

1 (THE WITNESS WAS SWORN.)

2 JUDGE PRIDGIN: Mr. Shallenberg, thank you
3 very much. If you'll have a seat, I believe, Mr. Dottheim,
4 you've put him on for direct, the foundation has been laid,
5 can we go right to cross?

6 MR. DOTTHEIM: Yes, questions from the bench.

7 JUDGE PRIDGIN: Thank you. Commissioner Gaw?

8 COMMISSIONER GAW: Thank you.

9 QUESTIONS BY COMMISSIONER GAW:

10 Q. Mr. Shallenberg, good evening.

11 A. Good evening.

12 Q. I really am just wanting to get some -- a
13 little information from you on off-system sales.

14 A. All right.

15 Q. How important is the off-system sales
16 provision in this stipulation to the Staff's recommendation
17 that this stipulation be adopted -- be -- be ruled to be in
18 the public interest?

19 A. It's very important from the Staff's
20 perspective in the sense that the off-system sales and the
21 revenues from the off-system sales have a -- are a
22 significant factor in economics of the infrastructure
23 improvements that are contained in this agreement.

24 Q. Okay. So important that if -- if that weren't
25 in the stipulation, would you have considered not signing

1 onto it?

2 A. Yes. In fact, it's important not only that
3 they exist, but the treatment that they would be used to
4 reduce the cost of the plant was an important consideration
5 in the agreement.

6 Q. Okay. Now, it's been a long time since we had
7 a rate case for KCP&L, a full rate case.

8 A. 1985, I believe.

9 Q. Okay.

10 A. Was the first -- what was the last rate case
11 for KCP&L.

12 Q. This stipulation calls for -- calls for a rate
13 case in the near future, correct?

14 A. It requires -- I think it's -- it mentions
15 four and it requires two.

16 Q. Okay.

17 A. With the first rate case to be filed in
18 February of next year, and that's a required rate case.

19 Q. Which would be -- which would mean that we
20 would have to be to a conclusion by when?

21 A. I'm sorry, you mean in terms of conclusion of
22 accepting this agreement?

23 Q. No, legally -- legally, that rate case.

24 A. January 1st of 2007, I'm sorry.

25 Q. 11 months.

1 A. Right, in fact, the start date is designed
2 because the trigger for the effective date was January 1st of
3 2007, because it has an infrastructure improvement for wind
4 that needed to be considered in that rate case, as well as it
5 also has a rate design class cost of service because that
6 hasn't been done for 20-some years. So the effective date of
7 the rates was January 1, so the filing date was backed up 11
8 months from that period.

9 Q. Okay. Now, the -- if the Commission were to
10 find that the recommendation in the stip is in the public
11 interest, the off-system sales would be handled how?

12 A. In that rate case, the off-system sales will
13 be considered as an offset to the companies other costs to
14 calculate what its revenue requirements would be.

15 Q. Okay. And of course, rate cases are
16 perspective, so when you're -- when you talk about that being
17 built in, is it contemplated that there will be some amount
18 assumed in rates going forward from that rate case as
19 off-system sales in that be built into what the rates should
20 be or some other method of -- of utilizing off-system sales
21 in determining rates?

22 A. The starting point will be the off-system
23 sales and the test year as specified in the agreement.

24 Q. Yes.

25 A. Then the parties will have the respective

1 rights to argue what is an ongoing amount to be included in
2 the setting rates in that case. In studying the impact of
3 the amortization that we have for financial ratios, that will
4 be impacted by the recommendations as well. And in talking
5 about it since we formed this agreement, that -- that
6 interrelation could cause or influence the parties' positions
7 as to big significant items going forward like off-system
8 sales.

9 Q. All right. As I was listening to the reading
10 of that provision of the agreement awhile ago, I wasn't clear
11 about the length of time that the off-system sales portion of
12 this agreement applies. Is there an understanding from Staff
13 in regard to how far into the future that provision is
14 applicable?

15 A. There's been discussions with KCP&L since the
16 language was fashioned and signed to clear up the matter as
17 to the term. We've also talked about the modifications that
18 will come from the Kansas agreement, which by the way, until
19 the Kansas agreement is actually approved which the Kansas
20 Commission, that element is still open, and we've discussed
21 with KCP&L a length of time that would be placed on how long
22 that commitment would be made.

23 Until I've seen the actual supplement, I don't
24 know that, you know, in facilitating all these meetings,
25 things that I don't think are issues sometimes pop up, but

1 I'm not aware that we're going to have an issue with KCP&L at
2 this time.

3 Q. What is Staff anticipating a length of time
4 for applicability of that provision will be?

5 A. When we designed it, we didn't have a
6 termination date with our understanding as to how long the
7 commitment would be. In working on other regulatory plans
8 and using that paragraph, we became aware that that was a
9 potential liability, especially since there is a term --
10 there's another term language in the agreement that may be
11 interpreted to actually define the term for it, so -- but at
12 the time we signed it, we did not have an anticipated end
13 date to that commitment.

14 Q. Is there -- what is the other term date in
15 that agreement?

16 A. I'm trying to find -- unfortunately this
17 agreement, its predecessors -- or its successors will have a
18 table of contents.

19 MR. FISCHER: Page 57.

20 THE WITNESS: Okay. It has a term -- it says
21 it will expire on June 1 of 2010.

22 BY COMMISSIONER GAW:

23 Q. All right. Now, if that provision were
24 applicable to the off-system sales provision of this
25 agreement, would that -- would that mean that off-system

1 sales from Iatan II, which is not contemplated to be
2 constructed until 2010, would not be covered by this
3 agreement?

4 A. What this does is it takes away the commitment
5 that all of the revenues would be considered as an offset to
6 the cost of Iatan II. A party could propose that. It
7 doesn't make it a certainty. I mean, the Commission would
8 still rule on that, but it would allow, if you interpret it
9 to expire in June 1, 2010, you could have that issue brought
10 before the Commission. The Commission could decide to divert
11 some of those off-system revenues in that case, if you take
12 that interpretation.

13 Q. The off-system sales provisions, in regard to
14 Iatan II, then, are very important -- this provision is very
15 important to what occurs with those -- those sales, this
16 provision, I mean, the one dealing with off-system sales and
17 how long it goes?

18 A. It's very important in terms of the
19 consideration as to what the cost of Iatan II would be to
20 customers.

21 Q. Yes. And when you said earlier that
22 off-system sales were very important in Staff signing off on
23 this agreement, was Staff -- did Staff make an assumption in
24 regard to whether or not off-system sales from Iatan II would
25 be credited to customers in signing the agreement?

1 A. Yes. In fact, it would be used as an offset
2 to the cost. When you put in the cost of Iatan II, in order
3 to determine its true cost to customers off-system sales, and
4 actually off-system sales margins would be used in that
5 determination of ultimate cost would be passed through in
6 rates.

7 Q. Okay. That's all I have, Mr. Shallenberg.

8 COMMISSIONER GAW: And if that can be cleared
9 up by the parties before we have this case, I don't know that
10 I -- I'm not trying to make you-all do that tonight, but you
11 already know the answer to it, that would be very helpful.

12 MR. DOTTHEIM: Commissioner, the company has
13 indicated no problem with us broaching that or
14 Mr. Shallenberg addressing what we believe is the
15 understanding that we have with Kansas City Power & Light as
16 to how that language would -- would change

17 COMMISSIONER GAW: Okay. I'm not trying to
18 create a dispute where none exists, I'm just trying to
19 understand.

20 MR. DOTTHEIM: No, this would help elucidate a
21 matter that we fully expect, plan, will occur, so I think
22 this furthers matters that the Commission is not surprised by
23 any language changes, at least in this area. There will be
24 other areas in addition to this.

25 COMMISSIONER GAW: Okay. I think that's all I

1 have, Judge.

2 JUDGE PRIDGIN: Commissioner, thank you. Let
3 me see if we have any questions from counsel. I'm not seeing
4 any. Mr. Dottheim?

5 MR. DOTTHEIM: Yes.

6 COMMISSIONER GAW: Mr. Fischer might have had
7 some.

8 MR. FISCHER: I'll follow.

9 REDIRECT EXAMINATION

10 QUESTIONS BY MR. DOTTHEIM:

11 Q. Mr. Shallenberg, as I've indicated, Kansas
12 City Power & Light has indicated no problem from its
13 perspective regarding the Staff addressing what is what we
14 believe is the understanding between Kansas City Power &
15 Light and the Staff and other signatory parties have been
16 involved in discussion on this matter regarding the -- the
17 language in the stipulation agreement on off-system sales and
18 no term being specified. Could you please provide what you
19 understand have been the discussions and the understanding?

20 A. The term would be tied to as long as the cost
21 from Iatan were included, excuse me, Iatan II were included
22 in rates. That would be the term of the off-system sales
23 provision that the off-system sales would be included in
24 rates consistent with the treatment of Iatan II costs.

25 MR. FISCHER: Your Honor, and I can stipulate

1 that that is Kansas City Power & Light Company's
2 understanding, with the proviso that it is also our
3 understanding there will be a similar provision in the
4 regulatory plans, and we're expecting that to come out
5 similarly.

6 COMMISSIONER GAW: And I don't want to
7 interrupt here except to say as a point of further
8 clarification, when you get to that, what's not -- the other
9 thing that's not clear to me is the impact of any legislation
10 that might be passed in an intervening way, since we've seen
11 things that have happened.

12 I think it's fairly clear on one point
13 regarding fuel adjustment and interim energy charges. It's
14 not clear to me whether the language in the stip contemplates
15 that. I'll leave that, but I raise it since you all are
16 going to be talking about language.

17 MR. DOTTHEIM: No further questions.

18 JUDGE PRIDGIN: All right. Mr. Dottheim,
19 thank you. Anything else from counsel? I see nothing.
20 Mr. Shallenberg. Thank you. May he be excused? I don't
21 believe I have any -- any further witnesses. I'm not going
22 to have closing arguments because we do have a briefing
23 schedule. I'm sorry, Mr. Dottheim, did you have something?

24 MR. DOTTHEIM: Would the bench be expecting
25 that the letter that's been referred to from the Department