BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of KCP&L Greater Missouri Operations Company to Implement a General Rate Increase for Retail Electric Service Provided to Customers in its Missouri Service Areas it formerly served as Aquila Network—MPS and Aquila Networks—L&P.	)))))))	Case No. ER-2009-0090

STATEMENT OF POSITION OF KCP&L GREATER MISSOURI OPERATIONS COMPANY

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Aquila, Inc., d/b/a GMO Greater Missouri Operations Company, for Approval to Make Certain Changes in its Charges for Electric Service.	))))	Case No. ER-2009-0090

STATEMENT OF POSITION OF KCP&L GREATER MISSOURI OPERATIONS COMPANY

KCP&L Greater Missouri Operations Company ("GMO" or "Company") submits this Statement of Position in accord with the Commission's *Order Setting Procedural Schedules* issued November 20, 2009.

I. STATEMENT OF THE CASE

In its first rate case since GMO (formerly Aquila, Inc.) was acquired by Great Plains Energy, GMO is requesting a rate increase to recover the cost of service in the service area formerly served by Aquila Networks-MPS ("MPS") and for the territory formerly served by Aquila Networks-L&P ("L&P"). The amount of the MPS rate increase is 14.4% or $66.0 million dollars based on test year revenue of approximately $460 million. The amount of the L&P rate increase is 13.6% or $17.1 million dollars based on test year revenue approximately $125 million. (Giles Direct at 2)

The Company is requesting a return on equity of 11.55%, based upon the testimony of Dr. Samuel Hadaway. Dr. Hadaway has utilized the same approach as in Case No. ER-2007-0004 which is based on a traditional approach to estimate the underlying cost of equity capital for a group of investment grade electric utility companies. However, he updates his analysis to account for the rapidly changing conditions in the financial markets.

Seventy percent, or about $44 million of the increase, is driven by plant additions, in particular the Crossroads Energy Center and the Sibley Unit 3 Selective Catalytic Reduction ("SCR") equipment. As a part of the Integrated Resource Planning ("IRP") process in Case No. EO-2007-0298, the Company identified a need for additional peaking capacity. Through a request for proposal ("RFP") process, Crossroads, which consists of four combustion turbines located in Mississippi, was determined to be the least cost, preferred option. (Giles Direct at 3)

The Company has also constructed the Sibley Unit 3 SCR equipment. GMO witness Terry Hedrick discusses this project in detail, including in-service criteria and cost projections. (Hedrick Direct at 2-4).

For L&P, over 100% of the increase or about $17.5 million is driven by plant additions, principally the Iatan Unit 1 Air Quality Control System ("AQCS") equipment. While other cost increases are reflected in the revenue requirement, the sum of these increases is more than offset by the merger synergy savings.

For all of the reasons discussed in the pre-filed testimony of the Company, GMO respectfully requests that the Commission adopt the Company's positions on the issues as discussed below:

II. STATEMENT OF POSITIONS ON ISSUES

A. Rate Base

1. Iatan 1 Selective Catalytic Reduction ("SCR") facility, Flue Gas Desulphurization ("FGD") unit and Baghouse (collectively "Iatan 1 Rate Base Additions"):

a. Should the Iatan 1 Rate Base Additions be included in rate base in this proceeding?

Yes. Based upon the competent and substantial evidence that will be submitted in this case, the Commission should include the prudently incurred Iatan 1 Rate Base Additions in rate base in this proceeding. This is the most critical issue to be resolved in this proceeding. Unless the

Commission includes the Iatan 1 Rate Base Additions in permanent rates in this proceeding, GMO's financial health will be jeopardized.

b. Should the Commission presume that the costs of the Iatan 1 Rate Base Additions were prudently incurred until a serious doubt has been raised as to the prudence of the investment by a party to this proceeding?

Yes. There is an initial presumption that a public utility's expenditures are prudent. However, when some other participant in the proceeding creates a "serious doubt" as to the prudence of an expenditure, then the public utility has the burden of dispelling these doubts and proving the questioned expenditure to have been prudent. In re Union Electric Company, 27 Mo.P.S.C. (N.S.) 183, 193 (1985)("*Callaway I*"); In re Kansas City Power & Light Company, 28 Mo.P.S.C. 228, 279-82 (1986)("*Wolf Creek*"). The prudence standard adopted in the *Callaway I* and *Wolf Creek* cases has been recognized and approved by reviewing courts. See State ex. rel. Associated Natural Gas Co. v. PSC, 954 S.W.2d 520, 529 (Mo. App. W.D. 1999).

The Commission interpreted the prudence standard in In re Missouri-American Water Co., Report and Order, Case No. WR-2000-281 (Mo. P.S.C., Aug. 31, 2000) as follows:

> In the context of a rate case, the parties challenging the conduct, decision, transaction or expenditures of a utility have the initial burden of showing inefficiency or improvidence, thereby defeating the presumption of prudence accorded the utility. The utility then has the burden of showing that the challenged items were prudent. Prudence is measured by the standard of reasonable care requiring due diligence, based on the circumstances that existed at the time the challenged item occurred, including what the utility management knew or should have known. In making this analysis, the Commission is mindful that the company has a lawful right to manage its own affairs and conduct its business in any way it may choose, provided that in so doing it does not injuriously affect the public.

In Re Missouri Gas Energy, *Report & Order*, Case No. GR-2003-0330, pp. 16-17, the Commission recognized that the prudence standard as set for in the *Callaway I* has been generally accepted by parties before the Commission:

> The Commission established its prudence standard in a 1985 case involving the costs incurred by Union Electric Company in constructing its Callaway nuclear plant. In determining how much of those costs were to be included in Union Electric's rate base, the Commission adopted a standard for determining the prudence of costs that had been established by the United States Court of Appeals, District of Columbia, in a 1981 case. The standard adopted by the Commission recognizes that a utility's costs are presumed to be prudently incurred, and that a utility need not demonstrate in its case-in-chief that all expenditures are prudent. "However, where some other participant in the proceeding creates a serious doubt as to the prudence of an expenditure, then the applicant has the burden of dispelling those doubts and proving the questioned expenditures to have been prudent."
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> The Commission, in the Union Electric case, further recognized that the prudence standard is not based on hindsight, but upon a reasonableness standard. The Commission cited with approval a statement of the New York Public Service Commission that:
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> > . . . the company's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company.
>
> Since its adoption, the Commission's prudence standard has been recognized by reviewing courts and has been accepted by all parties as the standard to be applied in this case. (*footnotes omitted*)

Consistent with its past rulings in the *Callaway I* and *Wolf Creek* cases, and appellate decisions addressing the prudence standard, the Commission should presume that the costs of the Iatan 1 Rate Base Additions were prudently incurred until a serious doubt has been raised as to the prudence of the investment by another party to this proceeding

c. Has a serious doubt regarding the prudence of the Iatan 1 Rate Base Additions been raised by any party in this proceeding?

No. In this case, the Commission Staff has not completed a construction audit, and has not raised any specific allegations of imprudence related to the Iatan 1 Rate Base Additions.

(Schallenberg Surrebuttal at 5; Featherstone Direct at 35; Featherstone Surrebuttal at 2-3). By suggesting that it might be appropriate for the Commission only to reflect in the Company's permanent rates the "definitive estimate", Staff witness Featherstone merely implies that the costs incurred over and above the "definitive estimate" may not have been prudently incurred. However, Staff has not made any specific allegations of imprudence and has not raised any serious doubt regarding these expenditures.

d. Should the Company's conduct be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the Company had to solve its problem prospectively rather than in reliance on hindsight? ("prudence standard")

Yes. As the Commission recognized in the *Callaway I*, *Wolf Creek*, and *MGE* decisions discussed above, the public utility's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. "In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company." *Callaway I* at 193.

In a recent AmerenUE rate case (Case No. ER-2007-0002), the Commission determined that Public Counsel did not meet its burden when it challenged the cost of a combustion turbine generator (CTG). Public Counsel in the AmerenUE rate case did not complete a construction audit. Instead the Public Counsel's economist argued that the cost in rate base should be reduced, based in part on generic cost information from 1995 and the fact that Ameren UE delayed construction due to the promise of restructuring legislation. The Commission found that an economist's speculation about political motivations and plant costs did not create a serious doubt as to the prudence of Ameren UE's expenditures on the CTG. *See* Report and Order, *Re AmerenUE*, Case No. ER-2007-002 at 69. The Commission's decision was recently upheld by

the Missouri Court of Appeals. State ex rel. Public Counsel v. PSC, 2009 WL 68124 (Mo. App. W.D., Jan.13, 2009).

e. Has GMO demonstrated that it properly managed this complex project and properly managed matters within its control?

Yes. In this proceeding, GMO does not believe that any party has raised a "serious doubt" about the prudence of these expenditures. However, GMO will present witnesses in this proceeding who will address the issues related to the Iatan 1 construction project, the legal standards that should be used to judge prudence issues, the extensive cost controls and management processes that were in place to control construction costs, the reasons for a review and re-forecast of the costs, and a host of other issues related to the management of this project.

The following KCPL witnesses will address these important subjects at length in their testimony:

1. Chris Giles, KCPL's Vice President for Regulatory Affairs, will address the Staff's "interim rates, subject to refund" recommendation, discuss the Regulatory Plan requirements, explain the extensive information that has been provided to the Staff and other Signatory Parties to the Regulatory Plan case, and explain how the Company kept the Staff and Signatory Parties updated on significant developments related to the Iatan 1 plant. He will also discuss the current Control Budget Estimate, the Project Cost Reforecast that occurred in late 2007 and mid-2008, and how the Company's team identified and controlled the risks associated with this project. (Giles Rebuttal at 1-10)
2. Brent Davis, the Iatan Unit 1 Project Director, provides an overview of the Iatan 1 air quality control systems, the in-service criteria for the project; explains how the anticipated costs to complete the projects compares to the initial control budget

estimate, and identifies the portion of the Iatan 1/ Iatan 2 common facilities that should be included in rates in this case because they are necessary for the operation of Iatan 1. In addition, he explains what steps that KCP&L's management have taken to ensure that the costs incurred are reasonable and prudent. In particular, his rebuttal testimony (i) describes the changes to the schedule for the fall 2008 outage at the Iatan Unit 1 and the reasons for those changes; (ii) describes the latent conditon with the existing Iatan Unit 1 economizer casing that was discovered during the unit 1 Outage and its resulting impact; and (iii) describes the issues with the Iatan Unit 1 turbine generator that have impacted Iatan Unit 1's return to service. (Davis Direct at 3-5; Davis Rebuttal at 1-18)

GMO believes that the evidence will show that KCPL has prudently managed the construction associated with the Iatan 1 Rate Base Additions. Based upon this competent and substantial evidence, the Commission should find that the Company has demonstrated that it properly managed this complex project and properly managed matters within its control.

f. Should the costs of the Iatan 1 Rate Base Additions that exceed the "definitive estimate" be included in rate base on an interim subject to refund basis?

No. GMO contends that the Commission has an affirmative obligation to address the prudence of the Company's investment at Iatan 1 in this case because Missouri law requires that "all relevant factors" be considered in a rate case.[1] The air quality control system ("AQCS") equipment that has been added to Iatan 1 is the principal plant addition in these cases. There can be no doubt that reflection of those costs in the Company's rates is a "relevant factor."

[1] *See, UCCM*, at 56-57; *State ex rel. Missouri Public Serv. Comm'n v. Fraas*, 627 S.W.2d 882, 886 (Mo. App. 1982); *State ex rel. Valley Sewage Co. v. Public Serv. Comm'n*, 515 S.W.2d 845, 850 (Mo. App. 1974). *See also Section* 393.270(4).

A Definitive Estimate is generally recognized in the industry as an estimate that is based upon a design that has progressed to the point that there is little or no ambiguity in that design. Mr. Meyer explains in detail what a Definitive Estimate is typically based upon. (Meyer Rebuttal at 9-11)

An "indicative estimate" as this term was used by KCP&L, was intended to be a very rough cost projection used for budget and planning purposes when a project is in the early stages of concept development. Within the industry, developing an indicative estimate is a necessary first step in the development of a reliable control estimate. KCP&L was developing an "indicative estimate" during the first and second quarters of 2006. This indicative estimate is classified by industry standards as a Class 4 estimate which is based on limited information and subsequently have fairly wide accuracy ranges. (Meyer Rebuttal at 5-6) Staff's "definitive estimate" is in reality a "indicative estimate" which has an accuracy level of between -30% to +50%. It should not be used for cost comparison purposes in this proceeding.

On April 25, 2008, the KCP&L project team presented its breakdown of the reforecasted budget to the Executive Oversight Committee ("EOC") and to KCP&L's Chairman. After the reforecast process was completed, the total reforecasted amount for Iatan 1 was approximately $484 million, excluding AFUDC. This number represents the entire construction cost, without regard to KCP&L's or GMO's ownership percentage or jurisdiction. In the opinion of Mr. Meyer, this was a Class 1 estimate, and should be more properly considered to be the "Definitive Estimate" as that term is used and understood in the industry, and should be within a range of -10% to +15%.

As explained by the various KCP&L witnesses, the main changes between the original Control Budge Estimate and the reforecasted Control Budget Estimate were due to (1) design maturation; (2) pricing changes; and (3) plant optimization. (Meyer Rebuttal at 21-22)

Based upon the Control Budget Estimate of $484 Million, as reforecast in May of 2008, KCP&L and GMO believe that Iatan 1 will be within budget at the conclusion of the Iatan 1 Project.

g. Does the Commission have the authority to designate a portion of the rates "interim rates, subject to refund" if the Company has not voluntarily agreed to do so?

No. An interim rate increase may be requested by a utility where an emergency need exists. See Section 393.150 RSMo.; State ex rel. Utility Consumers Council of Missouri Inc. v. PSC, 585 S.W.2d 41, 47 (1979)("UCCM"); State ex rel. Laclede Gas Co. v. Public Serv. Comm'n, 535 S.W.2d 561 568 (Mo. App. 1976). KCP&L believes that Staff witness Featherstone's recommendation (Featherstone Direct at 33) that the Commission should to order that a portion of the Company's rates be designated "interim subject to refund" is unprecedented, unreasonable and unlawful.

Staff's recommendation is contrary to Missouri law in that KCP&L did not request interim rates and no showing of emergency need has been made by Staff or any other party. *Laclede* at 568 (Mo. App. 1976) Moreover, the Commission has indicated that its discretionary authority to grant interim relief is based upon its finding that there is a threat to safe and adequate service or the financial integrity of the utility.[2] In Case No. ER-81-42, *In re Kansas City Power & Light Co.* (Mo. P.S.C., 1980), the Commission interpreted the *Laclede* case and determined that the appropriate method for filing a request for interim rate relief is the filing of interim tariffs, as a separate case, under the file and suspend method. The Commission noted that an interim rate proceeding under any other method would be of "very doubtful effectiveness" and rejected KCP&L's interim rate relief request because it did not make a proper tariff filing, *i.e.*,

[2] *See* Case No. WR-92-881, *In re Raytown Water Co.* (Mo. P.S.C., 1991).

the interim tariffs at issue had no effective date and were not filed under a separate docket number separate from the permanent rate case. The Commission also held that properly filed interim tariffs should be accompanied by affidavits or suggestions setting forth the changed circumstances or conditions which the public utility alleges justify the interim rates.

GMO questions whether it is lawful for the Commission to impose interim rates subject to refund under any circumstance without the agreement of the public utility, but it is undoubtedly unlawful to do so under these circumstances. The Commission concluded in its 1993 decision to adopt an alternative regulation plan for Southwestern Bell Telephone Company that included customer credits if specified earnings thresholds were exceeded, that the Commission did not have the authority to order credits without the agreement of the company. ("The Commission could not order the credits, but it believes that SWB may agree to make the credits as part of its acceptance of an alternative regulation plan..." Report & Order, Staff v. Southwestern Bell Telephone Co., Case No. TC-93-224 & TO-93-192, 2 Mo.P.S.C.3d 479, 585 (December 17, 1993). Similarly, the commodity rates for natural gas are routinely made "interim subject to refund", but only after the natural gas companies have voluntarily filed PGA/ACA tariffs under which the public utilities have agreed to make their PGA rates "interim and subject to refund" pending an ACA audit.

Any refund ordered in a subsequent rate case would require a finding that the rates resulting from GMO's currently pending rate case were not "just and reasonable". Such a finding and refund order is the very definition of retroactive ratemaking. Under Missouri law, the Commission may consider past excess recovery insofar as it is relevant to the Commission's determination of what rate is necessary to provide a just and reasonable return in the future and

avoid any further excess recovery.[3] However, the Commission cannot re-determine rates already established and paid without depriving the utility of its property without due process.[4]

h. Should the Commission adopt the in-service criteria proposed by KCP&L and Staff for the Iatan 1 Rate Base Additions?

Yes. As part of the Regulatory Plan Stipulation, KCP&L, Staff and OPC agreed to develop in-service criteria for the AQCS equipment to be installed on KCP&L's existing coal-fired generating units. In 2007, KCP&L installed an SCR on its LaCygne Generating Station ("LaCygne 1"). The LaCygne 1 SCR satisfied that criterion and was included in KCP&L rates as part of its 2007 rate case (Case No. ER-2007-0291). In the KCP&L rate case, KCP&L and Staff in consultation with OPC, have reached an agreement concerning the in-service criteria for the Iatan 1 AQCS equipment.

Based on the in-service criteria, the Company has to complete construction to a level that permits the operation of the equipment, successfully complete preoperational tests and achieve the emissions standards and monitoring outlined in the in-service criteria document attached to Davis Direct, Schedule BCD-2 filed in the KCP&L rate case. Upon completion of successful testing, the equipment will be "fully operational and used for service" and meet the requirements of Section 393.135 RSMo.

i. Have the Iatan Rate Base Additions met the in-service criteria (True-Up issue)?

KCP&L and GMO believe that the Iatan 1 Rate Base Additions will meet the in-service

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3 *See, State ex rel. General Tel. Co. v. Public Serv. Comm'n*, 537 S.W.2d 655 (Mo. App 1976).

4 *See, UCCM* at 58. *See also Lightfoot v. City of Springfield*, 236 S.W.2d 348, 353 (Mo. 1951).

criteria agreed to between KCP&L, Staff, and in consultation with Public Counsel, by the end of April, 2009. The completion of the in-service criteria is expected to be confirmed by Company and Staff experts during the KCP&L True-Up Proceeding.

2. Iatan Common Costs:

a. Should a portion of the Iatan Project Common Costs be included in rate base in this proceeding?

Yes. There will be a portion of the true-up proceeding that will involve a substantial investment in the Common Plant associated with both Iatan 1 and Iatan 2. The Common Plant will include: (1) facilities or structures that will be shared by both Units, including the chimney; (2) facilities that will provide operational redundancy, including portions of the reagent preparation building utilized for preparation of limestone slurry for Iatan 1 operations and start-up, though ultimately utilized to process the slurry produced by both Iatan units; (3) facilities or structures consisting of a structure that will ultimately house equipment used for both Iatan units, including the recycle pump building. These facilities are needed for the operation of Iatan 1 and will be needed for the eventual operation of Iatan 2.

b. If so, what is the appropriate amount of Iatan Project Common Costs to be included in rate base in this proceeding?

The total cost of these facilities and GMO's appropriate share of these costs will be addressed in the True-Up Proceeding.

c. Should a regulatory asset be established to defer carrying cost and depreciation expense associated with the Iatan 1 AQCS and identified Iatan common facilities costs appropriately recorded to Electric Plant in Service that are not included in rate base in the current rate case?

Yes. A regulatory asset be established to defer carrying cost and depreciation expense associated with the Iatan 1 AQCS and identified Iatan common facilities costs appropriately recorded to Electric Plant in Service that are not included in rate base in the current rate case. GMO witness John Weisensee will address this issue.

3. Sibley 3 and Jeffrey Energy Center (collectively "Sibley and Jeffrey Rate Base Additions") (MPS only):

a. Should the Sibley and Jeffrey Rate Base Additions be included in rate base in this proceeding?

Yes. Based upon the competent and substantial evidence that will be submitted in this case, the Commission should include the prudently incurred costs related to the Sibley and Jeffrey Rate Base Additions in rate base in this proceeding. Unless the Commission includes the costs of the Sibley and Jeffrey Rate Base Additions as well as the Iatan Rate Base Additions in permanent rates in this proceeding, GMO's financial health will be jeopardized. (Giles Direct at 3-4; Giles Rebuttal at 1-10; Hedrick Direct at 2-4; Hedrick Rebuttal at 1-5)

b. Should the Commission presume that the costs of the Sibley and Jeffrey Rate Base Additions were prudently incurred until a serious doubt has been raised as to the prudence of the investment by a party to this proceeding?

Yes. See discussion in 2 b. above.

c. Has a serious doubt regarding the prudence of the Sibley and Jeffrey Rate Base Additions been raised by any party in this proceeding?

No. No party has raised any serious doubt regarding the prudence of the Sibley and Jeffrey Rate Base Additions. (Giles Rebuttal at 10)

d. Should the Company's conduct be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the Company had to solve its problem prospectively rather than in reliance on hindsight? ("prudence standard")

Yes. See discussion in 2 d. above.

e. Has GMO demonstrated that it properly managed these complex projects and properly managed matters within its control?

Yes. (Giles Direct at 3-4; Giles Rebuttal at 1-10; Hedrick Direct at 2-4; Hedrick Rebuttal at 1-5; Crawford Direct at 11-15)

f. Should the costs of the Sibley and Jeffrey Rate Base Additions that exceed GMO's "definitive estimate" be included in rate base, on an interim subject to refund basis?

No. See discussion in 2 f. above

g. Does the Commission have the authority to designate a portion of the rates "interim rates, subject to refund" if the Company has not voluntarily agreed to do so?

No. See discussion in 2 g. above.

4. Crossroads (MPS only):

a. Should Crossroads be included in rate base at depreciated net book value in this proceeding?

Yes. In March 2007, the Company issued an RFP for supply resources. GMO received both long term and short term proposals representing a variety of third party suppliers and fuel sources. Crossroads was also bid into the RFP. GMO then conducted a 20 year analysis to determine a preferred resource plan. The analysis showed that Crossroads would result in the lowest 20 year cost, including the cost of the transmission service. Crossroads has met the Staff's in-service requirements and is currently providing service to customers.

b. What is the appropriate valuation of Crossroads?

Crossroads should be included in rate base at the depreciated net book value which is the approximate price at which it was bid into the RFP. Operating costs have also been included based

on current costs. While a lower value was reported in certain GPE financial documents related to the acquisition of Aquila, this valuation was not for an operational facility but represented the salvage value of the Crossroads turbines. Therefore, this valuation is not appropriate for ratemaking purposes.

c. If Crossroads is included in rate base, should the accumulated deferred taxes associated with Crossroads be used as an offset to rate base?

No. An offset to rate base to reflect accumulated deferred taxes is not appropriate in this case because ratepayers never funded the tax deferrals when Crossroads was owned by a non-regulated subsidiary.

d. Was a variance from the Commission's Affiliated Transaction Rule required to move Crossroads into GMO's rate base?

No. As required by the rule, GMO obtained competitive bids to determine the fair market value of long-term capacity and energy and GMO documented the cost to provide the long-term capacity and energy for itself. GMO's analysis showed that the cost of acquiring Crossroads was less than the fair market value of available alternatives from competitive sources and less than the cost of GMO providing the capacity and energy for itself.

e. Should the Commission reflect any transmission cost savings to the Company resulting in its future participation in SPP as a network service customer related to the Crossroads plant?

The Company started taking network integration transmission service on April 15. The Company will address this issue in the true-up filing.

5. South Harper/Phantom Turbines (MPS only):

a. Should the GMO cost of service include the 2007 test year costs of the existing 3 combustion turbines at South Harper, the hypothetical costs for 2 additional non-existing combustion turbines at South Harper, and the capacity costs of a generic 100 MW Purchase Power Agreement to simulate capacity planning decisions that Staff believes should have been made by Aquila in 2005?

No. In 2004, the Company selected its preferred resource plan (construction of three combustion turbines (CT)and purchase power agreements (PPA) that included some level of base load capacity) over a lower cost plan (construction of five CTs). This decision to utilize the preferred plan was prudent in that it reduced the Company's dependence on any one fuel source and ensured the additional capacity included some baseload supply. The Company completed the three CTs in the summer of 2005 and entered into a long term base 75 MW load contract for a portion of its resource needs. This long term contract has benefited provided ratepayers with low cost energy.

Staff contends that the 2004 decision by the Company was imprudent because GMO did not choose the 5 CT option. Staff's phantom turbines and hypothetical purchase power agreement are based on the faulty premise that a utility must choose the least cost alternative without assessing future risk under a variety of future scenarios. The Company's 2004 preferred plan reduced the risks associated with natural gas prices. In addition, Staff underestimates the cost of the phantom turbines and hypothetical purchase power agreement.

b. Should the existing 3 combustion turbines at South Harper be included in GMO's cost of service, as advocated by GMO?

Yes, the units are currently providing service to GMO customers.

c. Should the Commission utilize the power and asset sales offers by Dogwood in response to KCPL GMO's 2008 RFP instead of adopting Staff's phantom turbine proposal?

No. Dogwood's RFP response did not provide a better alternative to the selection of Crossroads for supplying GMO's resource needs. GMO properly selected Crossroads to meet its resource needs.

6. Southwest Power Pool Transmission (MPS and L&P): Should the Commission reflect any transmission cost savings to the Company resulting in its future participation in SPP as a network service customer?

The Company started taking network integration transmission service on April 15. The Company will address this issue in the true-up filing.

7. Cash Working Capital—Imputed AR Program in Lead Lag Study (MPS and L&P): Should the Commission impute a hypothetical accounts receivable program in the Cash Working Capital calculation?

No. The Company is not participating in an accounts receivable sale program. The Staff's hypothetical accounts receivable program adjustment does not reflect the day-to-day operations of the Company.

8. Accumulated Depreciation (MPS and L&P):

a. Should the imputation of a depreciation accrual of approximately $4.2 million be added back to accumulated depreciation for ECORP common asset accounts that had become fully depreciated?

No. These accounts had become fully depreciated. The depreciation rate was set to zero in order not to over accrue the depreciation reserve. GMO's treatment was reasonable and appropriate.

b. Was the accounting for common plant retirements on the ECORP business appropriate?

The Company has followed the retirement of electric plant process as described in the Code of Federal Regulations by charging the book cost of the retirement unit against the accumulated

reserve. The accounting is neither an acquisition detriment nor inconsistent with the Code of Federal Regulations.

COST OF CAPITAL

1. Return on Common Equity (MPS and L&P): What return on common equity should be used for determining GMO's rate of return?

The Company's outside expert witness, Dr. Samuel C. Hadaway, recommends that the Commission set the return on equity (ROE) at 11.55%. He presented this revised ROE recommendation in his March 13, 2009 Rebuttal Testimony, having previously recommended in his September, 2008 Direct Testimony that the ROE be set at 10.75%, the same rate that the Commission set in 2007. However, the current economic crisis has clearly made last fall's recommendation not reasonable.

In the past few months corporate borrowing costs have increased dramatically. Corporate lenders now require higher, not lower, rates. Corporate interest rate "spreads" (the difference between corporate borrowing costs and rates on U.S. Treasury bonds) remain almost three times as large as they were before the credit crisis began. Similarly, there has been a dramatic increase in the spread between public utility bond yields and long-term Treasury yields, illustrating the significantly higher borrowing costs for corporations. See Hadaway Rebuttal at 3-7. Specific examples of increases in the cost of debt for KCP&L, GMO's sister company, are set forth in the Rebuttal Testimony of Michael W. Cline, the Treasurer of GMO's owner Great Plains Energy Inc. (GPE) at pages 3-5.

Consequently, there is no question that the economic and financial uncertainties generated by the credit crisis have significantly increased the risk premiums contained in public utilities' cost of capital. Dr. Hadaway's mid-point ROE recommendation of 11.55% (based on a Discounted Cash Flow range of 11.2% to 11.9%) is confirmed by his Risk Premium Analysis.

Based on projected Triple-B utility interest rates for 2009, the Risk Premium Analysis indicates an ROE of 11.14%. An analysis of the most recent three month's average Triple-B rates leads to a risk premium ROE of 11.56%. See Hadaway Rebuttal at 20-21. Consequently, Dr. Hadaway's ROE opinion of 11.55% is the only reasonable recommendation before the Commission.

The other recommendations provided to the Commission are those of Staff's David Murray (9.75%, based on a range of 9.25% to 10.25%) and OPC's Michael Gorman (10.3%). They fail to reflect the current economic crisis and the effect that it has had on the financial and credit markets. Acceptance of either of their recommendations would severely and negatively affect the ability of GMO to finance its operations as it continues with its infrastructure projects related to clean air environmental retrofits and a new super-critical advanced coal plant, Iatan 2.

2. Capital Structure (MPS and L&P): What capital structure should be used for determining GMO's rate of return?

The Company recommends the following capital structure, based upon the actual GPE capital structure as of September 30, 2008, to be trued-up as of April 30, 2009, and accepting Staff's exclusion of preferred stock:

GMO Proposed Capital Structure:

Debt	48.76%
Common Equity	51.24%
Total	100.00%

See S. Hadaway Rebuttal at 22; M. Cline Rebuttal at 6-7.

3. Cost of Debt (MPS and L&P): What cost of debt should be used for determining GMO's rate of return?

This capital structure should include a cost of debt of 6.70% for GMO's Missouri Public Service (MPS) rate base and 7.76% of GMO's St. Joseph Light & Power (SJLP) rate base. See

M. Cline Rebuttal at 7. This would be consistent with the approach taken by GMO's predecessor Aquila, Inc. in its last rate, which was accepted by Staff.

Staff's new recommendation of a hypothetical debt structure based on the embedded cost of long-term debt of another utility (Empire District Electric Co.) is unnecessary and not reasonable. Given the data available on GMO's actual debt structure, Staff's proposal should be rejected. See M. Cline Rebuttal at 8-11.

EXPENSES

1. Short-term Incentive Compensation (MPS and L&P): Should the costs of short-term incentive compensation plans be included in cost of service for setting GMO's rates?

Yes. The use of short term incentive compensation benefits both shareholders and customers. The use of Earning per Share (EPS) in the incentive plans is appropriate as this is a principal indicator of performance for investor owned companies. Because GMO is a regulated public utility, the organization is committed to its responsibility to achieve EPS through the provision of efficient, clean, safe and affordable electricity. Therefore, EPS is an important measuring tool for performance and productivity in areas related to product and service delivery. Furthermore, the Company's incentive plans are based upon individual performance factors relating to each company's specific responsibilities and contributions to achieving divisional and overall performance objections.

Customers benefit when the Company is strong financially as the Company is able to raise the capital it needs. A solid financial foundations means the Company receives more favorable rates on capital, reducing the overall costs that ultimately get charged to customers. GMO believes that incentive compensation that is based on financial goals is appropriate because a financially strong company provides a direct benefit to all stakeholders including

employees, customers, shareholders and the community in which it operates. All employees are now KCP&L employees and the GMO operations will receive an allocated share of the short-term incentive cost and should be able to recover these costs in rate proceedings.

2. Supplemental Executive Retirement Pension (SERP) Costs (L&P only): Should the costs of the SERP be included in cost of service for purposes of setting rates?

Yes. The SERP payments for L&P should be included in the cost of serivce for the purpose of setting rates. The Company has included an amount in cost of service equal to the amount paid out during the test year. This is consistent wit the approach used in the MPS jurisdiction and accepted by Staff.

3. Payroll Overtime (MPS and L&P): What level of payroll overtime should be included in cost of service for purposes of setting rates?

Staff's method for computing overtime costs used a three year average of overtime dollars but did not express the 2005 and 2006 years in 2007 equivalent dollars. The Company believes the overtime costs should be calculated using equivalent 2007 dollars by applying adders to the 2005 and 2006 years.

4. Fuel & Purchased Power Expense (MPS and L&P): What level of fuel and purchased power expense should be included in cost of service for purpose of setting rates?

Staff recommends using a 24-onth weighted average of GMO's actual commodity cost of natural gas as the natural gas price in the cost of fuel. Using a "flat-lined" price of natural gas with a spot price for electricity that varies by month will cause production cost models to consistently understate the Company's cost of purchased power and fuel. GMO contends that it is more appropriate to use prices that reflect the volatility in the natural gas markets. (Blunk Rebuttal at 2-5)

5. Off-System Sales Margins (MPS and L&P): Should non-asset-based off-system sales (also referred to as "Q Sales") be treated as a below-the-line item, or should these Q Sales be included in the revenue requirement in this case?

Q Sales are not off-system sales, should not be included in the revenue requirement in this case as part of GMO's off-system sales margins, and are properly treated as a "below-the-line" item.

Q Sales are not generated by the Company's rate-base assets because they occur as a result of transactions that originate in non-Company systems, where GMO only serves as a conduit. See T. Rush Surrebuttal at 3. As such, there are no costs that "support" these sales.

The position taken by Industrials' Greg Meyer in his Rebuttal at 3, and indirectly by Staff's V. William Harris and OPC's Ryan Kind, should be rejected as they misperceive the nature of Q Sales which are not off-system sales.

6. Property Tax Expense (L&P only): Should property taxes in the amount of $126,425 assessed on the new Air Quality Control System ("AQCS") at the Iatan 1 generating station be excluded from the annualized property taxes expenses in this proceeding?

No. While the Company agrees with Staff that annualized property tax expense in this rate case should be based on 2008 actual costs, Staff has improperly excluded from these costs a component of 2008 property tax cost, specifically, property taxes in the amount of $126,425 (GMO-L&P's share) assessed on the new AQCS at the Iatan 1 generating station.

7. Cost of Removal (MPS and L&P): How should previously flowed through tax benefits related to cost of removal deductions be recovered?

Since 1971, the Company has flowed-through to ratepayers the tax benefits of its cost of removal related to pre-1981 property. As a result of this flow-through, GMO has a regulatory

asset recorded on its balance sheet for the future recover of these cumulative tax benefits. GMO requests a 20 year amortization of the tax regulatory asset.

8. Prepaid Pensions (MPS only):

a. Should Public Counsel's proposal to include MPS' prepaid pension balance at the effective date of the tariffs in rate base be adopted?

b. Should the amount included in rate base in a. above be amortized over the period between the current case effective date of tariffs and the expected effective date of tariffs for the Company's next general rate case?

No. Public Counsel witness Robertson's proposal should not be adopted. He is recommending that the true-up date in this rate case filing be ignored and that the prepaid pension balance at the effective date of the tariffs for this rate case filing be used and included in rate base. In addition, he is requesting that the balance included in rate base be amortized over a 3 year period approximating the time that the next GMO rate case will be filed.

Instead, the Commission should adopt the Company's proposal to include the unamortized portion of its prepaid pension balance for MPS as of March 31, 2009 in its rate base calculation. In addition, the amount of the prepaid amortization that was agreed to in the last 3 rate cases, ER-2004-0034, ER-2005-0436 and ER-2007-0004, should be included. (Klote Rebuttal at 14)

9. Rate Case Expense (MPS and L&P): What level of rate case expense should be included in the rate case proceeding?

Yes. Without any suggestion or indication that such costs were not prudently incurred, OPC witness Russell Trippensee recommends that the Commission not allow the Company to recover any of its rate case expenses. OPC's recommendation is premised on the overly simplistic assumption that rate cases only benefit shareholders, and therefore, a utility's customers should not be required to bear any portion of those costs. The Company disagrees.

As a regulated utility subject to the Commission's jurisdiction, GMO is only permitted to charge its customers rates that the Commission has deemed to be just and reasonable. A rate case is the primary mechanism for making that determination. Customers benefit from the Commission determining that their utility's rates are just and reasonable. It is also important to note that the premise of OPC's recommendation, that rate increases always result in additional earnings for the Company's shareholders, is not accurate. The Commission should reject OPC's proposal to change the long-standing Commission policy of permitted utilities to recover in their rates prudently incurred rate case expenses, as a cost of business inherent to a regulated entity. Consistent with the ratemaking treatment of the Company's other expenses GMO should be permitted to recover in rates the full amount of its prudently incurred rate case expense. However, GMO agrees with past Commission practice that the Company's recovery of rate case expenses should be recovered over some period of time through an amortization of those costs. In this instance, the Company believes that amortizing its rate case expenses over a 2-year period is appropriate. Such an amortization is consistent with the Commission's handling of the Company's rate case expenses in its recent rate cases.

10. Merger Transition Costs (MPS and L&P): What is the appropriate amount of merger transition costs to include in rates in this case?

The appropriate amount of merger transition costs is $3,687,140 for GMO (MPS) and $1,048,420 for GMO (SJLP). This adjustment is set forth in Schedule DRI-1, attached to the Direct Testimony of Company witness Darrin R. Ives. This amount is subject to true-up to reflect the amortization of the amount of the actual transition costs incurred through the true-up date.

The reasons supporting this figure are stated in Mr. Ives' Direct and Rebuttal Testimony, which explain in detail the process used to track transition costs and their recovery, as permitted

by the Commission's decision in the Report and Order approving the acquisition of Aquila, Inc. by GPE ("Merger Order"). The Merger Order authorized KCP&L and Aquila (now GMO) to recover transition costs through a method of deferral and recovery over five years, as long as synergy savings exceeded the amount of amortized transition costs. See Merger Order at 241 & n. 930. The synergy savings tracking process that the Company has employed, based upon a 2006 baseline, has measured synergies for 2008, the year of Aquila's acquisition (known as Phase 1), and for 2009 going forward (known as Phase 2).

The recommendation of the Staff Report at pages 153-61 (as later repeated in the C.R. Hyneman Rebuttal and Surrebuttal) that regulatory lag be utilized to recover synergy savings should be rejected as it is clearly contrary to the Merger Order.

11. Bad Debt Expense (MPS and L&P): What is the appropriate level of bad debt expense to be included in cost of service for purpose of setting rates?

The Company requests that the bad debt expense ratio be applied not only to weather normalized and customer annualized test year revenues, but also applied to the revenue requirement increase granted in this case. The revenue requirement result from this case will produce an increase in test year revenue and it is reasonable to expect that bad debt expense will increase as a result. This treatment is consistent with past Commission rulings.

DEPRECIATION/GENERAL PLANT:

1. Depreciation Rates (MPS and L&P)**:** Should the Staff's proposed reduction in depreciation rates be adopted?

No. The depreciation rates recommended by Staff should not be used in this rate case filing. The Company recommends using the depreciation rates that were approved in GMO-Electric's prior rate case, Case No. ER-2007-0004. It is anticipated that associated with the completion of the significant capital project of the building of Iatan 2 Coal fired generation

facility, there will be a system wide depreciation study conducted on all KCP&L and GMO assets. Depreciation rates from this comprehensive system wide study should be used as the basis for computing depreciation expense on a going forward basis. (Klote Rebuttal at 2-3)

For substantive concerns regarding the Staff's depreciation proposal, see the Rebuttal Testimony of Dr. Ronald E. White. (White Rebuttal at 1-18)

RATE DESIGN

1. Allocations Among Customer Classes (MPS and L&P): How should the rate increase be allocated among the various customer classes?

a. Should the Company's proposal to allocate the rate increase on an equal percentage for the non-fuel portion of the increase, and rebase the fuel costs to equal the expected costs for the test period, be adopted?

Yes. The Company's proposal fairly recognizes the primary cost drivers for the Company in this case: (i) the Company's capital expenditures associated with the addition of air quality control system ("AQCS") equipment on its major coal-fired units at Iatan 1, Sibley 3, and the Jeffrey Energy Center and (ii) fuel cost, purchased power cost, and off-system sales margins. These drivers are primarily energy related. The coal units at Iatan 1, Sibley 3, and the Jeffrey Energy Center are base load plants. The AQCS equipment is necessary for the plants to continue to run as base load plants. Consequently, the cost of the facility should be recovered in a manner that reflects recovery from all rate components. The fuel cost, purchased power cost, and off-system sales margins, on the other hand, should be included in the rebase amount prior to the percentage increase. Therefore, all rate components would equally share in the rate increase by an equal percentage increase after the fuel components are rebased.

b. Should Staff's proposal to increase the rates on an equal percentage basis be adopted?

No. Staff's position does not recognize the fuel cost re-base in its rate design and therefore should be dismissed. The rate design ultimately adopted by the Commission should

reflect the Company's primary cost drivers, as accomplished by the Company's request, as described above.

c. Should the Industrials' proposal that the fuel costs be re-based to reflect the overall fuel costs, purchased power and off-system sales, with the non-fuel increase being applied to the non-fuel portion of the existing rates, be adopted?

No. As described above, the Company's proposal more fairly recognizes the primary cost drivers for the Company in this case: (i) the Company's capital expenditures associated with the addition of AQCS equipment on its coal-fired units and (ii) fuel cost, purchased power cost, and off-system sales margins.

2. Timing of Future Class Cost of Service Study (MPS and L&P): Should the Commission order GMO to perform a Class Cost of Service Study as a part of the next rate case or after the next rate case?

The Commission should direct GMO to perform a Class Cost of Service Study after the upcoming Iatan 2 rate case. Getting the class cost of service and the resulting rate design correct is extremely important. It is also very complex and could conceivably take longer than the 11 months provided by statute to complete a rate case. The complexity of the upcoming Iatan 2 case presents another reason not to include a comprehensive class cost of service in that case. For these reasons, the Commission should direct GMO to perform a Class Cost of Service Study after the upcoming Iatan 2 rate case.

FUEL ADJUSTMENT CLAUSE

1. Expense and Revenue Components (MPS and L&P): What expense and revenue components should be included in the Fuel Adjustment Clause?

The following expense and revenue components should be included in the Company's Fuel Adjustment Clause ("FAC"): the Company's allocated Missouri Jurisdictional costs for the

fuel component of the Company's generating units, including costs associated with the Company's fuel hedging program; purchased power energy charges, including applicable transmission fees; Southwest Power Pool (SPP) costs and emission allowance costs – all as incurred during the Accumulation Period. These costs will be offset by the off-system sales revenues and costs and any emission allowance revenues collected during the Accumulation Period. The Company believes that it is in agreement with Staff concerning this issue.

2. Q Sales (MPS and L&P): Should revenues and expenses associated with Q sales be included in the Fuel Adjustment Clause?

No. The rationale for crediting off-system sales margins derived from the sale of energy generated by the Company's generating assets does not apply to Q sales. The rationale for crediting margins for sales from the Company's facilities is that the customers paid for the generating plant that generated the power and should reap the benefit of any sales of that power. In the case of Q sales, margins are derived by buying power generated by another utility's assets, *e.g.*, a generation owner located in PJM, and selling it to another entity outside the Company's service territory, *e.g.*, some buyer in PJM. Such transactions have nothing to do with the Company's generation or transmission facilities. As such, there is no basis by which to claim that any margins (or losses) derived from such sales should be flowed through to the Company's customers.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand delivered, emailed or mailed, postage prepaid, this 15th day of April, 2009, to all counsel of record.

/s/ James M. Fischer
James M. Fischer