Exhibit No.	
Issue:	
Witness:	**Steven C. Carver**
Sponsoring Party:	**GST**
Type of Exhibit:	**Direct Testimony**
Case No.	**EC-99-553**

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

DIRECT TESTIMONY

OF

STEVEN C. CARVER

Jefferson City, Missouri
November 17, 1999

DIRECT TESTIMONY OF
STEVEN C. CARVER

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DIRECT TESTIMONY OF
STEVEN C. CARVER
ON BEHALF OF GST STEEL COMPANY
CASE NO. EC-99-553

Q. Please state your name and business address.

A. My name is Steven C. Carver. My business address is 740 North Blue Parkway, Suite 204, Lee's Summit, Missouri 64086.

Q. What is your present occupation?

A. I am a principal in the firm of Utilitech, Inc., which specializes in providing consulting services for clients who actively participate in the process surrounding the regulation of public utility companies. Our work includes the review of utility rate applications as well as the performance of special investigations and analyses related to utility operations and ratemaking issues.

Q. On whose behalf are you appearing in this proceeding?

A. Utilitech was retained by GST Steel Company (hereinafter "GST") to assist in its evaluation of the rates charged by the Kansas City Power & Light Company ("KCPL" or "Company") pursuant to the Amended and Restated Power Supply Agreement ("Power Supply Agreement") executed by the parties on August 12, 1994.

Q. Please summarize the purpose and content of your testimony in this proceeding.

A. I was engaged to review limited issues associated with the increased charges demanded by KCPL as a result of the February 17, 1999, boiler explosion at Unit 5 of the Hawthorn Generating Station ("Hawthorn 5"). More specifically, my testimony will address certain insurance proceeds and other cost savings associated with the loss of Hawthorn 5, which the Company does not appear to have considered in quantifying the energy price KCPL has charged to GST subsequent to the boiler explosion. GST witnesses Mr. Jerry N. Ward and Mr. Brian D. Smith will discuss related matters. Mr. Ward has prepared testimony to provide recommendations concerning KCPL's management of its resources and services to GST. Mr. Smith will also discuss the overcharges to GST.

Specifically, my testimony addresses, on behalf of GST, the accounting and regulatory treatment of insurance premium costs and damage claim proceeds in the context of the extra expense - replacement energy endorsement coverage KCPL maintains on the Hawthorn facility. It should also be noted that Company responses to various discovery requests were outstanding at the time this testimony was finalized. Consequently, I reserve the right to update and/or supplement my prefiled direct testimony following the receipt, review and evaluation of the currently outstanding discovery.

For ease of reference, the index at the beginning of my testimony provides an outline to the areas that I address in testimony.

EDUCATION AND EXPERIENCE

Q. What is your educational background?

A. I graduated from State Fair Community College where I received an Associate of Arts Degree with an emphasis in Accounting. I also graduated from Central Missouri State University with a Bachelor of Science Degree in Business Administration, majoring in Accounting.

Q. Please summarize your professional experience in the field of utility regulation.

A. From 1977 to 1987, I was employed by the Missouri Public Service Commission in various professional auditing positions associated with the regulation of public utilities. In that capacity, I was responsible for the submission of expert testimony as a Staff witness. During the period 1977 through 1979, I participated in a Federal Energy Regulatory Commission compliance audit, reviewed utility certificate and financing applications, and participated in and supervised various accounting compliance and rate case audits (including earnings reviews) of electric, gas and telephone utility companies.

In October 1979, I was promoted to the position of Accounting Manager of the Kansas City Office of the Commission Staff and assumed supervisory responsibilities for a staff of ten regulatory auditors. I directed numerous rate case audits of large electric, gas and telephone utility companies operating in the State of Missouri and coordinated such activities with other Commission departments. My responsibilities also included the development and review of accounting issues, the preparation of Staff issues for hearings, and the provision of assistance to Staff counsel in drafting hearing memoranda, cross-examination questions and legal briefs.

In April 1983, I was promoted by the Commission to the position of Chief Accountant and assumed overall management and policy responsibilities for the Accounting Department. This department was comprised of approximately forty professional staff members specializing in regulatory accounting and depreciation issues. I provided guidance and assistance in the technical development of Staff issues in major rate cases and coordinated the general audit and administrative activities of the Department. During 1986-1987, I was actively involved in a docket established by the Missouri Public Service Commission to investigate the revenue requirement impact of the Tax Reform Act of 1986 on Missouri utilities.

In 1986, I prepared the comments of the Missouri Public Service Commission respecting the Proposed Amendment to FAS Statement No. 71 (relating to phase-in plans, plant abandonments, plant cost disallowances, etc.) as well as the Proposed Statement of Financial Accounting Standards for Accounting for Income Taxes. I actively participated in the discussions of a subcommittee responsible for drafting the comments of the National Association of Regulatory Utility Commissioners ("NARUC") on the Proposed Amendment to FAS Statement No. 71 and subsequently appeared before the Financial Accounting

Standards Board with a Missouri Commissioner to present the positions of NARUC and the Missouri Commission.

In July of 1983 and in addition to my duties as Chief Accountant, I was appointed Project Manager of the Commission Staff's construction audits of two nuclear power plants owned by electric utilities regulated by the Missouri Public Service Commission. As Project Manager, I was involved in the staffing and coordination of the construction audits and in the development and preparation of the Staff's audit findings for presentation to the Commission. In this capacity, I coordinated and supervised a matrix organization of Staff accountants, engineers, attorneys and consultants.

I commenced employment with Utilitech, then doing business as Dittmer Brosch & Associates, in June 1987. During my employment with the firm, I have been associated with various regulatory projects on behalf of clients in the States of Arizona, Florida, Hawaii, Illinois, Indiana, Mississippi, Missouri, New Mexico, Oklahoma, Pennsylvania, Texas, Utah, Washington, West Virginia and Wyoming.

I have conducted revenue requirement and special studies of various regulated utilities (i.e., electric, gas, telephone and water) and have filed testimony on behalf of: the Arizona Corporation Commission Staff; the Florida Public Counsel; the Hawaii Department of Commerce and Consumer Affairs Division of Consumer Advocacy; the Indiana Utility Consumer Counselor; the City of Jefferson of the State of Missouri; the Oklahoma Attorney

General; the Oklahoma Corporation Commission Staff; the Pennsylvania Office of the Consumer Advocate; the Missouri Public Service Commission Staff; the Office of Public Counsel of the State of Missouri; the Telecommunication Ratepayers Association for Cost-Based and Equitable Rates; the United States Executive Agencies; the Utah Committee of Consumer Services and the Public Counsel Section of the Washington Attorney General.

In addition, I am also presently engaged in ongoing regulatory projects on behalf of the Staffs of the Arizona Corporation Commission, Kansas Corporation Commission and New Mexico Public Regulation Commission. Since joining the firm, I have continued to appear as an expert witness before the Missouri Public Service Commission on behalf of various clients, including the Commission Staff.

EXECUTIVE SUMMARY

Q. Could you please summarize your testimony on this issue?

A. Yes. On August 12, 1994, KCPL and GST entered into a confidential "Amended and Restated Power Supply Agreement" ("Power Supply Agreement") for the stated purpose that the parties "seek a more economical operation of their respective operations." As a result of the Hawthorn 5 boiler explosion on February 17, 1999, KCPL has significantly increased the charges to GST under the pricing provisions of the Power Supply Agreement, which were approved by and remain subject to the Commission's continuing jurisdiction,

Based on my review of the GST petition, the KCPL reply to said petition and the Company's responses to GST discovery as well as several discussions with GST counsel, GST has been overcharged for the cost of replacement power under the incremental cost elements of the Power Supply Agreement. Based on the rationale discussed within the remainder of my testimony as well as the testimony of other GST witnesses, I believe that the Commission should find that KCPL has overcharged GST pursuant to the terms of the contract. The Company should be required to recalculate the amounts that would have been due from GST during 1999, after considering the replacement power insurance proceeds and other cost reductions (e.g., O&M savings), as appropriate. Any difference between the amounts paid by GST and the recalculated amounts otherwise due should be refunded to GST, including carrying costs at a reasonable rate of interest.

BACKGROUND: HAWTHORN 5 BOILER EXPLOSION

Q. Could you briefly describe the events that led to the filing GST's petition in this docket?

A. Yes. According to KCPL press releases and 1999 Analyst Updates reviewed on the Company's website, preliminary indications were that an explosion of accumulated gas in the firebox of Hawthorn 5, at approximately 12:30 a.m. on February 17, 1999, resulted in substantial damage to the 11-story boiler. Hawthorn 5 had a net capacity of 479 megawatts and began initial operation in 1956. The details surrounding the explosion are addressed in Mr. Ward's testimony.

Subsequent to the boiler explosion, KCPL estimated that the loss of Hawthorn 5 would result in a net increase in costs, for calendar year 1999, between $6.5 million and $11.5 million (before tax). This range of estimates, as set forth in a KCPL press release dated March 2, 1999, is summarized below:

	Estimated Range	
Increased Cost of Fuel & Purchased Power	$ 25,000,000	$ 30,000,000
Cost Savings:		
Reduced O&M *(Hawthorn Maintenance & Rescheduled Maintenance at other Units)*	(11,500,000)	(11,500,000)
Insurance Proceeds for Replacement Power	(5,000,000)	(5,000,000)
Reduced Hawthorn Depreciation	(1,000,000)	(1,000,000)
Rail Management Savings	(1,000,000)	(1,000,000)
Net Cost	$ 6,500,000	$ 11,500,000

As of March 2, 1999, KCPL continued to evaluate alternatives regarding the replacement of the power otherwise generated by Hawthorn 5. On average, Hawthorn 5 generated approximately 2 million megawatt hours of electricity each year. At that time, the Company planned to replace this lost generation by:

- redirecting approximately 1.1 million mwh of annual bulk power sales for use by KCPL's retail customers
- rescheduling planned maintenance outages at other plants to maximize available generation
- placing Hawthorn 6, a 142 mw gas-fired combustion turbine, into commercial operation in the spring of 1999
- Utilizing this strategy, KCPL estimated a need to obtain additional firm and spot market power purchases to meet a remaining energy requirement of approximately 350,000 mwh.

This information was obtained from a KCPL press release dated March 2, 1999, and a KCPL Analysts Update for the first quarter of 1999, as contained on the Company's website (www.kcpl.com).

PROPERTY INSURANCE: COVERAGE AND ACCOUNTING

Q. Please generally describe the insurance policies maintained by KCPL covering the damage caused by the Hawthorn 5 explosion.

A. Based on my review of KCPL's responses to GST Data Request Nos. 1.1, 1.4 and 1.5 as well as a press release dated March 2,1999, the Company has maintained several policies covering its electric generating property, including policies from Reliance National Insurance Company, Travelers Insurance Company and National Union Fire Insurance Company. The policy coverages include boiler and machinery, extra expense - replacement energy, excess property and all-risk. The insurance coverage maintained by KCPL for this type of event (i.e., Hawthorn 5 explosion) has a limit of $300 million.

Q. Has KCPL received any insurance proceeds for the damages from the explosion?

A. Yes. As of September 30, 1999, KCPL has received $80 million under its property insurance coverage. Those proceeds include $54,000 per day pursuant to the extra expense endorsement under the policy with Reliance National Insurance Company. Based on the information supplied by the Company, KCPL should have already received the entire $5 million of coverage under this endorsement.

Q. Could you please describe the typical regulatory accounting for property insurance policy premiums and proceeds?

A. Yes. Absent a showing that specific property insurance coverages, policy premiums or other terms and conditions are excessive or imprudent, regulatory commissions typically allow regulated utilities to include the cost of property insurance premiums, recorded in FERC Account 924, in the ratemaking process for recovery through electric rates. In fact, the Missouri Public Service Commission ("MPSC" or "Commission") has previously allowed KCPL to recover the cost of insuring its electric utility property and extra expenses in utility rates.

The FERC chart of accounts contains accounting instructions for Account 924, Property Insurance, a portion of which is reproduced below:

> **Account 924 Property insurance.**
> A. This account shall include the cost of insurance or reserve accruals to protect the utility against losses and damages to owned or leased property used in its utility operations. It shall include also the cost of labor and related supplies and expenses incurred in property insurance activities.
> B. <u>Recoveries from insurance companies or others for property damages shall be credited to the account charged with the cost of the damage</u>. If the damaged property has been retired, the credit shall be to the appropriate account for accumulated provision for depreciation.
> C. Records shall be kept so as to show the amount of coverage for each class of insurance carried, the property covered, and the applicable premiums. Any dividends distributed by mutual insurance companies shall be credited to the accounts to which the insurance premiums were charged.
> [18 CFR 101, Emphasis Added]

Since the Hawthorn 5 boiler explosion resulted in damage to plant assets and has resulted in the incurrence of extra expenses (i.e., replacement power), the proceeds KCPL receives pursuant to its property insurance policies should be credited to both accumulated depreciation and purchased power expense, as indicated by the FERC instructions.

Q. Has KCPL credited its insurance proceeds to accumulated depreciation and purchased power expense?

A. The information currently available concerning KCPL's accounting for the Hawthorn 5 insurance proceeds is somewhat contradictory. The response to GST Data Request No. 1.5(c) indicates that KCPL has credited all Hawthorn 5 insurance recoveries to Miscellaneous Deferred Debt Account 186-100, Project 35-96341. However, page 29 of KCPL's SEC Form 10-Q (3rd Quarter 1999), as found at the FreeEDGAR website, states that as of September 30, 1999, KCPL has received $80 million under its property insurance coverage and has recorded such amounts in Utility Plant - accumulated depreciation on the Consolidated Balance Sheet. While it is unclear whether KCPL has credited any of its insurance proceeds to accumulated depreciation, it is quite clear that the Company has not credited any of those proceeds to expense, which would otherwise have the effect of reducing the increased cost of replacement power resulting from the unavailability of Hawthorn 5.

Q. What is the basis for your statement that the MPSC has previously allowed KCPL to recover these insurance costs from ratepayers?

A. In a prior MPSC order in a KCPL rate case (MPSC Case Nos. EO-85-185 and EO-85-224), the Commission rejected a proposed adjustment sponsored by the Missouri Public Counsel that was designed to share the cost of KCPL's property insurance between ratepayers and shareholders. The following excerpt from the Commission's rate order discusses the rationale for its rejection of this proposal:

> F. <u>Property Insurance</u>
> Public Counsel recommends the Commission disallow one-half of the cost of property insurance to the Company. That results in a $391,862 disallowance from the Company's test-year cost of service. Public Counsel maintains that sharing is appropriate because insurance is purchased to cover the risk of loss of the Company's assets. Both the shareholders and the ratepayers benefit from this type of coverage.
>
> Company contends there is no evidence to support an equal sharing concept. It is Company's further contention that to the extent shareholders pay property insurance premiums, the shareholders are entitled, pro rata, to the insurance proceeds. Any replacement of damaged plant the shareholders would make would be placed into rate base and a return earned thereon. That would not be the case if the insurance premiums were fully reflected in operating expenses. Thus, in the long run the ratepayers would be paying more if a sharing concept were adopted.
>
> The Commission agrees with the Company that the end result of a sharing concept for property insurance would inure to the detriment of the ratepayer and must be rejected.
>
> [MPSC <u>Report and Order</u>; Case Nos. EO-85-185/EO-85-224; pp. 43-44]

Based on my prior regulatory experience in Missouri and the review of various MPSC rate orders, I am not aware of any findings in which the Commission has disallowed or required a sharing of the cost of property insurance on coal-fired generating facilities between ratepayers/ shareholders. As a result, it is KCPL's ratepayers who have shouldered the cost burden of property insurance premiums and are, therefor, entitled to receive the benefit of any insurance proceeds.

Q. So, is it KCPL's ratepayers who have paid for the cost of the Company's property insurance policies through inclusion in electric rates?

A. Yes. KCPL has admitted that the premiums for these policies are charged to Account 924 and "are recoverable expenses for Missouri rate-making." [See Company responses to GST Data Request Nos. 1.1(b) and 1.2(b).] In effect, KCPL's property and extra expense insurance costs have been historically included in the Company's cost of service.

Q. Referring specifically to the "extra expense - replacement power" policy provisions, should ratepayers or shareholders receive the benefit of the insurance proceeds resulting from the Hawthorn 5 boiler explosion?

A. Consistent with the MPSC's 1985 rate order cited previously, ratepayers, not shareholders, have funded the cost of this type of insurance, which is designed to protect ratepayers from high replacement power costs following an "incident" like the Hawthorn 5 boiler explosion. KCPL has replaced a portion of the energy, otherwise met by Hawthorn 5 generation, by generating and purchasing higher cost replacement power – including spot market purchases. While this will be discussed in greater detail by GST witness Smith, KCPL has provided documentation through discovery indicating that the Company has purchased significant quantities of replacement power since the February 17, 1999, boiler explosion at Hawthorn 5.

Even though there is no fuel adjustment clause in Missouri, GST has also been charged higher replacement energy costs following the Hawthorn 5 explosion through the contract rates set forth in the Power Supply Agreement between KCPL and GST. In my opinion, those ratepayers that have been charged higher replacement energy costs as a result of this explosion should reasonably expect to receive the corresponding benefit of any proceeds from the "extra expense - replacement power" insurance policy.

Q. Are you aware of any statements by KCPL concerning whether it intends to seek recovery of any excess replacement power costs from its ratepayers?

A. KCPL has indicated that it does not anticipate seeking rate increases to recover the costs incurred as a result of the Hawthorn 5 explosion and outage. [See KCPL response to GST Data Request No. 2.5, specifically an e-mail from Doug Nickelson to Jim Ketter dated March 5, 1999.] Nevertheless, there are two conditions under which KCPL is currently providing electric service in Missouri that limit the Company's opportunity to pass these higher costs on to the general body of ratepayers. First, KCPL is operating under the terms of a rate moratorium until the year 2003. This moratorium limits future Missouri retail rate changes or refunds (absent the occurrence of a significant, unusual event) to become effective no earlier than March 31, 2003, or 36 months after the closing of KCPL's impending merger. The MPSC authorized the moratorium with respect to the planned merger of KCPL and Western Resources, Inc. [See MPSC Order Approving Stipulation and Agreement effective September 14, 1999; Case No. EM-97-515; p. 7.]

Second, there are no fuel or purchased power adjustment clauses in the State of Missouri which provide automatic cost tracking, deferral or pass-through measures for the higher cost replacement energy. In a variety of other state jurisdictions, the cost of generation and purchase power expenses, including replacement power, may be automatically passed through to customers by way of adjustable clauses, tariff riders or other tracking mechanisms. Because such fuel clause options are not allowed by Missouri law and KCPL is operating under a rate moratorium until 2003, the general body of ratepayers will not experience any extra energy costs as a result of the Hawthorn 5 explosion.

Q. So, if those KCPL customers taking service under regulated tariff rates are not required to pay the higher replacement energy costs as a result of the rate moratorium, would this suggest that KCPL should retain some or all of the extra expense proceeds for the benefit of its shareholders?

A. No. Consistent with prior MPSC findings, shareholders should only be entitled to a share of those proceeds to the extent that shareholders paid the cost of the related insurance premiums. [See MPSC <u>Report and Order</u>; Case Nos. EO-85-185/EO-85-224; pp. 43-44.] I believe that the existence of the general rate moratorium does <u>not</u> create a shareholder entitlement to the extra expense proceeds, as long as any KCPL customers were burdened with higher replacement energy costs – notwithstanding the base rate moratorium and absence of a automatic fuel adjustment clause. In my opinion, those ratepayers whose energy costs are adversely affected by the higher Hawthorn-related replacement energy have a right to an offset, or credit, for the amount of such proceeds.

Unlike KCPL's typical customer, GST takes service under a confidential special pricing contract, which was approved and continues to be regulated by the MPSC. Under the terms of the special contract, the cost GST is charged for its purchases from KCPL is partly based on the Company's estimated hourly incremental cost of production. GST is one of the few, if not the only, KCPL customer in this category. It appears that KCPL has used this contract provision to charge GST with the higher cost replacement energy purchases, resulting from the Hawthorn 5 explosion. GST witness Smith discusses this matter in greater detail.

Q. Please explain how an incremental cost-based contract customer like GST would experience higher costs as a result of the Hawthorn 5 explosion.

A. GST's special contract with KCPL is based, in part, on a "production costing model."[1] The inputs to this model include the"higher of present or replacement costs of fuel...[and] variable costs of purchased power." With the loss of 479 MW of relatively low cost, base load generation at Hawthorn 5, KCPL found it necessary to obtain higher cost replacement power. Particularly during periods of high demand, the cost of KCPL's replacement power is significantly higher than Hawthorn 5's historic production costs. This is discussed in more detail by GST witness Smith.

Q. Have any of the higher costs of this replacement power been passed through to GST by way of its special contract with KCPL?

A. Yes. According to the direct testimony of GST witness Brian Smith, GST has paid KCPL in excess of $3.0 million more in energy costs than should have been paid had Hawthorn 5 been able to continue operating since February 17, 1999. However, consistent with a

[1] A copy of the Special Contract is attached as confidential Exhibit A to GST's Petition for an Investigation as to the Adequacy of Service Provided by KCPL filed May 11, 1999 with the MPSC.

reasonable application of standard regulatory accounting methods and procedures, GST is entitled to participate in the replacement power insurance proceeds KCPL has received as a result of the Hawthorn 5 boiler explosion. It does not appear that KCPL has recognized these insurance proceeds as an offset to the higher cost of replacement power charged to GST pursuant to the power supply contract. The Commission should instruct KCPL to correct this billing error.

Q. In your opinion, does GST's entitlement to a portion of KCPL's replacement energy insurance proceeds depend on whether the MPSC finds that the Hawthorn 5 explosion was the result on imprudent Company management?

A. No. KCPL appears to have over-charged GST for the net cost of replacement power, to the extent that the charges the Company has assessed under the Power Supply Agreement failed to recognize the offsetting extra expense insurance proceeds. In effect, KCPL appears to have charged GST for more than its cost of production, net of insurance recoveries. This inappropriate billing issue does not involve the prudence of Company management actions with respect to the Hawthorn 5 explosion.

As a matter of regulatory policy, I do not believe that KCPL should be allowed to charge ratepayers, including GST, for: the cost of insurance premiums, including coverage for replacement energy; the cost of energy, including higher replacement energy; and be allowed to retain all insurance proceeds, related to the increased cost of replacement power. As long as ratepayers are bearing the brunt of the cost of replacement energy, the insurance proceeds must be used to offset those higher costs – before KCPL has any claim to retain such proceeds for the benefit of its shareholders.

Moreover, if prudent management were an appropriate factor for the Commission to consider in evaluating GST's request, the testimony of GST witness Ward offers evidence that KCPL's imprudence led to the Hawthorn 5 explosion. I do not believe that, under these circumstances, the Company should be allowed to retain the insurance proceeds for its financial benefit while charging GST what appears to be inflated energy prices.

Q. If the Power Supply Agreement under which GST receives service is based on incremental cost pricing, how would GST participate in the cost of KCPL's property insurance premiums?

A. As I observed earlier, GST's special contract with KCPL is only based, in part, on a "production costing model", in which the model inputs consider the"higher of present or replacement costs of fuel...[and] variable costs of purchased power." The energy charge paid by GST also includes a fixed markup on a per kWh basis. Beyond incremental energy costs (plus markup), the Power Supply Agreement also requires GST to pay a demand charge, a delivery system charge and a customer charge. The combination of the markup and the fixed charges provide GST's contribution to KCPL's fixed cost of service, including insurance premiums.

Q. Do you have an opinion as to the effect of an adverse Commission decision on KCPL's opportunity to recover the increased cost of replacement power?

A. Yes. Based on the information that I have reviewed or am aware of at the present time, it is my opinion that a Commission decision adverse to GST's request would effectively allow KCPL to double recover a portion of the increased cost of replacement power. First, KCPL would recover a portion of the higher cost of replacement through the prices charged to GST and any other similarly situated customers. Second, KCPL would recover a portion of the higher cost of replacement through collection of the insurance proceeds. I do not believe that such a double recovery mechanism should be allowed to occur. Instead, the costs charged to GST under the terms of the Power Supply Agreement should only allow KCPL to recover the "net" cost of replacement power.

OTHER OFFSETS AND CONSIDERATIONS

Q. Do you have any further comments concerning the amounts KCPL has charged to GST under the Power Supply Agreement subsequent to the Hawthorn 5 boiler explosion?

A. Yes. The "incremental cost" provision of the Power Supply Agreement between GST and KCPL also contains other pricing components beyond the cost of fuel and purchased power. In addition to the concerns about excessive costs of replacement power, I also have identified another area of potential price concerns involving provisions of the power supply contract which pertain to incremental operation and maintenance costs. As observed previously from KCPL's press release of March 2, 1999, the Company expected that its fuel and purchased power costs would increase in 1999 by approximately $25 million to $30 million. However, these increases were also expected to be offset by other cost reductions, beyond the insurance proceeds for replacement power. As noted therein, the Company also expected to realize, in 1999, reduced O&M ($11.5 million) as well as reduced Hawthorn depreciation ($1.0 million) and rail management savings ($1.0 million). It would appear that at least the reduced O&M costs would be considered within the framework of the incremental O&M cost provision of the Power Supply Agreement. However, at the present time, it is unclear whether or to what extent the amounts KCPL has charged to GST during 1999 for incremental operation and maintenance costs reflect any of these anticipated offsets.

Q. Does this conclude your direct testimony at this time?

A. Yes, it does. However, as indicated previously, I reserve the right to update and/or supplement my prefiled direct testimony following the receipt, review and evaluation of discovery responses which were submitted prior to the time this testimony was finalized.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

GST Steel Company,	)	
	)	
Complainant	)	
v.	)	
	)	Case No. EC-99-553
Kansas City Power & Light Company,	)	
	)	
Respondent	)	

AFFIDAVIT OF STEVEN C. CARVER

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Steven C. Carver, of lawful age and being duly sworn, deposes and state:

1. My name is Steven C. Carver. I am a Principal in the firm of Utilitech, Inc. testifying on behalf of GST Steel Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 22.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Steven C. Carver

Subscribed and sworn to me this 16th day November of 1999.

Notary Public

My commission expires 1-6-2002

LAURA VAN VLIET
NOTARY PUBLIC STATE OF MISSOURI
JACKSON COUNTY
MY COMMISSION EXP. JAN. 6,2002