by the project. It is
8 challenged with high unemployment, low income and education levels, lack of internet
9 access and inefficient homes.

10 **Q: What is the purpose of the Smart Grid Demonstration Project?**

11 A: The project goal is to deliver next generation smart grid technologies to enhance Kansas
12 City's urban core, engage customers, and to evaluate technical, operational and business
13 model feasibility for KCP&L and its customers.

14 **Q: How is the project progressing?**

15 A: The legacy meters have been replaced with Smart meters. They are integral to the
16 Automated Meter Infrastructure that allows two-way communication between the
17 Company and our customers. We have also offered new products and services to
18 customers in the project area; installed renewable and distributed energy; and are in the
19 process of automating grid analysis, management and control in order to adapt to
20 condition changes while meeting safety, cyber security, and service needs.

1 **Q: What is the significance of two-way communication between the Company and its**
2 **customers?**

3 A: Two-way communication allows the Company to provide nearly real time information
4 about their electric use. This access to timely information can be used by the customer to
5 better manage their electric use and expenditures. Those customers who choose to take
6 advantage of the tools being offered can monitor their electric use. They can compare
7 their actual use to a preset target bill and even be offered ways to use less electricity to
8 meet their target bill goal.

9 **Q: Please describe the renewable and distributed energy you mentioned above.**

10 A: Last May, the Company filed an application in Case No. EA-2011-0368 with the
11 Commission requesting a Certificate of Convenience and Necessity to all the Company to
12 install up to 180kW of solar power in the demonstration area. In June, the Commission
13 approved the application, and the Company later installed approximately 100kW solar
14 plant on the rooftop of the Paseo High School; the largest solar array in our service
15 territory. The remaining solar plant will be installed at various locations within the
16 project. The exact locations have not been decided at this point in time.

17 **Q: How are you automating grid analysis, management and control?**

18 A: Much of the grid work will happen in 2012. During 2012 we plan to complete:

- 19 • Smart Substation Upgrades
- 20 • Smart Distribution Upgrades
- 21 • Battery Storage System
- 22 • Complete End-Use Installation
- 23 • Full Integration & Cyber Security Acceptance Testing
- 24 • Final System Interoperability Testing
- 25 • Fully Operational SmartGrid
- 26 • Begin Measurement Phase

1 **Q: Why is this project important to KCP&L and its customers?**

2 A: This project combines commercial innovation with a unique approach to smart grid
3 development with a heavy focus on customer engagement and value. It provides
4 information and enabling technologies for customers. It creates a complete, end-to-end
5 smart grid — from smart generation to end-use — that will deliver improved
6 performance focused on a major urban substation. It introduces new technologies,
7 applications, protocols, communications and business models that will be evaluated,
8 demonstrated and refined. It represents a best-in-class approach to technology
9 integration, application development and partnership collaboration, allowing progression
10 of complete smart grid solutions — with interoperability standards — rather than
11 singular, packaged applications. KCP&L’s demonstration project will provide the critical
12 energy infrastructure required to support a targeted urban revitalization effort in Kansas
13 City’s Green Impact Zone and support a more sustainable future.

14 **CONCLUSION**

15 **Q: Do you have concluding remarks for the Commission’s consideration?**

16 A. Yes. The Company is asking the Commission to allow it to recover the costs it has
17 incurred to provide service to its customers. While those costs have increased, the
18 Company continues to reduce the overall increase request as a result of cost management
19 strategies that are producing millions of dollars of savings.

20 Second, in these difficult economic times, our shareholders have shared some of
21 the burden. In the first quarter of 2009, the Company reduced its dividend to
22 shareholders by 50 percent to conserve capital to reinvest in facilities needed by our
23 customers. We have continued to pay-out dividends at a reduced level since that time.

1 Finally, the Company is asking the Commission to allow the Company the
2 opportunity to earn a fair and reasonable return on its investments. This case is not about
3 increasing profits for the Company. In recent years, the Company has not earned its
4 allowed return on equity. Let me be clear that KCP&L is not asking for a guaranteed rate
5 of return. However, by being allowed the opportunity to earn a fair and reasonable return
6 on its investments, KCP&L will be able to continue serving its customers and attract the
7 capital it needs to fund investments in its system.

8 **Q: What will allow the Company to have an opportunity to earn a fair and reasonable**
9 **return on its investments and for the Company to address the challenges presented**
10 **by regulatory lag?**

11 A. The Company is proposing several regulatory mechanisms that will help to improve its
12 ability to address regulatory lag, which will in turn improve the Company's ability to
13 earn a full and fair return. We are requesting expense trackers as more fully discussed in
14 the Direct Testimony of Company witness Darrin Ives that will provide an opportunity
15 for KCP&L to earn a return more in line with the return allowed by the Commission in
16 this case. For example, the transmission tracker will help deal with the difficult issues
17 surrounding the expansion of the transmission grid. Additionally, the modifications
18 being proposed by the Company related to the OSS margins, in conjunction with our
19 request for an IEC, will help to reduce the impact of the expected volatility in the OSS
20 markets in the near future.

21 It is important for the Commission to allow the Company the opportunity to earn
22 a fair and reasonable rate of return so that the Company will be in a position to be
23 financially strong as it accesses the capital markets. The utility industry is among the

1 most capital-intensive industries in the world. Failure to attract capital would have
2 significant cost implications to the Company and ultimately to our customers. Dr.
3 Samuel C. Hadaway is the Company's cost of capital expert in this case.

4 The combination of a reasonable allowed return and authorization of our
5 requested regulatory mechanisms to manage regulatory lag will provide the Company an
6 opportunity to earn a return closer to the return authorized by the Commission. Earning
7 close to our allowed return is essential to our credit metrics and maintaining an
8 investment grade rating. Maintaining an investment grade rating for its bonds is an
9 important goal to ensure that the costs of borrowing for the Company's projects will be
10 reasonable and at the lowest realistic costs. These lower costs benefit all constituencies.

11 **Q: Does that conclude your testimony?**

12 **A:** Yes, it does.

