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August 10, 1999

VIA OVERNIGHT DELIVERY

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

FILED

SEP 9 1999

Missouri Public
Service Commission

RE: Case No. EC-99-553

Dear Mr. Roberts:

Enclosed for filing with the Commission in the above-referenced matter are the original and 14 copies of the public version of Kansas City Power & Light Company's Revised Answer, and 9 sealed envelopes containing the Highly Confidential version of said Revised Answer.

In addition, I have enclosed a prepaid return envelope. Please time stamp one of the Highly Confidential copies and return it to KCPL.

Please bring this filing to the attention of the Commission.

Thank you for your attention to this matter.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'Gerald A. Reynolds'.

Gerald A. Reynolds

Enclosures

cc: Parties of Record

KANSAS CITY POWER & LIGHT COMPANY

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

SEP 9 1999

Missouri Public
Service Commission

GST Steel Company,

Complainant,

v.

Kansas City Power & Light Company,

Respondent.

Case No. EC-99-553

REVISED ANSWER

COMES NOW Respondent, Kansas City Power & Light Company ("KCPL" or the "Company"), by and through its attorney, and makes the following response to the complaint filed in this action:

Contemporaneously with its Answer, KCPL is filing an appendix that contains Exhibit A.

1. KCPL admits so much of paragraph one that states that GST Steel Company ("GST") operates a steel manufacturing facility, that GST utilizes electric arc furnaces in its manufacturing process, and that GST operates a manufacturing facility at 7000 Roberts Road, Kansas City, MO 64125. KCPL lacks knowledge or sufficient information to form a belief about the remaining allegations contained in paragraph one and therefore leaves GST to its proof.

2. With respect to GST's Kansas City facility, KCPL admits so much of paragraph two that states GST purchases all of its electricity from KCPL pursuant to an Amended and Restated Power Supply Agreement ("Special Contract"); the Public Service Commission of the State of Missouri ("Commission") approved the Special Contract; GST has the right to purchase its electricity pursuant to the Special Contract or a Commission-approved tariff.

KCPL lacks knowledge or sufficient information to form a belief about the remaining allegations in paragraph two and therefore leaves GST to its proof.

3. With respect to GST's Kansas City facility, KCPL admits so much of paragraph three that states GST is not legally entitled to purchase electricity from another supplier, and that GST's rate is regulated by the Commission. KCPL denies the remaining allegations contained in paragraph three.

4. With respect to paragraph four, all the terms, obligations, conditions, and allocations of risk are contained within the Agreement. KCPL admits so much of paragraph four that states that the Agreement does not modify any obligation imposed on KCPL by Section 393.130.1, RSMo. KCPL denies the remaining allegations contained in paragraph four.

5. KCPL admits so much of paragraph five that states that in August, 1998, a ruptured steam line at Hawthorn Generating Station Unit No. 5 ("Hawthorn 5") caused an unplanned outage at said unit. KCPL denies the remaining allegations contained in paragraph five.

6. KCPL admits so much of paragraph six that states that during the month of September of 1998, planned outages (and at least one unplanned outage) occurred in its system. KCPL denies the remaining allegations contained in paragraph six.

7. KCPL admits so much of paragraph seven that states:

Every electrical corporation ... shall furnish and provide such service instrumentalities and facilities as shall be safe and adequate and in all respects just and reasonable. All charges made or demanded by any such ... electrical corporation ... for electricity ... or any service rendered or to be rendered shall be just and reasonable and not more than allowed by law or by order or decision of the commission. Every unjust or unreasonable charge made or demanded for ... electricity ... or any

such service, or in connection therewith, or in excess of that allowed by law or by order or decision of the commission is prohibited.¹

KCPL denies the remaining allegations contained in paragraph seven.

8. KCPL admits so much of paragraph eight that states that an incident occurred at Hawthorn 5 that led to the immediate shutdown of said unit and that Hawthorn 5's boiler was destroyed ("Hawthorn Incident"). In addition, KCPL admits so much of paragraph eight that states that Hawthorn 5 is a coal-fired, baseload-generating unit. KCPL denies the remaining allegations contained in paragraph eight.

9. KCPL admits so much of paragraph nine that states that the Special Contract permits GST to pay a price based on KCPL's incremental cost of producing energy, or any available rate schedule. KCPL denies the remaining allegations contained in paragraph nine.

10. KCPL admits so much of paragraph ten as states that Staff has initiated an investigation of the Hawthorn Incident. KCPL denies the remaining allegations contained in paragraph ten.

11. KCPL denies the allegations contained in paragraph eleven.

12. KCPL denies the allegations contained in paragraph twelve.

13. KCPL denies the allegations contained in paragraph thirteen.

14. KCPL denies the allegations contained in paragraph fourteen.

15. KCPL admits that the SPP Generation Outage Report documents KCPL's outages. KCPL denies the remaining allegations.

¹ Section 393.130.1, RSMo.

16. KCPL admits so much of paragraph sixteen that states that its public filings reflect KCPL's maintenance expenses for the years 1992 through 1998. KCPL denies the remaining allegations contained in paragraph 16.

17. KCPL admits so much of paragraph seventeen that states that its public filings reflect transaction costs relating to KCPL's unconsummated merger with Utilicorp and pending merger with Western Resources, Inc. KCPL denies the remaining allegations contained in paragraph seventeen.

18. KCPL denies the allegations contained in paragraph eighteen.

19. KCPL denies that its reserve declined from 14% in 1995 to 6% in 1998. KCPL admits the remaining allegations.

20. KCPL denies that its maintenance of its facilities is inadequate. KCPL admits that it has addressed any equipment problems as soon as they were identified, and offered to assist GST improve the reliability of facilities owned by GST. KCPL lacks knowledge or sufficient information to form a belief about the remaining allegations contained in paragraph twenty and therefore leaves GST to its proof.

21. KCPL admits so much of paragraph twenty-one that states KCPL has addressed any equipment problems as soon as they were identified, and offered to assist GST improve the reliability of facilities owned by GST. KCPL denies the remaining allegation contained in paragraph 21.

22. KCPL admits so much of paragraph twenty-two that states KCPL informed GST that the Hawthorn outage probably would result in an increase in KCPL's incremental costs and that these increased costs would be reflected in GST's rate provided it elected not to take service under an available rate schedule. KCPL denies that the Agreement prevents

GST from avoiding any future increases caused by the Hawthorn Incident. KCPL lacks knowledge or sufficient information to form a belief about the remaining allegations in paragraph twenty-two and therefore leaves GST to its proof.

23. In response to paragraph twenty-three, KCPL admits that GST has attempted to intimidate and harass KCPL into negotiating a new contract that would provide GST with a rate that no other steel manufacturer has in the Midwest, to wit, real time pricing with a 2.5¢ per kWh cap. KCPL denies the remaining allegations contained in paragraph twenty-three.

24. KCPL admits so much of paragraph twenty-four that states that GST is attempting to maintain its operations in an extremely competitive market. KCPL denies the remaining allegations contained in paragraph twenty-four.

25. KCPL denies that it informed GST that the Hawthorn Incident would result in significant cost increases. KCPL lacks knowledge or sufficient information to form a belief about the remaining allegations contained in paragraph twenty-five and therefore leaves GST to its proof.

26. KCPL admits so much of paragraph twenty-six that states that the steel industry is facing competitive pressures. KCPL lacks knowledge or sufficient information to form a belief about the remaining allegations contained in paragraph twenty-six and therefore leaves GST to its proof.

27. KCPL denies the allegations contained in paragraph twenty-seven. Therefore, the Commission should deny the requested relief.²

² On June 4, 1999, the Commission granted Staff's Motion to Open Docket. Accordingly, the Commission will receive information regarding the Hawthorn Incident in Case No. ES-99-581, not the instant case.

28. KCPL admits so much of paragraph twenty-eight that states that it may take between 6 and 12 months to complete the investigation of the Hawthorn Incident. KCPL lacks knowledge or sufficient information to form a belief about the remaining allegations contained in paragraph twenty-eight and therefore leaves GST to its proof. Please note that on or about June 1, 1999, this Commission denied GST's request for immediate relief.

29. KCPL denies the allegations contained in paragraph twenty-nine. Please note that on or about June 1, 1999, this Commission denied GST's request for the relief sought in paragraph twenty-nine.

30. KCPL denies the allegations contained in paragraph thirty.

31. KCPL admits so much of paragraph thirty-one that states that GST accurately paraphrased Missouri law. KCPL denies the remaining allegations contained in paragraph thirty-one.

32. KCPL admits so much of paragraph thirty-two that states that Staff is investigating the Hawthorn Incident. KCPL denies the remaining allegations contained in paragraph thirty-two.

For its other and further Answer and defense, KCPL states and alleges the following:

33. On or about August 12, 1994, KCPL and GST entered into the Special Contract. A copy of the Special Contract is attached to GST's complaint as Exhibit A. As befitting two sophisticated business entities, KCPL and GST participated in extensive negotiations prior to executing the Special Contract. During these negotiations, GST received advice, and counsel from energy consultants and attorneys.

34. Unlike prior agreements between GST and its predecessor-in-interest, the Special Contract provides that GST will receive ** [REDACTED]

35. By seeking and receiving the benefits of real time pricing — lower average prices and flexibility —, GST also accepted the risks associated with this particular type of pricing structure. It now appears that GST wants the benefits of real time pricing without any of its associated risks.

36. It is clear that GST was aware of the risks involved with real time pricing. To shield its self from short-term price spikes (e.g., increases in costs caused by congestion on the transmission grid during the summer months), and/or permanent increases in production costs (e.g., increases in fuel costs caused by the replacement of a coal-fired plant with a gas-

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fired combined cycle plant), GST received the right to elect to be billed for its capacity, facilities, and energy under any other applicable and generally available rate schedule in lieu of the contract price contained in the Special Contract. In addition, the Special Contract contains a ***[REDACTED]

[REDACTED]. ** See Special Contract, § 7.4.

37. GST has cited the anticipated cost increase resulting from the Hawthorn Incident as evidence that KCPL is charging it rates that are not just and reasonable. GST's claims that it is not "seeking to 'improve' or alter" the Special Contract, and that it is merely seeking rates that are just and reasonable are belied by the fact that in the Special Contract GST reserved the right to take service under a commissioned-approved tariff. As GST knows, all tariffs approved by the Commission are presumed to be just and reasonable. GST merely needs to exercise its contractual right to take service under an approved tariff. Instead of exercising its right to take service pursuant to commissioned-approved tariffs, which are just and reasonable, GST has relentlessly sought to obtain subsidies from KCPL's shareholders and ratepayers. See e.g., GST's Application for Rehearing in Case No. ER-99-313. What is interesting to note is that GST is already paying a rate that is approximately **[REDACTED]** lower than any tariff approved by the Commission, and that GST's relentless quest for lower rates predates the Hawthorn Incident. Apparently GST believes it needs rates that are lower than just and reasonable rates.

38. Within the last two years GST has suffered dramatic declines in selling prices for its products. Please note that GST is a division of GS Technologies Operating Company, Inc. ("GS Technologies"). According to a Form 10-K filed by GS Technologies for the fiscal

year ended December 31, 1998 ("10-K"), its "average wire rod selling prices declined 17% from the fourth quarter of 1997 to the fourth quarter of 1998. See 10 K, at 16. A copy of GS Technologies' 10K is attached hereto as Exhibit A. Record levels of imported steel products, by countries such as Japan and Indonesia, have caused these declining prices. Id. It is unlikely that the pricing pressures resulting from imported steel products will ease until the Asian economic crisis subsides. Id., at 24.

39. In addition to fierce competition from foreign manufacturers of steel products, GS Technologies has recently entered into an unprofitable joint venture. According to its 10K, GS Technologies' Direct Reduced Iron joint venture has resulted in multi-million dollar losses. Id., at 16.

40. A recent strike at GST resulted in a \$21.9 million loss in pre-tax earnings, while a strike at GS Technologies' South Carolina facility cost the company approximately \$6.8 million in pre-tax earnings. See 10K, at 18. GST also suffered an undisclosed amount of earnings losses due to a strike at its Florida facility. See 10 K, at 16.

41. In light of these events, it is understandable why GST is not interested in just and reasonable rates. However, GST's dire financial condition cannot justify requiring KCPL's shareholders and ratepayers to subsidize GST's steel products.

WHEREFORE, KCPL prays that the Commission:

- a) deny each and every claim for relief presented by GST and dismiss its Complaint; or in the alternative
- b) limit the scope of this docket to whether the Special Contract results in just and reasonable rates; and
- c) provide such other and further relief as the Commission may deem just.

Respectfully submitted,



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CERTIFICATE OF SERVICE

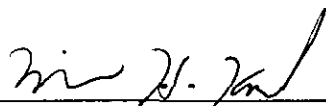
I hereby certify that a copy of the foregoing response was served via first class mail, postage prepaid, on this 8th day of September, 1999, upon:

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