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MISSOURI PUBLIC SERVICE COMMISSION
CASE NO.: ER-2006-0314

REBUTTAL TESTIMONY

OF

SAMUEL C. HADAWAY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
September 2006

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I. Introduction

Q. Please state your name and affiliation.

A. My name is Samuel C. Hadaway. I previously filed Direct Testimony on behalf of Kansas City Power & Light Company ("KCPL" or the "Company") in this proceeding.

Q. What is the purpose of your rebuttal testimony?

A. In this rebuttal testimony, I respond to the return on equity ("ROE") and capital structure recommendations of Missouri Public Service Commission Staff ("Staff") witness Matthew J. Barnes, and the ROE recommendations of the Office of the Public Utility Counsel ("OPC") witness Richard A. Baudino, and Department of Energy ("DOE") witness J. Randall Woolridge.

Q. How is your rebuttal testimony organized?

A. Following this introduction, I offer a general overview of the parties' rate of return positions. For perspective, I compare the other parties' recommendations to the rates of return recently allowed by this Commission and other regulators around the country. This comparison shows that the other parties' recommendations are far below the mainstream of recent cost of capital findings. I also show that the other parties' recommendations are not consistent with the rising trend in long-

term interest rates that has occurred over the past twelve months or with projections for even higher interest rates in the coming year. Following these general comments, I then respond individually to the technical aspects of Mr. Barnes' and Mr. Baudino's ROE recommendations. With respect to Professor Woolridge, I will point out some relatively minor mistakes in his testimony, but generally, his recommendation is so far removed from practical capital market considerations that further academic debate in this forum seems pointless. While Professor Woolridge offers an interesting presentation of his and other scholarly research, for purposes of this proceeding, such research amounts to little more than rank speculation. The conclusion of that research--that future equity market returns will be lower than past returns--simply has not been and cannot be confirmed. In fact, such conclusions are quite similar to those drawn by equally qualified market scholars in the late 1950s and 1960s.[1]

II. Overview of Rate of Return Positions

Q. How do the parties' rate of return recommendations compare?

A. The parties' principal differences are with respect to ROE. Although Mr. Barnes recommends a slightly different capital structure, based on historical data for December 31, 2005, in this rebuttal I provide the Company's actual capital structure at June 30, 2006, which confirms the Company's requested capital structure. Other than Mr. Barnes' capital structure recommendation on behalf of

[1] *See, e.g.*, Benjamin Graham, *The Intelligent Investor*, 4th Revised Ed., 1973, pp. 33-35. In the 1959 edition, Professor Graham offered the following: "In sum, we feel compelled to express the conclusion that the present level of stock prices is a dangerous one." (p. 59). In the 1964 edition, Professor Graham further stated: "Speaking bluntly, if the 1964 price level is not too high how could we say that *any* price level is too high." (p. 63).

Staff, the other parties are in agreement with the Company's proposed capital structure.

With respect to ROE, Mr. Barnes recommends a range of 9.32 percent to 9.42 percent; Mr. Baudino recommends an ROE of 9.9 percent; and Dr. Woolridge recommends an ROE of only 9.0 percent. These lower ROEs compare to the Company's requested ROE of 11.5 percent.

Q. The difference between the Company's and the other parties' ROEs seems quite large. Why are the positions so far apart?

A. The parties' differences on ROE can be divided into four categories. First, the other parties entirely reject the Company's requested 50 basis point risk increment. Although they appear to recognize that KCPL has higher construction risk than the peer group companies, they do not agree that the Company should be compensated for this risk. Second, the other parties do not acknowledge that their ROE recommendations are well below the ROEs recently allowed by this Commission or the ROEs recently allowed by other state regulators. Third, the other parties give no real consideration to the upward trend in interest rates that has occurred over the past 12 months, or to the forecasts for even higher interest rates expected in the coming year. Finally, there is significant disagreement about the appropriate technical inputs and the weights that should be given to the alternative models. In the remainder of this rebuttal testimony, I will focus on each of these areas and show that these differences account for the large difference between the Company's and the other parties' ROE recommendations.

Q. How do the other parties' recommended ROEs compare with returns recently allowed for electric utilities by this Commission and by other state regulators?

A. The other parties' recommended ROEs are much lower than the most recent ROEs granted by this Commission and the average ROEs allowed by other state regulators. For example, in its order in Case No. ER-2004-0570, on March 10, 2005 (near the bottom of the low interest rate cycle), this Commission set the ROE for Empire District Electric Company at 11.0 percent. More recently, on August 18, 2006, the Staff of the Kansas Corporation Commission recommended an ROE of 10.55 percent for KCPL (Docket 06-KCPE-828-RTS, Pre-filed Direct Testimony of Adam H. Gatewood). I have also prepared as Schedule SCH-9 a summary of electric utility ROEs allowed by other state commissions over the past two and one-half years. The results from that Schedule are shown in the following table:

Table 1:
Authorized Electric Utility Equity Returns

	2004	2005	2006
1st Quarter	11.00%	10.51%	10.38%
2nd Quarter	10.54%	10.05%	10.69%
3rd Quarter	10.33%	10.84%	
4th Quarter	10.91%	10.75%	
Full Year	10.75%	10.54%	10.57%

Source: Regulatory Research Associates, *Regulatory Focus*, July 6, 2006, page 2.

As shown in Table 1 above, average allowed Electric Utility ROEs for 2004-2006 were 10.75 percent, 10.54 percent, and 10.57 percent, respectively. Given the increase in interest rates that has occurred over the past 12 months, these data

show that the other parties' ROE recommendations are too low. Given KCPL's large construction program and its reliance on risky off-system sales, the other parties' ROE recommendations for KCPL are less than the Company's cost of equity. Adoption of any of the other parties' proposed ROE will likely result in a decline in GPE's stock price at a time when the Company must continue to issue additional equity.

Q. How have interest rates changed during the past two years?

A. The Federal Reserve Open Market Committee has now increased the Federal Funds rate 17 times (from 1.0 percent to 5.25 percent) since mid-2004. The Prime rate charged by banks to their best customers has similarly increased from 4.0 percent in June 2004 to a current level of 8.25 percent. Although long-term interest rates were slower to move, since mid-2005, long-term utility interest rates have increased by 100 basis points. I have prepared as Schedule SCH-10 a month-by-month summary of Moody's Baa and Average Utility Interest Rates for June 2005 through June 2006. Those monthly interest rate data are summarized in the following table:

Table 2:
Long-Term Interest Rate Trends

	Baa Utility	Average Utility	Long-Term Treasury	10-Year Treasury
Month	Rates	Rates	Rates	Rates
Jun-05	5.70%	5.39%	4.35%	4.00%
Jul-05	5.81%	5.50%	4.48%	4.18%
Aug-05	5.80%	5.51%	4.53%	4.26%
Sep-05	5.83%	5.54%	4.51%	4.20%
Oct-05	6.08%	5.79%	4.74%	4.46%
Nov-05	6.19%	5.88%	4.83%	4.54%

Dec-05	6.14%	5.83%	4.73%	4.47%
Jan-06	6.06%	5.77%	4.65%	4.42%
Feb-06	6.11%	5.83%	4.73%	4.57%
Mar-06	6.26%	5.98%	4.91%	4.72%
Apr-06	6.54%	6.28%	5.22%	4.99%
May-06	6.59%	6.39%	5.35%	5.11%
Jun-06	6.61%	6.39%	5.29%	5.11%
Sources: Mergent Bond Record (Utility Rates);				
www.federalreserve.gov (Treasury Rates).				

As the data in Table 2 show, long-term interest rates paid by corporate utility borrowers and by the U.S. Government have risen by about 100 basis points during the past year. Borrowing costs for Baa rated utilities like KCPL increased from 5.70 percent to 6.61 percent during this period. Similarly, average long-term borrowing costs for all utility bond ratings have increased from their historical lows of 5.39 percent in June 2005 to 6.39 percent in June 2006. This increasing trend in long-term borrowing costs should not be ignored and should be considered explicitly in estimates of the on-going cost of equity capital.

Q. What levels of interest rates are forecast for 2007?

A. Both corporate and government interest rates are expected to rise further from present levels. I have reproduced as Schedule SCH-11 Standard & Poor's most recent economic forecast from its *Trends & Projections* publication for August 24, 2006. The summary interest rate data from that publication are presented in the following table:

Table 3:			
Standard & Poor's Interest Rate Forecast			
	Current	Average 2006E	Average 2007E
Treasury Bills	4.9%	4.9%	5.1%

10-Yr. T-Bonds	4.8%	5.0%	5.7%
30-Yr. T-Bonds	4.9%	5.1%	5.7%
Corporate Bonds	5.9%	5.9%	6.9%
Sources: www.yahoo.com Yahoo Finance (Current Rates); Standard & Poor's *Trends & Projections*, August 24, 2006, page 8 (Projected Rates).			

The data in Table 3 show that interest rates are projected to increase further during the coming year. Relative to the expected 2006 averages, rates on 10-year and 30-year Treasury bonds for 2007 are expected to increase by an additional 60 to 70 basis points. Corporate borrowing costs are forecast to increase by 100 basis points.

All these factors indicate that the other parties' rate of return positions are unreasonably low. Their positions are below rates of return approved by this Commission for other electric utilities and they are below the average ROEs allowed by other state regulators. The other parties' low ROE recommendations are also inconsistent with the increasing trend in long-term capital costs as reflected in the 100 basis point increase in long-term interest rates during the past year. Their positions also are inconsistent with projections for further interest rate increases in 2007—the first and only year new rates will be in effect. And, most importantly, none of the other parties provide any compensation for KCPL's more risky profile. Had the other parties more reasonably considered available economic data and capital market trends, as well as KCPL's larger construction and off-system sales risks, they should have recognized that their ROE recommendations are too low.

III. Rebuttal of Staff Witness Matthew J. Barnes

Q. What are your areas of disagreement with Mr. Barnes?

A. I disagree with his capital structure and ROE recommendations. I disagree with his capital structure recommendation because his historical approach is not consistent with the Company's actual capital structure as of June 30, 2006 or with the projected capital structure for September 30, 2006 that the Company has requested.

I disagree with Mr. Barnes' ROE recommendation for several reasons. Most important, his ROE estimate is deficient because he relies solely on a mechanical application of the constant growth discounted cash flow ("DCF") model. He does not review multi-stage growth versions of the model or alternative estimates of the model's required growth rate. Mr. Barnes estimates growth from only one approach (analysts' 3-to-5 year earning growth projections). Additionally, he applies the DCF model to a sample of only five companies and he rejects his own capital asset pricing model ("CAPM") checks of reasonableness for his DCF results. I will demonstrate that had Mr. Barnes more reasonably considered alternative approaches and alternative growth rates, his DCF estimates would have been considerably higher. I will also show that had Mr. Barnes included higher projected interest rates in his CAPM analysis, those results would have been even higher, further showing that his DCF-based ROE recommendation is too low. Finally, although Mr. Barnes offered a discussion of KCPL's financial condition, he gave no consideration to the Company's larger construction program relative to his comparable group utilities. All these deficiencies detract from Mr. Barnes' ROE recommendation and cause his range of ROE for KCPL to be too low.

Q. What is the basis for Mr. Barnes' proposed capital structure?

A. As I explained in my Direct Testimony, the Company's requested capital structure is based on Great Plains Energy's projected long-term capital at September 30, 2006. That capital structure is comprised of 53.81 percent equity, 1.52 percent preferred stock, and 44.67 percent long-term debt. Mr. Barnes recommends a capital structure based on Great Plains Energy's long-term capital at December 31, 2005. That capital structure was comprised of 50.94 percent common equity, 1.62 percent preferred stock, and 47.44 percent long-term debt. Mr. Barnes' historical capital structure fails to recognize the Company's efforts to strengthen its balance sheet as it prepares for its large upcoming construction program.

Q. Are there more recent actual data that support the Company's capital structure request?

A. Yes. As reported in its SEC Form 10-Q at June 30, 2006, Great Plains Energy had long-term capital consisting of 53.24 percent common equity, 1.54 percent preferred stock, and 45.22 percent long-term debt. If Mr. Barnes updates his historical capital structure approach for the most recently available data, no material difference should exist between his recommendation and the Company's request. As noted previously, OPC and DOE are in agreement with the Company's capital structure request.

Q. You mentioned that Mr. Barnes used a "comparable group" of only five companies. What is your evaluation of this approach?

A. Such a small sample size may be problematic both in terms of statistical reliability and representativeness. In terms of reliability, with such a small sample, the outcome for any one company may unduly influence the results for the whole group. If there are extreme values, or outliers, these observations may inappropriately skew the final group average. For example, in Mr. Barnes' sample of five companies, each company counts for 20 percent of the group average. In contrast, with a large sample, such as my 24-company group, each company counts for only about 4 percent.

The dividend yield data in Mr. Barnes' Schedule 17 clearly suffer from the small sample problem. In column 3 of that schedule, Mr. Barnes summarizes the projected dividend yield for his group. Four of the yield estimates are between 4.66 percent and 5.17 percent, while the yield for IDACORP is more than 100 basis points lower at only 3.67 percent. The average yield for the four companies is 4.86 percent, but when IDACORP is included, the group average falls to 4.62 percent. In his analysis, therefore, the abnormal dividend yield of one company reduces the final ROE average by almost 25 basis points (4.86% - 4.62% = 0.24%). This specific example from Mr. Barnes' actual data illustrates the statistical shortcoming of a small sample size, and that his ROE estimates may be significantly understated because he includes one company with an abnormally low dividend yield.

Q. Is Mr. Barnes' small sample of companies representative of KCPL's cost of capital?

A. No. Although Mr. Barnes says he chose his sample *"because these companies have similar electric operations that are comparable to KCP&L"* (Barnes at 15, lines 2-3), without the balance of other companies that are similar to KCPL in geographical location and diversity, size, and operating risk characteristics, the five companies he selected do not meet this objective. Mr. Barnes' group is unrepresentative because he began with too small a sample (11 companies) and ended up with four of his five finalists located in one region of the country (the West). As such, Mr. Barnes' small group is dominated by companies that have characteristics and issues that are distinctly different from those affecting KCPL.

In my analysis, I started with the entire 60-company group of electric utilities followed by Value Line. I then narrowed my group to 24, based on the bond ratings and operational characteristics discussed in my Direct Testimony. Mr. Barnes started his analysis with only the 11 companies currently included in Standard & Poor's integrated utility group. Although his additional filters for narrowing the group may not have been unreasonable, the initial S&P group was so small that most of the reasonably comparable electric utilities were already eliminated. Besides being too small from a statistical standpoint, as discussed above, Mr. Barnes ends up with a flawed sample because it is dominated by companies that are not similar to KCPL. Four of the five companies are in Value Line's West Region: Hawaiian Electric (based in Honolulu, Hawaii); IDACORP (based in Boise, Idaho); Pinnacle West (based in Phoenix, Arizona); and Puget Energy (based in Bellevue, Washington). The other company, Southern Company (based in Atlanta, Georgia), is in Value Line's East Region.

In such a small sample, Southern Company's geographic characteristics, huge size, and financial metrics dwarf KCPL. By beginning with too small a group and failing to give practical consideration to the companies' characteristics, Mr. Barnes applied his ROE analysis to a group of "comparable" companies that are not representative of KCPL's financial risks or operating characteristics. Not one of his companies is from the Central Region in which KCPL resides.

Q. What is your evaluation of Mr. Barnes' DCF growth rate analysis?

A. Mr. Barnes' growth rate analysis is also too narrow. His final growth rate range, of 4.70 percent to 4.80 percent, is based entirely on analysts' 3-5 year earnings growth rate forecasts. As I explained in my Direct Testimony, analysts' near-term earnings forecasts for electric utilities have dropped significantly in recent years. Mr. Barnes' sole reliance on these forecasts is improper because the constant growth DCF model requires a very long-term estimate of investors' growth expectations. To meet this requirement, Mr. Barnes should have considered more general, long-term economic growth forecasts like projections of growth in gross domestic product ("GDP"), as I did in my Direct Testimony. In Schedule SCH-12, I recalculate Mr. Barnes' ROE estimates taking into account long-term GDP growth. When this somewhat higher GDP growth is averaged with Mr. Barnes' analysts' growth rates, his DCF cost of equity increases by almost 100 basis points to about 10.3 percent. These results show that had Mr. Barnes more reasonably included other forms of the DCF model or other sources for his growth rate estimates, his ROE results would have been much higher.

Q. How did Mr. Barnes use the CAPM to test his final ROE recommendation?

A. Similar to his DCF approach, Mr. Barnes applied the CAPM to his five-company sample in a way that produces low ROE estimates. I will show that had Mr. Barnes included more reasonable forecasts for higher interest rates in the CAPM, he would have found a higher ROE estimate. This higher CAPM estimate of ROE should have indicated to Mr. Barnes that his DCF estimates are too low.

Q. What is the range of ROE estimates from Mr. Barnes' CAPM analysis?

A. As shown in Schedule 18 of his testimony, for his comparable company group, Mr. Barnes obtained average CAPM estimates ranging from 6.36 percent to 10.43 percent.[2] These results are based on alternative risk premium estimates and the long-term risk-free Treasury bond interest rate as of June 2006.

Q. What estimates of ROE result from Mr. Barnes' CAPM analysis when forecasted interest rates are included?

A. As shown in my Schedule SCH-11, the long-term Treasury bond rate forecasted for 2007 is 5.7 percent. When this rate is substituted for the risk-free rate in Mr. Barnes' Schedule 18, the range based on the geometric and arithmetic mean risk premiums is 9.7 percent to 11.0 percent, with a midpoint of 10.3 percent (see Schedule SCH-12, page 2). Had Mr. Barnes included forecasted interest rates in his CAPM analysis and used his CAPM results as a reasonableness check on his DCF estimates, he would have recognized that his DCF based recommendation is too low.

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[2] The low end of this range is based on a risk premium of only 1.48 percent, for 1996-2005. It is not clear why Mr. Barnes included this estimate since such a low risk premium is not consistent with other long-term experience. I do not include this estimate of risk premium in my analysis of Mr. Barnes' CAPM work.

Q. In your Direct Testimony, you recommended the inclusion of a 50-basis point increase in KCPL's ROE to compensate investors for the high degree of construction risk the Company faces. Did Mr. Barnes concur with your recommendation?

A. Mr. Barnes is silent on the critical issue of KCPL's construction risk. Over the next few years, KCPL faces a myriad of risks related to plant construction, including cost increases, delays, labor shortages, financing, and new regulations, to name but a few. As I demonstrated in Schedule SCH-1 to my Direct Testimony, this risk is significantly higher on a relative basis for KCPL than other comparable companies over the next several years. This has significant implications for KCPL's ability to attract equity capital needed to finance construction over the next few years. In competitive capital markets, if investors can get the same ROR from utilities with little or no current construction risk, why would they provide equity capital to finance KCPL's more risky capital needs? Rational investors will not. KCPL's investors must be compensated for the risks they bear. In this regard, Mr. Barnes' failure to include the Company's requested risk adjustment is unreasonable and his recommended ROR is too low.

IV. <u>Rebuttal of OPC Witness Richard A. Baudino</u>

Q. What is your general assessment of Mr. Baudino's rate of return recommendations?

A. As noted previously, Mr. Baudino and OPC agree with the Company's requested capital structure and cost rates for debt and preferred stock. Therefore, the differences between my and Mr. Baudino's rate of return recommendations stem

from our differences with respect to ROE. Mr. Baudino and I use similar, relatively large comparable company groups. However, Mr. Baudino restricts his DCF analysis to only the constant growth version of the DCF model and his growth rate estimates in the model are based only on analysts' 3-to-5 year earnings growth estimates (as shown on Schedule RAB-4, page 5). Like Mr. Barnes, had Mr. Baudino expanded his DCF analysis to include alternative versions of the DCF model and alternative approaches to estimating the model's required growth rate, his estimates would have been higher. Additionally, Mr. Baudino entirely rejects his own higher CAPM estimates of ROE. I will demonstrate below that Mr. Baudino's DCF results should have been higher. Had he considered his own CAPM estimates, he would have found a higher ROE recommendation appropriate.

Q. What does Mr. Baudino's DCF analysis show when additional growth measures are considered?

A. In my Schedule SCH-13, page 1, Panel 1, I update Mr. Baudino's Schedule RAB-4, page 5, to reflect an additional growth measure beyond the ones he used. As I explained in my Direct Testimony, projected growth in the overall U.S. economy (as reflected in GDP growth) is a historically reliable measure and an important indicator of expected long-term growth in the electric utility industry. Utilities are a fundamental sector in the economic infrastructure and the economic prospects of utility companies are directly linked to overall economic activity. As such, long-term growth expectations for utilities are closely tied to long-run economic performance as measured by the GDP growth rate.

Since the long-term growth expectations required in the DCF model cannot be measured directly, economists tend to rely on several alternatives for estimating growth. Particularly in proceedings before the Federal Energy Regulatory Commission ("FERC"), estimates of long-term growth (as opposed to analysts' five-year forecasts) have been used routinely. Such estimates have been based on long-term projected profits and more general long-term economic growth estimates. I have used projected long-term growth in GDP for this purpose. When this additional growth rate is averaged into Mr. Baudino's growth estimates, the average DCF result from Schedule RAB-4 increases from 9.89 percent to 10.46 percent. This result is slightly higher than the result that I demonstrated for Mr. Barnes' group with the expanded growth rate approach. Had Mr. Barnes and Mr. Baudino more reasonably considered alternative growth rates in their DCF analyses, their ROE estimates would have been higher.

Q. What are your specific comments on Mr. Baudino's CAPM analysis?

A. I disagree with two of Mr. Baudino's CAPM inputs and I disagree with his rejection of the CAPM as a reasonableness check for his DCF results. I will demonstrate below that Mr. Baudino's own CAPM analysis shows that his ROE recommendation is too low. Furthermore, his CAPM results would have been even higher had he not included a new source of lower Beta coefficients in his analysis or if he had based his CAPM analysis on forecasted interest rates.

Q. How do Mr. Baudino's CAPM results change if his lower First Call/Thompson Betas are removed from the analysis?

A. In my Schedule SCH-13, page 2, Panel 1, I reproduce Mr. Baudino's original CAPM results. The overall average ROE from these calculations is 10.61 percent. At the outset, this average result shows that Mr. Baudino's 9.9 percent ROE recommendation is too low. Rather than acknowledge this relationship, Mr. Baudino entirely rejected the CAPM results.

In Schedule SCH-13, page 2, Panel 2, I demonstrate the effect of the Mr. Baudino's lower First Call/Thompson ("FC/T") Betas, by eliminating those Betas from the calculations. I would note that Mr. Baudino has traditionally relied upon Value Line's somewhat higher Beta estimates in his CAPM analyses. See, e.g., Southwestern Electric Power Co., Docket No. U-232327, Subdocket A (La. P.S.C., October 2004) at page 27 (attached as Schedule SCH-13, page 3). The CAPM results, after excluding the FC/T Betas and using only the Value Line Betas, are shown in column 22 of the schedule. The average ROE estimate is 11.40 percent. Mr. Baudino's CAPM analysis using the same Value Line Betas he has used in prior cases shows further that his DCF-based ROE recommendation is too low.

In Schedule SCH-13, page 2, Panel 3, I include all of Mr. Baudino's Beta estimates, including the FC/T estimates, but I replace his historical risk-free interest rates with the Treasury bond rate projected for 2007. These results produce a CAPM average ROE estimate of 11.32 percent. Thus, under a wide range of input assumptions (including Mr. Baudino's own), the CAPM check of reasonableness shows that Mr. Baudino's recommended ROE is too low.

Q. Did Mr. Baudino address your recommendation for a 50-basis point increase in KCPL's ROE to compensate investors for the high degree of construction risk the Company faces?

A. Like Mr. Barnes, Mr. Baudino failed to acknowledge KCPL's construction risk and the need to compensate investors for that risk in order for KCPL to attract needed capital. . In this regard, Mr. Baudino's failure to include the Company's requested risk adjustment is unreasonable and his recommended ROR is too low.

V. <u>Rebuttal of DOE Witness J. Randall Woolridge</u>

Q. What is your assessment of Professor Woolridge's rate of return on equity recommendation?

A. Professor Woolridge's ROE recommendation is far below the reasonable cost of equity for KCPL. The extreme nature of his recommendation is easily seen by comparing his ROE estimate to the rates of return that this and other regulatory commissions have found appropriate. While his recommendation is technically derived from the DCF model and the CAPM, his approach to these models is colored by his personal views on future equity market returns. Based on his and other academic research, Professor Woolridge obviously believes that future equity market returns will be lower than market returns have been in the past. In a forum such as this rate case, this academic thesis cannot be proved or disproved.

Q. At page 2, lines 19-20, Professor Woolridge states: *"Long-term capital cost rates for U.S. corporations are currently at their lowest levels in more than four decades."* Is this statement correct?

A. No. As discussed previously and as shown in Schedule SCH-10, long-term utility borrowing costs have increased by 100 basis points since their lowest levels in June 2005.

Q. At pages 5-6, Professor Woolridge quotes two publications from 1999 as evidence that equity risk premiums may have declined from the 5-7 percent range (relative to U.S. Treasury bonds) and now may be expected to be in the 3-4 percent range. Are the cited 1999 publications relevant today?

A. They are much less relevant today than they were in 1999. During the stock market bubble of the 1990s, many academicians and others warned that market prices were high and correctly noted that rates of return being earned during the 1990s were not sustainable. Federal Reserve Chairman Alan Greenspan's comment about "irrational exuberance"[3] was, indeed, appropriate and prescient. Since early 2000, however, the NASDAQ market his declined by about two-thirds and other market indices have moved sideways as corporate earnings have moved up. These market corrections have led to much improved fundamental prospects for future market returns relative to the fundamentals that existed in early 2000.

Q. On pages 6 and 7 and in Exhibit JRW-2, Professor Woolridge argues that the 2003 change in dividend tax rates may have reduced the cost of equity by as much as 100 basis points. Do you agree with his assessment?

A. No. Professor Woolridge significantly overstates the effect of the tax law change. The example he provides in Exhibit JRW-2 is incorrect for two reasons. First, it is based on average *personal* tax rates for dividends, which are not at all

[3] Alan Greenspan, "The Challenge of Central Banking in a Democratic Society," before the American Enterprise Institute, December 5, 1996.

applicable to the institutions that hold the majority of utility shares. I have prepared as Schedule SCH-14 a summary of the institutional holding percentages for the electric utilities in my comparable group. The mean and median institutional percentages for the group are 53.63 percent and 55.00 percent, respectively. Because institutions such as retirement funds do not pay taxes, tax rates are not a consideration in their investment decisions or their required rates of return. Second, the capital gains rates Professor Woolridge uses in his example are well above the effective rates for either individuals or institutions.[4] Although the 2003 tax law change may have had some impact on the corporate cost of capital, Professor Woolridge's discussion of the issues is an overstatement and his example is simply incorrect.

Q. On page 8, at line 9, Professor Woolridge states that the common equity ratio for the comparable electric utility group is 46 percent and that the average earned return on common equity is 9.5 percent. Are these statistics accurate?

A. While Professor Woolridge's sources are considered reliable, his use of the data is questionable. First, the 46 percent equity ratio that he cites is not relevant to KCPL's requested capital structure. His 46 percent equity ratio includes short-term as well as long-term debt in the comparative capital structures. KCPL's requested 53.81 percent equity ratio does not include short-term debt because that debt largely finances construction work in progress, which is not included in rate

[4] The effective capital gains rate is much lower than the statutory rate because capital gains are taxed only when a qualifying security is sold. To the extent that utility shares are not as actively traded as other stocks and are held as long-term investments, the effective average capital gain rate for utilities is even lower.

base and is included in the AFUDC rate calculation. Also, the 46 percent equity ratio is for 2005 only and it is not consistent with projected improvement in the comparable companies' capital structures going forward. Professor Woolridge's focus on a 9.5 percent earned rate of return is also an understatement. On page 12 of his testimony and in Exhibit JRW-5, page 3, Professor Woolridge reports the earned rates of return for the Dow Jones Utilities ("DJU"). The data show that the DJU returns have been much higher than the 9.5 percent that Professor Woolridge reports. For 2005, the DJU earned return was 11.75 percent.

Q. Professor Woolridge summarizes his DCF analysis on page 25. Why is his DCF estimate (9.1 percent) even lower than those of the other witnesses?

A. Professor Woolridge does essentially the same kind of DCF analysis as Mr. Barnes and Mr. Baudino. He relies solely on the constant growth version of the DCF model and he ultimately uses analysts' five-year forecasts as his growth rate estimate. As I explained in my rebuttal of Messrs. Barnes and Baudino, I disagree with the sole reliance on only one version of the DCF model, and I have demonstrated that a broader based, longer-term approach to growth estimates is required. Professor Woolridge's DCF results are even lower than those of Messrs. Barnes and Baudino because his selected sources provide an even lower average growth rate (4.25 percent) than those used by either Mr. Barnes (4.7 percent to 4.8 percent) or Mr. Baudino (5.47 percent). Like Messrs. Barnes and Baudino, Professor Woolridge would have found a higher DCF estimate if he had more reasonably considered alternative versions of the DCF model and a broader approach to estimating long-term growth rates.

Q. Between pages 25 and 47, Professor Woolridge discusses inputs for his CAPM analysis. What is your opinion of his final CAPM estimate of ROE?

A. Professor Woolridge, on page 47, arrives at an 8.7 percent CAPM estimate of ROE. That estimate is comprised of a 5.25 percent risk-free rate based on Treasury securities, a Beta coefficient of 0.82 from Value Line, and a market equity risk premium of 4.16 percent based on an average of various risk-premium estimates shown in his Exhibit JRW-8, page 3. It is telling to note in that exhibit that the estimated risk premium from Professor Woolridge's own "Building Block" academic research is only 3.0 percent. If Professor Woolridge had used the typical Ibbotson data that Messrs. Barnes and Baudino applied and if he had applied a forecasted Treasury bond rate as I explained in my rebuttal of Messrs. Barnes and Baudino, his CAPM results would have been much higher. The low rate of return bias that follows from Professor Woolridge's academic research is evident throughout his analysis.

Q. On pages 47-48, Professor Woolridge says that his 9.0 percent ROE is low by historical standards but that it is justified by currently low interest rates, by the 2003 tax rate reduction on dividends and capital gains, and by a lower market equity risk premium. What is your view of Professor Woolridge's conclusions?

A. It appears that Professor Woolridge recognizes that no regulator has set an ROE as low as his in any recent major electric utility rate case. His statement about low interest rates entirely ignores the 100 basis point increase that has occurred in long-term utility borrowing costs during the past year and forecasts for even

higher interest rates in the coming year. As I explained previously, his discussion and analysis of the 2003 tax reduction is overstated and incorrect, and his beliefs about lower future market returns cannot be substantiated. In this context, Professor Woolridge's explanation of his extreme position is not well founded.

Q. On page 49, Professor Woolridge compares the 9.5 percent earned rate of return he calculated in Exhibit JRW-3 for the comparable company group to the group's average market-to book ratio of 149.5 percent. He uses this comparison to support the reasonableness his 9.0 ROE. What is your response to this analysis?

A. Professor Woolridge's comparison is potentially confusing for two reasons. First, as I explained previously, the data in Professor Woolridge's Exhibit JRW-5 show that the earned return for the Dow Jones Utilities for 2005 was 11.75 percent. An earned return of 9.5 percent is well below market expectations for most utility companies. Additionally, Professor Woolridge's comparison would make it appear that the earned rates of return are the cause for utility market-to-book ratios greater than one. This contention entirely ignores the consolidation and merger activity that has significantly impacted electric utility stock market prices in recent years. Investors know that many acquisitions have occurred and that more are expected. Furthermore, they know that significant acquisition premiums and large capital gains have been associated with the merger activity. In this environment, expectations for further mergers and knowledge of past merger prices effectively set a floor for market prices. While earnings expectations are a

part of market pricing, Professor Woolridge's contention about direct causation between utility earned rates of return and market-to-book ratios is myopic.

Q. In the remainder of his testimony, Professor Woolridge criticizes your ROE recommendation based on (1) an inflated DCF growth rate, (2) outdated and biased equity risk premium estimates, and (3) an unwarranted risk adjustment. What is your response?

A. I believe I have adequately explained on pages 29-33 of my Direct Testimony why analysts' 3-to-5 year growth projections are not the appropriate sole basis for the required very long-term growth rate in the DCF model. In this rebuttal testimony, I have also explained why I disagree with Professor Woolridge's academic approach to the equity risk premium issue. His criticism of my testimony in these areas is incorrect. With respect to the Company's requested 50 basis point risk increment, Professor Woolridge would again ignore this Commission's and other regulators' decisions in this area. As I demonstrated in Exhibit SCH-1 to my Direct Testimony, KCPL faces very large *nominal*, and extraordinarily large *relative* capital requirements compared to similar companies. Dr. Woolridge takes the position that the terms of the Stipulation and Agreement approved by the Commission in Case No. EO-2005-0329 setting forth an agreed-upon Resource Plan (the "Stipulation") somehow mitigate the immense risk the scale and scope of this project represent to KCPL. While the Company and many of the other parties were indeed signatories to the Stipulation , it did not limit any party's ability in this case or any future rate case to challenge the prudence of KCPL's expenditures or to disagree with KCPL's assessment of its rate base or

cost of service. I understand that nothing in the Stipulation limits the rights of a non-signatory party to take any position on an issue. Similarly, I understand that nothing in the Stipulation restricts the ability of the Commission to make a finding of fact or conclusion of law on any issue. Therefore, neither the Stipulation nor the process that led to its negotiation and approval has eliminated the financing, construction, and ultimate regulatory risks that the Company faces. Capital market participants recognize these ongoing risks and require adequate compensation for these risks. For Professor Woolridge at page 52, lines 1-9 to use the Stipulation and the process that preceded it as justification for rejecting the Company's requested risk adjustment is inappropriate.

Q. On pages 60-62, Professor Woolridge offers an extensive discussion of arithmetic versus geometric averages and concludes on page 62 that your risk premium study is "biased and should be disregarded." Do you agree?

A. No. Professor Woolridge's assertions about my use of arithmetic mean data are incorrect and potentially misleading. On page 50, Professor Woolridge reproduces a summary of results from my Direct Testimony of various ROE estimation methods. In the Risk Premium Analysis section of that table the issue of arithmetic versus geometric averaging exists only in the Ibbotson Risk Premium results. And, as I explained in my Direct Testimony (page 34, line 14), I used the more conservative geometric mean data in my analysis. Furthermore, Professor Woolridge is simply wrong in his assertion that only geometric mean data should be employed to assess investors' expectations.[5]

[5] *See, e.g.*, Marshall E. Blume, "Unbiased Estimators of Long-Run Expected Rates of Return," Journal of the American Statistical Association, September 1974, pp. 634-638.

Q. Beginning on page 63 and running through the end of his testimony on page 72, Professor Woolridge shifts to an argumentative style, using words and phrases like "taint," "Peso Problem," "Analysts Are Still Coming Up Rosy," and "myriad of empirical biases" to criticize your analysis, as well as the opinions of security analysts and even some of his academic colleagues. As sources for data in charts on pages 69 and 70 he cites "J. Randall Woolridge." Are these comments typical of the serious discussion of economic and financial issues usually found in regulatory proceedings?

A. No. Most of Professor Woolridge's comments are purely editorial and have little or nothing to do with my analysis. Certainly his discussion of New York Attorney General Eliot Spitzer's investigations and the well-known fact that security analysts were optimistic is entirely misplaced since I do not use analysts' forecasts in my analysis. In fact, his diatribe in this section is only a slight expansion of his presentation at the 2003 NASUCA Annual Meeting entitled "Why Are Allowed Rates of Returns Too High?" (Attached as Schedule SCH-15). Additionally, his chart data are taken directly from some of his other prior work entitled "Forecasting Through Rose-Colored Glasses." Professor Woolridge's comments in this section are not responsive to my Direct Testimony.

VI. ROE Update

Q. What are the results of your updated DCF analyses?

A. My updated DCF estimates are based on the same comparable company methods I used in my Direct Testimony. My updated DCF results are presented in

Schedule SCH-16. The reasonable range from my updated DCF analysis is 10.9 percent to 11.4 percent. These results are based on the two-stage growth DCF model and the single-stage growth DCF model with the growth rate based on the long-term GDP growth rate. The traditional constant growth DCF model indicates an ROE of only 9.7 percent to 9.8 percent, which fails to meet my risk premium checks of reasonableness and, therefore, continues to be excluded from my recommended electric utility DCF range.

Q. What are the results of your updated risk premium analysis?

A. My updated risk premium analysis is presented in Schedule SCH-17. Based on currently projected Baa utility interest rates for 2007, the electric utility risk premium analysis indicates an ROE of 11.1 percent. The updated results of the Ibbotson risk premium analysis and the Harris-Marston risk premium analysis indicate ROEs of 11.5 percent (6.95% + 4.5% = 11.45%) and 12.1 percent (6.95% + 5.13% = 12.08%), respectively.

Q. What do you conclude from your updated ROE analyses?

My updated analyses indicate that the Company's requested 11.5 percent ROE is a reasonable estimate of the fair cost of equity capital. This conclusion is also based on the interest rate risk associated with projections for significantly higher rates over the coming year. Additionally, my recommendation recognizes the ongoing risks and uncertainties that exist in the electric utility industry as well as the company-specific risks and uncertainties that KCPL is currently facing.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

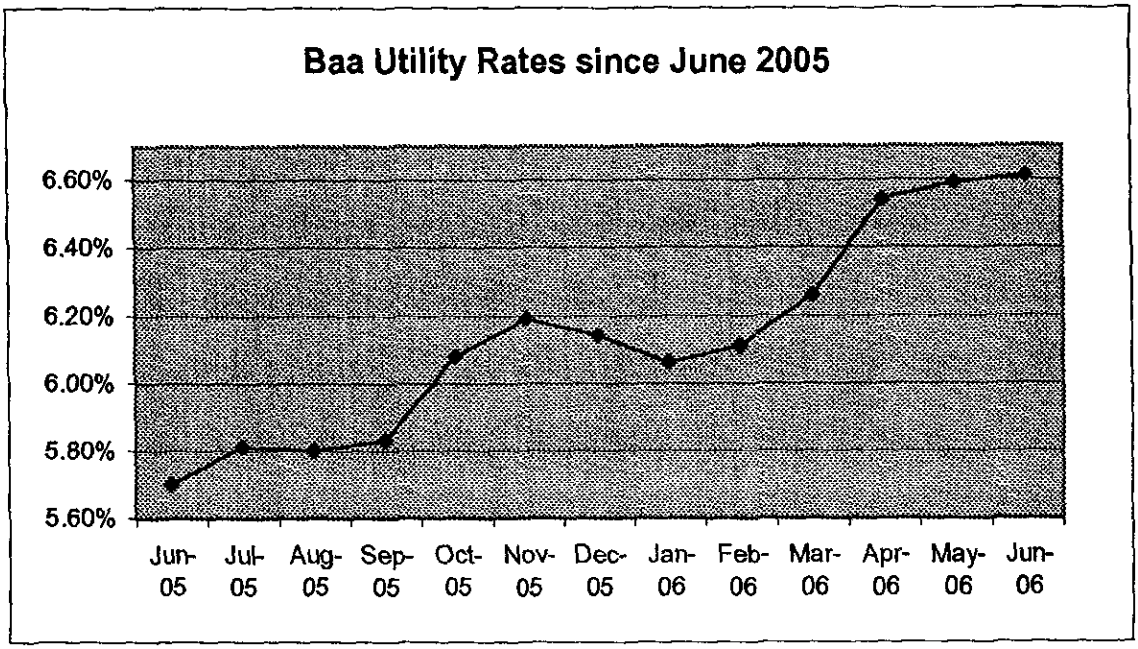
Great Plains Energy
Authorized Electric Utility Equity Returns

	2004	2005	2006
1st Quarter	11.00%	10.51%	10.38%
2nd Quarter	10.54%	10.05%	10.69%
3rd Quarter	10.33%	10.84%	
4th Quarter	10.91%	10.75%	
Full Year	10.75%	10.54%	10.57%

Source: Reglatory Research Associates, *Regulatory Focus*, July 6, 2006, page 2.

Kansas City Power & Light Co.
Long-Term Interest Rate Trends

Month	Baa Utility Rates	Average Utility Rates	Long-Term Treasury Rates	10-Year Treasury Rates
Jun-05	5.70%	5.39%	4.35%	4.00%
Jul-05	5.81%	5.50%	4.48%	4.18%
Aug-05	5.80%	5.51%	4.53%	4.26%
Sep-05	5.83%	5.54%	4.51%	4.20%
Oct-05	6.08%	5.79%	4.74%	4.46%
Nov-05	6.19%	5.00%	4.83%	4.54%
Dec-05	6.14%	5.88%	4.73%	4.47%
Jan-06	6.06%	5.77%	4.65%	4.42%
Feb-06	6.11%	5.83%	4.73%	4.57%
Mar-06	6.26%	5.98%	4.91%	4.72%
Apr-06	6.54%	6.28%	5.22%	4.99%
May-06	6.59%	6.39%	5.35%	5.11%
Jun-06	6.61%	6.39%	5.29%	5.11%



Sources: Mergent Bond Record (Utility Rates);
www.federalreserve.gov (Treasury Rates).

Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

2005	E2006	E2007	Annual % Change 2005	Annual % Change E2006	Annual % Change E2007		2005 4Q	2006 1Q	2006 A2Q	2006 E3Q	2006 E4Q	E2007 1Q	E2007 2Q	E2007 3Q
						Gross Domestic Product								
$12,456.0	$13,275.0	$13,890.0	6.4	6.6	4.6	GDP (current dollars)	$12,731.0	$13,008.0	$13,194.0	$13,381.0	$13,517.0	$13,662.0	$13,812.0	$13,963.0
6.4	6.6	4.6				Annual rate of increase (%)	5.1	9.0	5.8	5.8	4.1	4.4	4.5	4.5
3.2	3.4	2.3				Annual rate of increase—real GDP (%)	1.8	5.6	2.5	2.9	2.1	1.9	2.4	2.7
3.0	3.1	2.2				Annual rate of increase—GDP deflator (%)	3.3	3.3	3.3	2.8	2.0	2.4	2.0	1.7
						***Components of Real GDP**								
$7,841.0	$8,084.0	$8,286.0	3.5	3.1	2.5	Personal consumption expenditures	$7,910.0	$8,004.0	$8,053.0	$8,124.0	$8,156.0	$8,197.0	$8,247.0	$8,314.0
3.5	3.1	2.5				% change	0.8	4.8	2.5	3.6	1.6	2.0	2.5	3.3
1,145.3	1,198.8	1,192.2	5.5	4.7	(0.6)	Durable goods	1,137.9	1,190.5	1,189.1	1,216.3	1,199.3	1,183.0	1,184.5	1,193.8
2,276.8	2,359.0	2,413.8	4.5	3.6	2.3	Nondurable goods	2,309.6	2,342.8	2,352.4	2,365.6	2,375.0	2,389.2	2,403.0	2,422.1
4,436.6	4,549.5	4,692.9	2.6	2.5	3.2	Services	4,476.7	4,494.5	4,533.2	4,568.3	4,602.1	4,638.7	4,671.8	4,710.9
1,223.8	1,324.2	1,412.1	6.8	8.2	6.6	Nonresidental fixed investment	1,248.2	1,288.8	1,297.5	1,336.7	1,373.9	1,389.0	1,406.9	1,419.1
6.8	8.2	6.6				% change	5.2	13.7	2.7	12.7	11.6	4.5	5.3	3.5
984.9	1,064.7	1,124.8	8.9	8.1	5.7	Producers durable equipment	1,007.6	1,044.8	1,042.2	1,071.1	1,100.6	1,106.5	1,118.1	1,131.5
598.5	584.9	533.7	8.6	(2.3)	(8.8)	Residental fixed investment	609.2	608.5	598.6	575.7	556.9	548.2	539.8	527.9
8.6	(2.3)	(8.8)				% change	(1.1)	(0.5)	(6.4)	(14.5)	(12.4)	(6.1)	(6.0)	(8.5)
19.7	44.8	23.1				Net change in business inventories	43.5	41.2	52.6	39.6	46.0	36.4	27.3	15.9
1,958.0	1,997.4	2,031.9	0.9	2.0	1.7	Gov't purchases of goods & services	1,963.5	1,987.1	1,990.0	2,002.5	2,010.2	2,021.1	2,028.7	2,035.1
727.6	742.2	748.0	1.5	2.0	0.8	Federal	729.6	745.1	738.7	742.2	742.8	745.7	747.0	749.1
1,230.4	1,255.1	1,283.5	0.5	2.0	2.3	State & local	1,233.7	1,242.0	1,251.1	1,260.1	1,267.1	1,275.1	1,281.4	1,285.7
(619.2)	(628.6)	(595.5)				Net exports	(636.6)	(636.6)	(627.1)	(626.0)	(624.9)	(616.3)	(602.8)	(583.0)
1,196.1	1,301.6	1,409.7	6.8	8.8	8.3	Exports	1,228.4	1,269.3	1,279.6	1,314.0	1,343.7	1,369.5	1,395.3	1,422.8
1,815.3	1,930.3	2,005.1	6.1	6.3	3.9	Imports	1,865.0	1,905.9	1,906.7	1,940.0	1,968.5	1,985.7	1,998.0	2,005.8
						****Income & Profits**								
$10,239.0	$10,886.0	$11,487.0	5.2	6.3	5.5	Personal income	$10,484.0	$10,648.0	$10,813.0	$10,971.0	$11,112.0	$11,269.0	$11,413.0	$11,557.0
9,036.0	9,508.0	10,085.0	4.1	5.2	5.9	Disposable personal income	9,236.0	9,322.0	9,440.0	9,578.0	9,694.0	9,846.0	9,975.0	10,133.0
(0.4)	(1.4)	(0.5)				Savings rate (%)	(0.3)	(1.1)	(1.5)	(1.7)	(1.4)	(0.9)	(0.7)	(0.4)
1,518.7	1,791.2	1,746.5	32.7	17.9	(2.5)	Corporate profits before taxes	1,598.3	1,740.6	1,811.6	1,823.2	1,789.2	1,749.9	1,742.3	1,747.7
1,119.4	1,317.8	1,279.2	32.6	17.7	(2.9)	Corporate profits after taxes	1,173.7	1,283.7	1,333.4	1,340.3	1,313.6	1,284.9	1,279.2	1,283.3
70.00	80.80	82.80	19.0	16.0	2.0	‡Earnings per share (S&P 500)	69.90	72.70	75.10	79.00	80.90	83.40	84.40	83.60
						†Prices & Interest Rates								
3.4	3.6	2.5				Consumer price index	3.2	2.2	5.0	3.6	2.2	2.5	2.0	1.7
3.1	4.9	5.1				Treasury bills	3.8	4.4	4.7	5.1	5.4	5.4	5.3	4.9
4.3	5.0	5.7				10-yr. notes	4.5	4.6	5.1	5.1	5.3	5.5	5.8	5.7
4.6	5.1	5.7				30-yr. bonds	4.7	4.6	5.1	5.2	5.4	5.6	5.7	5.7
5.2	5.9	6.9				New issue rate—corporate bonds	5.4	5.4	5.9	5.9	6.4	6.7	7.0	6.9
						Other Key Indicators								
2,070.0	1,900.0	1,720.0	6.3	(8.4)	(9.4)	Housing starts (1,000 units SAAR)	2,060.0	2,120.0	1,880.0	1,810.0	1,790.0	1,760.0	1,720.0	1,700.0
16.9	16.6	16.0	0.5	(1.9)	(3.6)	Auto & truck sales (1,000,000 units)	16.0	16.9	16.3	17.0	16.3	16.0	15.9	16.1
5.1	4.7	4.9				Unemployment rate (%)	4.9	4.7	4.6	4.7	4.7	4.8	4.9	4.9
(1.8)	(2.4)	(6.7)				§U.S. dollar	6.1	(4.1)	(12.4)	(4.3)	(11.1)	(6.0)	(5.4)	(4.5)

Note: Annual changes are from prior year and quarterly changes are from prior quarter. Figures may not add to totals because of rounding. A—Advance data. P—Preliminary. E—Estimated. R—Revised. *1996 Chain-weighted dollars. **Current dollars. ‡Trailing 4 quarters. †Average for period. §Quarterly % changes at quarterly rates. This forecast prepared by Standard & Poor's.

Great Plains Energy
Barnes Revised Cost of Equity Analysis (DCF)

Company Name	Barnes Dividend Yield	Barnes Low Short-Term Analysts' Growth	Long-Term GDP Growth	Average Growth	Barnes Revised Low ROE Estimate
Hawaiian Electric Industries, Inc.	4.66%	4.70%	6.60%	5.65%	10.31%
IDACORP, Inc.	3.67%	4.70%	6.60%	5.65%	9.32%
Pinnacle West Capital	5.17%	4.70%	6.60%	5.65%	10.82%
Puget Energy Inc.	4.76%	4.70%	6.60%	5.65%	10.41%
Southern Co.	4.83%	4.70%	6.60%	5.65%	10.48%
Average	4.62%			5.65%	10.27%

Company Name	Barnes Dividend Yield	Barnes High Short-Term Analysts' Growth	Long-Term GDP Growth	Average Growth	Barnes Revised High ROE Estimate
Hawaiian Electric Industries, Inc.	4.66%	4.80%	6.60%	5.70%	10.36%
IDACORP, Inc.	3.67%	4.80%	6.60%	5.70%	9.37%
Pinnacle West Capital	5.17%	4.80%	6.60%	5.70%	10.87%
Puget Energy Inc.	4.76%	4.80%	6.60%	5.70%	10.46%
Southern Co.	4.83%	4.80%	6.60%	5.70%	10.53%
Average	4.62%			5.70%	10.32%

		Midpoint
Barnes Revised DCF Range	**10.27% - 10.32%**	**10.29%**

Great Plains Energy
Barnes Revised Cost of Equity Analysis (CAPM)

Company Name	Revised Risk Free Rate	Companies' Value Line Beta	Arithmetic Mkt. Risk Prem (1926-2005)	Geometric Mkt. Risk Prem (1926-2005)	Barnes Revised Low ROE Estimate	Arithmetic CAPM ROE (1926-2005)	Geometric CAPM ROE (1926-2005)
Hawaiian Electric Industries, Inc.	5.70%	0.70	6.50%	4.90%	10.60%	10.25%	9.13%
IDACORP, Inc.	5.70%	0.95	6.50%	4.90%	10.60%	11.88%	10.36%
Pinnacle West Capital	5.70%	0.95	6.50%	4.90%	10.60%	11.88%	10.36%
Puget Energy Inc.	5.70%	0.80	6.50%	4.90%	10.60%	10.90%	9.62%
Southern Co.	5.70%	0.65	6.50%	4.90%	10.60%	9.93%	8.89%
Average	5.70%	0.81	6.50%	4.90%	10.60%	10.97%	9.67%

		Midpoint
Barnes Revised CAPM Range	**9.67% - 10.97%**	**10.32%**

Great Plains Energy
Update of Baudino ROE Analysis

PANEL 1: UPDATE OF BAUDINO DCF ANALYSIS
CONSIDERATION OF ADDITIONAL LONG-TERM GROWTH RATE

	Baudino DCF Analysis						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Value Line Dividend Gr.	Value Line Earnings Gr.	Zack's Earning Gr.	FC/T Earning Gr.	Average with Baudino Gr. Rates	Additional L-T Growth Rate GDP Gr.	Average with Additional Gr. Rate
Dividend Yield	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%
Growth Rate	4.06%	5.83%	6.21%	5.77%	5.47%	6.60%	6.03%
Expected Div. Yield	4.39%	4.43%	4.43%	4.42%	4.42%	4.44%	4.43%
DCF Return on Equity	8.45%	10.26%	10.64%	10.19%	9.89%	11.04%	10.46%

PANEL 2: REVISED BAUDINO RESULTS

	(8)
DCF Result	10.46% (see result of column 7)
CAPM Result	11.36% (see average result of columns 22 & 31)
Average ROE	**10.91%**

NOTES;
Column (6): GPD growth rate calculation from page 3 of this Exhibit.
Page 2, Panel 2: Same as Baudino CAPM Analysis, but excluding calculations with First Call/Thompson (FC/T) betas.
Page 2, Panel 3: Same as Baudino CAPM Analysis, but with projected 20-year and 5-year Treasury bond rates of 5.70% and 5.60%, respectively.

Great Plains Energy
Update of Baudino ROE Analysis

PANEL 1: BAUDINO CAPM ANALYSIS

	(9) 20-Yr, VL β, Mkt RP	(10) 5-Yr, VL β, Mkt RP	(11) 20-Yr, FC/T β, Mkt RP	(12) 5-Yr, FC/T β, Mkt RP	(13) 20-Yr, VL β, Historic Geom Mean RP	(14) 20-Yr, VL β, Historic Arith Mean RP	(15) 20-Yr, FC/T β, Historic Geom Mean RP	(16) 5-Yr, FC/T β, Historic Arith Mean RP	(17) Average all CAPM
Risk-Free Rate	5.03%	4.77%	5.03%	4.77%	5.03%	5.03%	5.03%	5.03%	
Risk Premium	8.69%	8.94%	8.69%	8.94%	5.20%	7.10%	5.20%	7.10%	
Beta	0.86	0.86	0.65	0.65	0.86	0.86	0.65	0.65	
Beta*Risk Premium	7.47%	7.69%	5.63%	5.79%	4.47%	6.11%	3.37%	4.60%	
CAPM Return on Equity	12.50%	12.46%	10.66%	10.56%	9.50%	11.14%	8.40%	9.63%	10.61%

PANEL 2: BAUDINO ANALYSIS WITHOUT NEW APPROACH (EXCLUDE FIRST CALL/THOMPSON BETAS)

	(18) 20-Yr, VL β, Mkt RP	(19) 5-Yr, VL β, Mkt RP	(20) 20-Yr, VL β, Historic Geom Mean RP	(21) 20-Yr, VL β, Historic Arith Mean RP	(22) Average all CAPM
Risk-Free Rate	5.03%	4.77%	5.03%	5.03%	
Risk Premium	8.69%	8.94%	5.20%	7.10%	
Beta	0.86	0.86	0.86	0.86	
Beta*Risk Premium	7.47%	7.69%	4.47%	6.11%	
CAPM Return on Equity	12.50%	12.46%	9.50%	11.14%	11.40%

PANEL 3: BAUDINO ANALYSIS WITH CONSIDERATION OF PROJECTED INTEREST RATES

	(23) 20-Yr, VL β, Mkt RP	(24) 5-Yr, VL β, Mkt RP	(25) 20-Yr, FC/T β, Mkt RP	(26) 5-Yr, FC/T β, Mkt RP	(27) 20-Yr, VL β, Historic Geom Mean RP	(28) 20-Yr, VL β, Historic Arith Mean RP	(29) 20-Yr, FC/T β, Historic Geom Mean RP	(30) 5-Yr, FC/T β, Historic Arith Mean RP	(31) Average all CAPM
Risk-Free Rate	5.70%	5.60%	5.70%	5.60%	5.70%	5.70%	5.70%	5.70%	
Risk Premium	8.69%	8.94%	8.69%	8.94%	5.20%	7.10%	5.20%	7.10%	
Beta	0.86	0.86	0.65	0.65	0.86	0.86	0.65	0.65	
Beta*Risk Premium	7.47%	7.69%	5.63%	5.79%	4.47%	6.11%	3.37%	4.60%	
CAPM Return on Equity	13.17%	13.29%	11.33%	11.39%	10.17%	11.81%	9.07%	10.30%	11.32%

Great Plains Energy
Institutional Holdings of Electric Utility Company Shares

No.	Company	Institutional Ownership
1	Alliant Energy Co.	59.00%
2	Ameren	57.00%
3	American Elec. Pwr.	63.00%
4	CH Energy Group	53.00%
5	Cent. Vermont P.S.	44.00%
6	Con. Edison	49.00%
7	DTE Energy Co.	60.00%
8	Duquesne Light	58.00%
9	Empire District	34.00%
10	Energy East Corp.	47.00%
11	FirstEnergy	70.00%
12	Green Mtn. Power	50.00%
13	Hawaiian Electric	32.00%
14	MGE Energy, Inc.	26.00%
15	NiSource Inc.	75.00%
16	NSTAR	44.00%
17	Pinnacle West	81.00%
18	Progress Energy	65.00%
19	Puget Energy, Inc.	61.00%
20	SCANA Corp.	40.00%
21	Southern Co.	41.00%
22	Vectren Corp.	44.00%
23	Westar Energy	73.00%
24	Xcel Energy Inc.	61.00%
	GROUP AVERAGE	53.63%
	GROUP MEDIAN	55.00%

Source: Yahoo Finance, Major Holders, August 14, 2006 (www.yahoo.com).

2003 NASUCA Annual Meeting
Atlanta, Georgia
November 19, 2003

Why Are Allowed Rates of Returns Too High?

J. Randall Woolridge
Vice President, the Columbia Group
&
The Goldman, Sachs and Frank P. Smeal Professor of Finance
The Pennsylvania State University
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Rate of Return Topics

- Allowed Returns on Equity
- Long-Term Interest Rates
- Utility Risk
- DCF Equity Cost Rates
- Risk Premiums
- Equity Cost Rate Test
- The Impact of the New Tax Law

Allowed Returns on Equity

Allowed Returns Below 10%

Despite some resistance, Some Public Utility Commissions are setting Allowed Returns Below 10%!

State	Date of Decision	Utility	Type	Docket, Case #	ROE Allowed
NY	8/4/2003	St. Lawrence Gas Co. Inc.	Gas	CASE 02-G-1275; CASE 02-G-1011	9.8
NJ	8/1/2003	Jersey Central Power & Light Co.	Electric	DOCKET NO. ER02080506; DOCKET NO. ER02080507; DOCKET NO. EO02070417; DOCKET NO. ER02030173; DOCKET NO. ER95120633	9.5
NJ	8/1/2003	Public Service Electric & Gas Co.	Electric	DOCKET NO. ER02050303; DOCKET NO. ER02080604; DOCKET NO. EM00040253; DOCKET NO. ET01120830; DOCKET NO. EO02080610; DOCKET NO. EO01120822; DOCKET NO. EO02110854; DOCKET NO. GR01040280	9.75
NJ	7/31/2003	Rockland Electric Co.	Electric	DOCKET NO. ER02080614; DOCKET NO. ER02100724	9.75
AR	7/17/2003	Arkansas Western Gas Co.	Gas	DOCKET NO. 02-227-U	9.9
TN	6/27/2003	Tennessee-American Water Co.	Water	DOCKET NO. 03-00118	9.9
WY	4/30/2003	Lower Valley Energy, Inc.	Gas	DOCKET NO. 30018-GR-02-15	9.21
NY	3/7/2003	Rochester Gas & Electric Corp.	Gas, Electric	CASE 02-E-0198; CASE 02-G-0199	9.96
FL	2/10/2003	Cypress Lakes Utilities	Water	DOCKET NO. 020407-WS	9.93
AZ	4/17/2002	Xcel Energy-Black Mountain Gas Co.	Gas	Docket No. G-00981A-02-0263	9.85

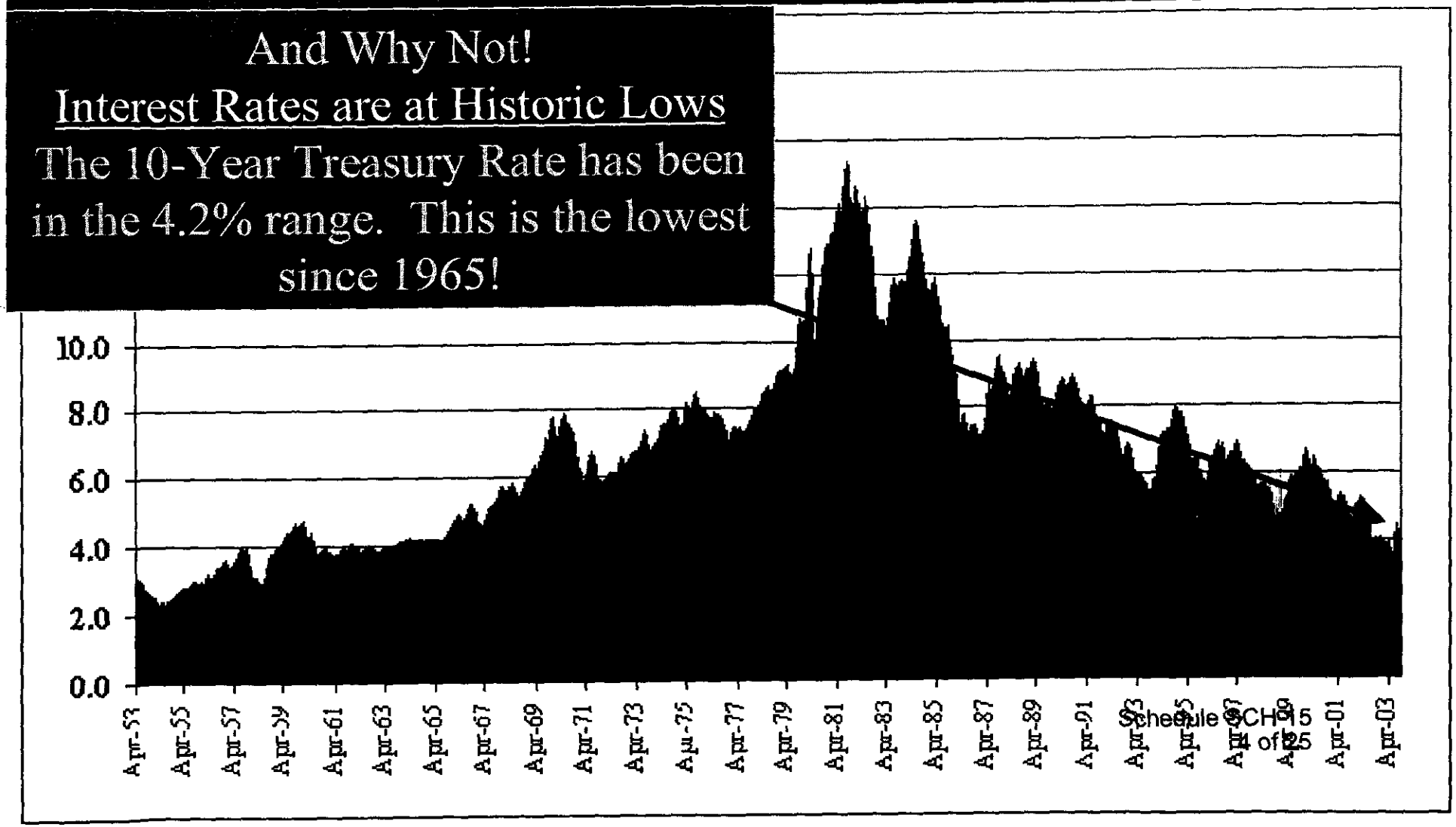
Interest Rates

Ten-Year Treasury Rate

And Why Not!

Interest Rates are at Historic Lows

The 10-Year Treasury Rate has been in the 4.2% range. This is the lowest since 1965!



Utility Risk

And Despite Deregulation, Utilities are not Riskier on a Relative Basis! Electric, Gas, and Water Utilities are Among the Lowest Risk Businesses As Measured by Beta of the 100 Industries Covered by *Value Line*

Industry Name	# of Firms	Beta
E-Commerce	170	0.78
Internet	30	0.78
Semiconductor Cap Equip	39	0.78
Wireless Networking	48	0.78
Semiconductor	124	0.78
Telecom. Services	122	0.78
Telecom. Equipment	15	0.77
Utility (Foreign)	78	0.77
Computer Software & Svcs	16	0.77
Computer & Peripherals	13	0.76
Advertising	42	0.75
Cable TV	22	1.29
Foreign Telecom.	14	1.27
Bank (Foreign)	2	1.27
Securities Brokerage	27	1.20
Retail (Special Lines)	191	1.18
Investment Co. (Foreign)	20	1.16
Oilfield Services/Equip.	71	1.14
Bank (Canadian)	7	1.11
Electronics	137	1.10
Toiletries/Cosmetics	17	1.05
Steel (Integrated)	18	1.04
Air Transport	36	1.04
Retail Store	31	1.03
Foreign Electron/Entertn	13	0.99
Chemical (Basic)	15	0.97
Financial Svcs. (Div.)	185	0.97
Electrical Equipment	81	0.96
Entertainment	91	0.95
Industrial Services	173	0.92
Auto Parts (OEM)	29	0.92
Metals & Mining (Div.)	36	0.91
Home Appliance	12	0.91
Recreation	81	0.86
Trucking/Transp. Leasing	45	0.8
Medical Services	156	0.85
Building Materials	37	0.85
Bank (Midwest)	32	0.85
Furn./Home Furnishings	33	0.84
Hotel/Gaming	52	0.84
Educational Services	27	0.84
Medical Supplies	182	0.83
Homebuilding	54	0.82
Aerospace/Defense	39	0.82
Maritime	14	0.82
Apparel	41	0.8
Newspaper	18	0.8
Packaging & Container	36	0.8
Diversified Co.	92	0.8
Metal Fabricating	38	0.8
Manuf. Housing/Rec Veh	20	0.81
Chemical (Diversified)	32	0.80
Insurance (Prop/Casualty	56	0.79
Textile	25	0.79
Publishing	43	0.79
...ieneral)	30	0.78
...old Products	39	0.78
...: Forest Products	48	0.78
...ery	122	0.78
...an Energy	15	0.77
...al (Specialty)	78	0.77
...d	16	0.77
...ge (Soft Drink)	13	0.76
...um (Integrated)	42	0.75
...ant	80	0.75
...Aggregates	13	0.75
...Producing)	92	0.71
...ified	35	0.70
	23	0.70
Gi...	26	0.70
Envi...	50	0.69
B...	143	0.69
Food Processing	86	0.68
Auto Parts (Replacement)	26	0.67
Natural Gas (Distrib.)	36	0.62
Electric Utility (West)	20	0.61
Gold/Silver Mining	30	0.60
Tobacco	11	0.59
Investment Co.	25	0.58
Electric Utility (East)	34	0.58
Water Utility	13	0.55
Beverage (Alcoholic)	19	0.54
Electric Util. (Central)	24	0.53

Data Source: http://www.stern.nyu.edu/~adamodar/

The Required Return on Equity

The Traditional Methods to Compute the Cost Required Return on Equity are the Discounted Cash Flow (DCF) and Risk Premium (RP) Approaches. The RP Approach Takes Various Forms, Including the Capital Asset Pricing Model (CAPM)

- **Discounted Cash Flow Method**
  - Dividend Yield Plus Growth
- **Risk Premium Approaches**
  - Risk Premium
  - CAPM
  - APT

DCF Equity Cost Rates

DCF Estimates are Clearly Below 10%!

	Electric	Gas	Water
Dividend Yield*	4.6%	3.7%	3.1%
Expected Growth**	5.0%	6.0%	5.5%
DCF Cost Rate	9.6%	9.7%	8.6%

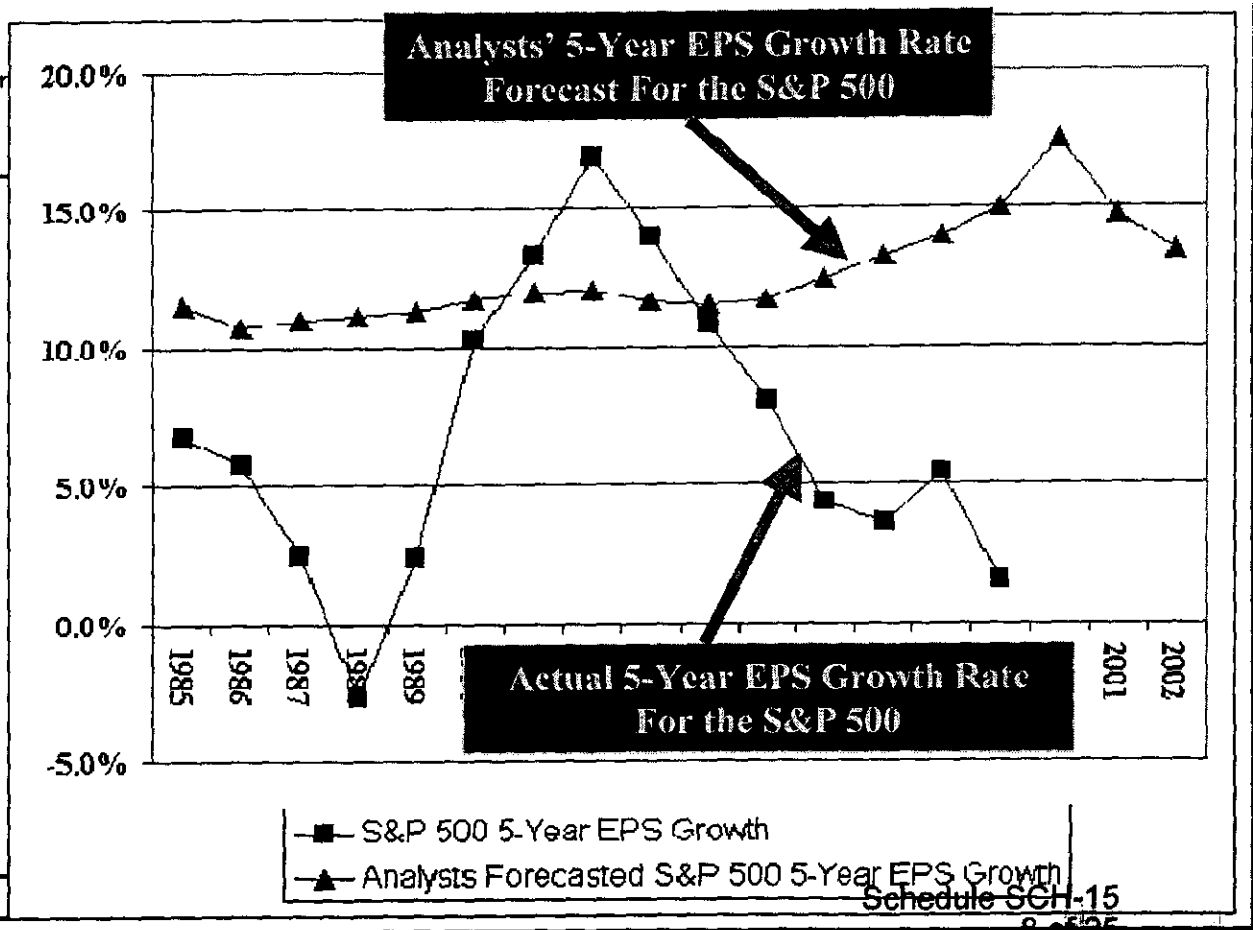
* CA Turner Utility Reports

** Analysts' Average 5-Year Projected EPS Growth Rate, www.yahoo.com

Analysts' EPS Forecasts

And That's Even Using Analysts' 5-Year EPS Forecasts for DCF Growth Which, as Shown Below, are Upwardly Biased Measures of Actual Growth!

	Actual 5-Year S&P 500 EPS Growth	Analysts Projected 5-Year S&P 500 EPS Growth
1985	6.75%	11.50%
1986	5.77%	10.75%
1987	2.48%	11.00%
1988	-2.74%	11.15%
1989	2.40%	11.35%
1990	10.23%	11.75%
1991	13.37%	12.00%
1992	16.89%	12.10%
1993	14.04%	11.65%
1994	10.80%	11.50%
1995	8.02%	11.75%
1996	4.33%	12.50%
1997	3.61%	13.25%
1998	5.43%	14.00%
1999	1.51%	15.00%
2000		17.50%
2001		14.75%
2002		13.50%
Mean	7.38%	11.71%



Schedule SCH-15

Source: J. Randall Woolridge, "Forecasting Through Rose-Colored Glasses: Projected Versus Actual EPS Growth Rates for the S&P 500."

The Market or Equity Risk Premium

Whereas DCF Equity Cost Estimates are Low, the Big Debate in Many Cases Is the Size of the Risk Premium. The Magnitude of The Risk Premium has been Debated in Academic Circles Since Mehra and Prescott's "The Equity Risk Premium Puzzle." The Primary Issue is That Historic Risk Premiums Cannot be Justified Based on Economic Fundamentals

- The Market or Equity Risk Premium is the Difference between the Market Return and the Risk-Free Interest Rate

- Mehra and Prescott (1985)
  The Equity Risk Premium Puzzle

  Historic Risk Premiums are Too High Based on Economic Fundamentals

Risk Premium Approaches

There are Three Ways to Measuring the Risk Premium, and There are Problems and Issues with Each. Most Consultants Employ Historical Returns. A Number of Recent Studies are Critical of the Use of Historic Returns to Estimate the Expected Risk Premium.

	Historical Ex Post Excess Returns	Surveys	Ex Ante Models and Market Data
Means of Assessing the Equity-Bond Risk Premium	Historical average is a popular proxy for the ex ante premium – but likely to be misleading	Investor and expert surveys can provide direct estimates of prevailing expected returns/premiums	Current financial market prices (simple valuation ratios or DDM-based measures) can give most objective estimates of feasible ex ante equity-bond risk premium
Problems/Debated Issues	Time variation in required returns and systematic selection and other biases have boosted valuations over time, and have exaggerated realized excess equity returns compared with ex ante expected premiums	Limited survey histories and questions of survey representativeness. Surveys may tell more about hoped-for expected returns than about objective required premiums due to irrational biases such as extrapolation.	Assumptions needed for DDM inputs, notably the trend earnings growth rate, make even these models' outputs subjective. Range of views on this growth rate (plus debates on relevant stock and bond yields) => range of premium estimates.

The Risk Premium

- **Among the Issues in Measuring the Risk Premium are:**
  - Geometric vs. Arithmetic Means
  - Short vs. Long Horizon Models
  - Real vs. Nominal Rates
  - Short vs. Long Risk Premium Expectation

- **The Following Table Shows the Estimated Risk Premiums Classified into Four Different Types of Studies:**
  - Historic – A Straight Historical Comparison of Stock and Bond Returns
  - Social Security (SS) – A Series of Studies Commissioned by SS Involving a Breakdown of Fundamental Factors Driving Risk Premiums
  - Puzzle Research – Studies by Academics and Professionals that Try to Estimate the Risk Premium from Fundamental Data (like SS)
  - Surveys – Surveys of Academics and CFOs
  - Miscellaneous – Other Studies

Straight Historical Return Comparison

SS Estimates Based on Fundamentals are Lower

Puzzle Researchers also find Lower Risk Premiums

Risk Prem. ns

Source	Risk-free Rate	ERP Estimate	Data Period	Methodology
Historical				
Ibbotson Associates	3.8% [1]	8.4% [2]	1926-2002	Historical
Social Security				
Office of the Chief Actuary [3]	2.3%, 3.0% [8]	4.7%, 4.0% [32]	1900-1995, Proj. out 75 years	Historical
John Campbell [4]	3% to 3.5% [9]	1.5-2.5%, 3-4% [33]	Projecting o... years	Historical & Ratios (Div/Price & Earn Gr)
Peter Diamond	2.2% [10]	<4.8% [34]	Last 200... for eq/ 75 for bonds, Proj 75 yrs	Fundamentals, Div Yld, GDP Gr
Peter Diamond [3]	3.0% [11]	3.0% to 3.5% [35]	Proj...ng out 75 years	Fundamentals, Div/Price
John Shoven [4]	3.0%, 3.5% [12]	3.0% to 3.5% [35]	P...jecting out 75 years	Fundamentals, P/E, GDP Gr
Puzzle Research				
Robert Arnott and Peter Bernstein	3.7% [13]	2.4% [37]	1802 to 2001, normal	Fundamentals, Div Yld & Gr
Robert Arnott and Ronald Ryan	4.1% [14]	-0.9% [38]	Past 74 years, 74 year projection [39]	Fundamentals, Div Yld & Gr
John Campbell and Robert Shiller	N/A	Negative [39]	1871 to 2000, ten-year projection	Ratios, P/E and Div/Price
James Claus and Jacob Thomas	7.64% [15]	3.39% or less [40]	1985-1998, long-term	Abnormal Earnings model
George Constantinides	2.0% [16]	6.9% [41]	1872 to 2000, long-term	Hist. and Fund., Price/Div & P/E
Bradford Cornell	5.6%, 3.8% [17]	3.5-5.5%, 5-7% [42]	1926-1997, long run forward-looking	Weighting theoretical and empirical evid
Dimson, Marsh, & Staunton	1.0% [18]	5.4% [43]	1900-2000, prospective	Adjust ret. Var of Gordon gr model
Eugene Fama and Kenneth French	3.24% [19]	3.83% & 4.78% [44]	Estimate for 1951-2000, long-term	Fundamentals: Dividends and Earnings
Robert Harris and Felicia Marston	8.53% [20]	7.14% [45]	1982-1998, expectational	Fin analysts' est. div gr model
Roger Ibbotson and Peng Chen	2.05% [21]	4% and 6% [46]	1926-2000, long-term	Historical and supply side approaches
Jeremy Siegel	4.0% [22]	-0.9% to -0.3% [47]	1871 to 1998, forward-looking	Fundamentals, P/E, Div Yld, Div Gr
Jeremy Siegel	3.5% [23]	2-3% [48]	1802-2001, forward-looking	
Surveys				
John Graham and Campbell Harvey	? by survey [24]	3-4.7% [49]	2Q 2000 thru 3Q 2002, 1 & 10 year	
Ivo Welch	N/A [25]	7% [50]	30-Year forecast, surveys in 97/98 & 99	Survey of financial economists
Ivo Welch [5]	5% [26]	5.0% to 5.5% [51]	30-Year forecast, survey around August 2001	Survey of financial economists
Misc.				
Barclays Global Investors	5% [27]	2.5%, 3.25% [52]	Long-run (10-year) expected return	Fundamentals, Inc. Earn Gr. & Repricing
Richard Brealey and Stewart Myers	N/A [28]	6 to 8.5% [53]	1926-1997	Predominantly Historical
Burton Malkiel	5.25% [29]	2.75% [54]	1920 to 1997, estimate millennium [37]	Fundamentals, Div Yld, Earn Gr
Richard Wendt [6]	5.5% [30]	3.3% [55]	1960-2000, est... 2001-2010 period	Linear regression model

Current Survey of CFOs Indicates a 3.8% Risk Premium

Non-Historic Risk Premium Measures are Lower

Source: Richard Derrig and Elisha Dorr, "Equity Risk Premium: Expectations Great and Small"

The Risk Premium

- Straight Historical Risk Premium Estimates are in the 6-8 Percent Range

- Virtually all SS and Puzzle Research Studies Indicate that the Risk Premium is Much Lower

- The Updated CFO Survey by Graham and Harvey Indicates a Risk Premium of 3.8%.

Risk Premiums

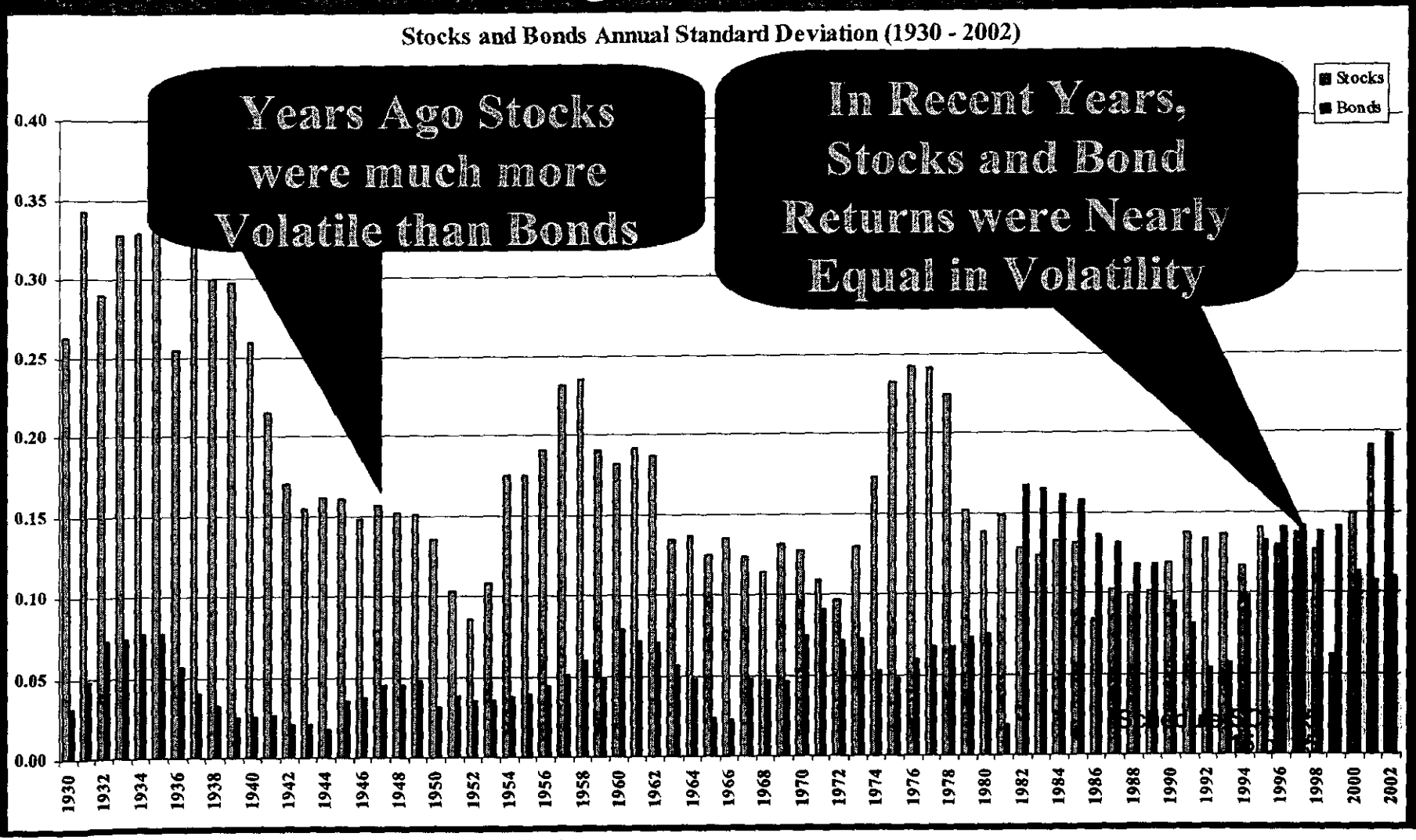
A Number of Explanations have been Offered To Explain Why Historic Risk Premiums are Excessive

The Problems w[illegible]

Change in the Relative Risk of Stocks and Bonds	Stock returns used to be much more volatile than bonds. Today, stock and bond returns are nearly equally volatile.
Survivorship Bias	The only companies that are still in stock market indexes are those that have been successful and are still around. Merged and bankrupt companies did not survive.
Easy Data Bias	Return series tend to start after unusual events (war, market closure, etc.) when assets are cheap.
Peso Problem	The pricing in US markets is based on what could have happened but did not. The US survived two world wars, and a depression, but did not suffer from hyper inflation, invasion, or other calamities of other countries. Since these did not occur, equity returns have been helped.

Risk Premiums

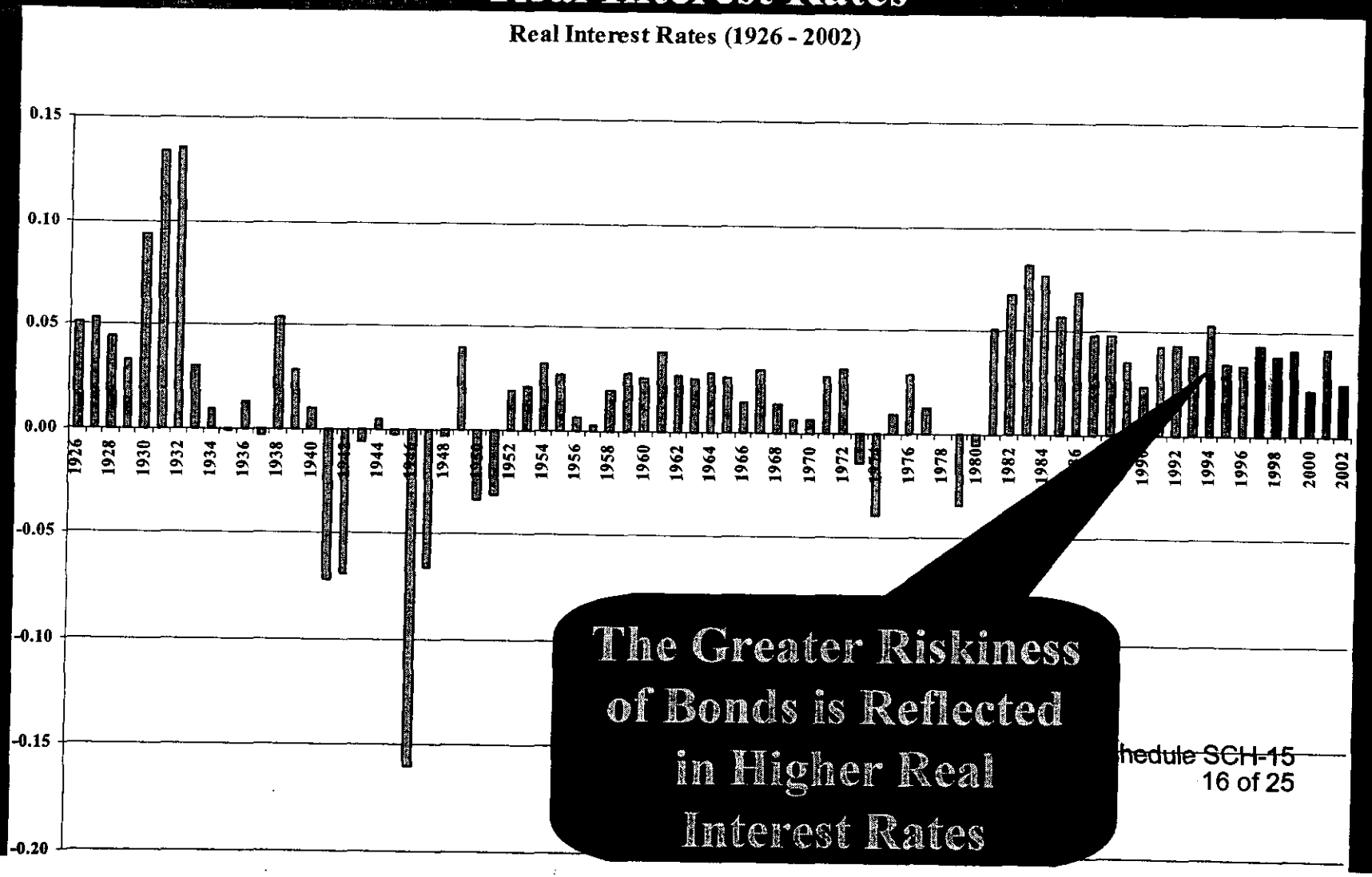
The Problem with Historic Risk Premiums:
The Change in Risk and Return



Risk Premiums

The Problem: with Historic Risk Premiums:

Real Interest Rates



Risk Premiums

Risk Premiums from *Value Line Investment Survey*

Some Analysts Employ *Value Line's* Projected Four-Year Stock Market Return to Compute an Ex-Ante Risk Premium. However, this Study Shows that *Value Line's* Methodology has Produced Expected Market Returns Well Above Actual Market Returns.

Value Line Forecasted Versus Actual Four-Year Returns
1984-2001

	Projected Four-Year Return	Actual S&P 500 One-Year Return	Actual S&P 500 Four-Year Return	Projected - Actual Four-Year Return
1984	23.30%	6.27%	14.99%	8.31%
1985	20.03%	31.73%	17.69%	2.34%
1986	14.48%	18.67%	17.68%	-3.20%
1987	14.68%	5.25%	11.87%	2.82%
1988	18.67%	16.61%	18.04%	0.63%
1989	16.80%	31.69%	15.69%	1.11%
1990	20.88%	-3.11%	10.62%	10.26%
1991	19.00%	30.47%	11.87%	7.13%
1992	17.70%	7.62%	13.36%	4.34%
1993	14.96%	10.08%	17.20%	-2.24%
1994	15.61%	1.32%	22.96%	-7.35%
1995	15.14%	37.58%	30.51%	-15.37%
1996	15.48%	22.96%	26.39%	-13.20%
1997	13.20%	33.36%	17.20%	-4.00%
1998	9.91%	28.58%	5.66%	4.24%
1999	14.23%	21.04%	-6.78%	21.01%
2000	18.57%	9.11%	14.55% *	33.12%
2001	17.20%	-11.88%	-17.55% **	34.35%
2002		-22.10%	-22.10%	
				4.68%

* Three-Year Return
** Two-Year Return

Data Sources: Value Line Investment Survey, Various Issues
www.learn.value

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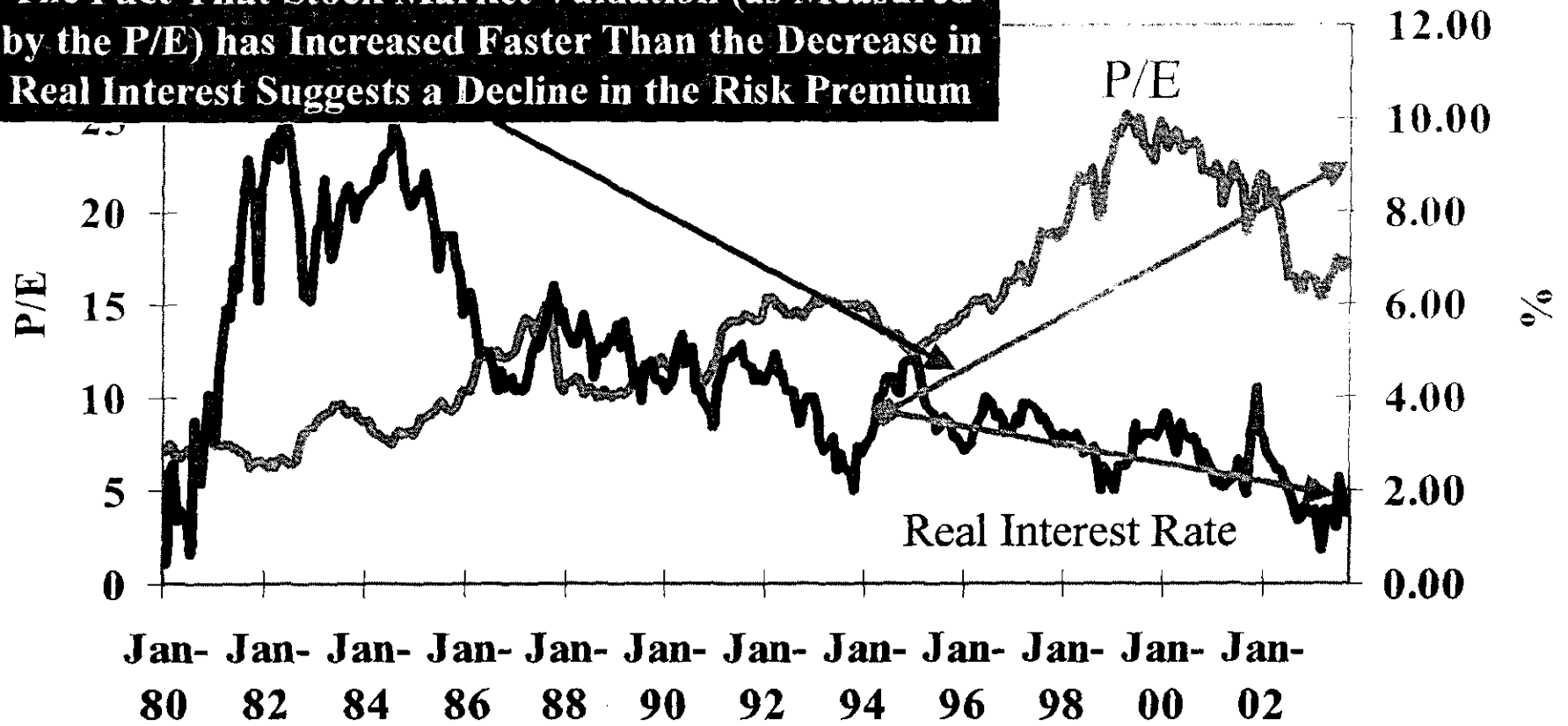
Source: J. Randall Woolridge, "Pitfalls in Using Value Line's Expected Stock Market Returns in Estimating an Equity Risk Premium."

Risk Premiums

Risk Premium Equity Cost Rate

The Fact That Stock Market Valuation (as Measured by the P/E) has Increased Faster Than the Decrease in Real Interest Suggests a Decline in the Risk Premium



Schedule SCH-15
18 of 25

Source: J. Randall Woolridge, "The Equity Risk Premium: Evidence from Market Valuation and Real Interest Rates."

Risk Premiums

Risk Premium Equity Cost Rate

Using a 5.0% Long-Term Risk-Free Interest Rate, a Risk-Adjustment Factor (or Beta of 0.70), and a Risk Premium of 3.45% (from the Updated Fama French Study), A Risk-Premium Equity Cost Rate of 7.40% is Indicated.

Risk-Free Interest Rate*	5.0%
+	
Risk-Adjustment Factor	.70
*	
Risk Premium**	3.45%
=	
Risk Premium Equity Cost Rate	7.40%

* 30-Year Treasury Rate

** Average Beta for Electric, Gas Distribution, and Water Utilities, Value Line Investment Survey

*** Risk Premium from Updated Fama French Study (2002).

Equity Cost Rate Test

And So How Can One Test Whether an Allowed Return on Equity Meets Investors' Return Requirement?
One Rather Simple Test, Described Below, Involves the Relationship Between Return on Equity and the Market-to-Book Ratio

For a given industry, more profitable firms – those able to generate higher returns per dollar of equity – should have higher market-to-book ratios. Conversely, firms which are unable to generate returns in excess of their cost of equity should sell for less than book value.

Profitability	*Value*
If ROE > K	*then Market/Book > 1*
If ROE = K	*then Market/Book =1*
If ROE < K	*then Market/Book < 1*

"A Note on Value Drivers," Harvard Business School case study.

Equity Cost Rate Test

Returns on Equity and Market-to-Book Ratios for Electric, Gas, and Water Utilities are Provided Below. The Average Return on Equity and Market-to-Book Ratios are 10.6% and 1.87, Respectively. These Results Clearly Show That the Required Return on Common Equity is Well Below the Current Range.

	Electric	Gas	Water	Average
Return on Equity*	10.7%	11.1%	10.0%	10.6%
Market-to-Book Ratio*	1.58	1.71	2.31	1.87

* CA Turner Utility Reports

The New Tax Law has Further Reduced the Cost of Equity Capital

The Impact of the New Tax La

2. The 10% Pre-Tax Return Produces an After-Tax Return of 8.5% Under The New Tax Law

Panel A
Old Tax Law
10% Pre-Tax Return - 5% Dividend Yield & 5% Capital Gain
Tax Rates - Dividends 30% & Capital Gains 20%

	Pre-Tax Return	Tax Rate	After-Tax Return
Dividends	5.00%	30.00%	3.50%
Capital Gain	5.00%	20.00%	4.00%
Total	10.00%		7.50%

Panel B
New Tax Law
10% Pre-Tax Return - 5% Dividend Yield & 5% Capital Gain
Tax Rates - Dividends 15% & Capital Gains 15%

	Pre-Tax Return	Tax Rate	After-Tax Return
Dividends	5.00%	15.00%	4.25%
Capital Gain	5.00%	15.00%	4.25%
Total	10.00%		8.50%

1. Under the Old Tax Law, A 10% Pre-Tax Return Produced an After-Tax Return of 7.5%

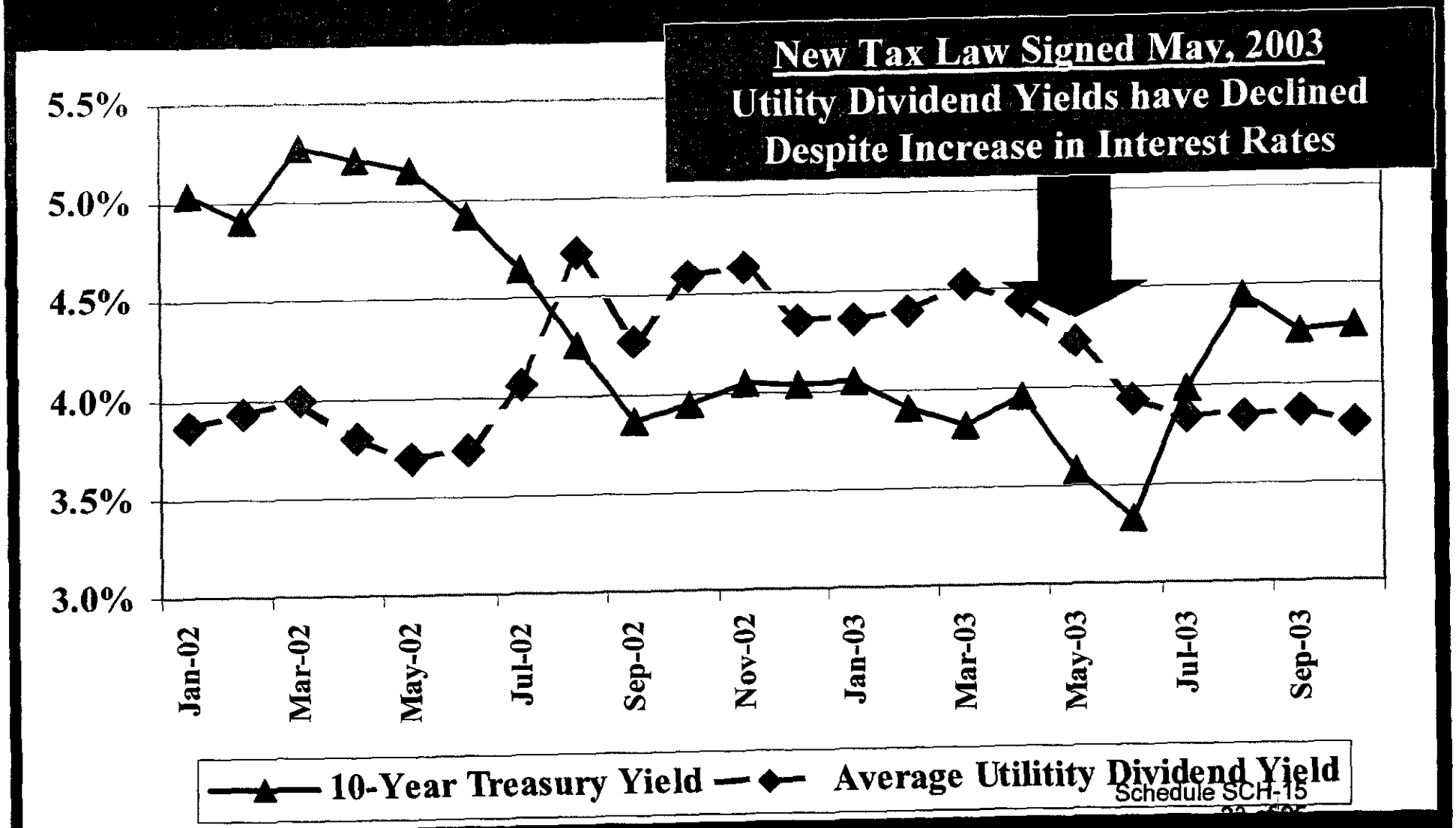
Panel C
The Effect of the New Tax Law on Pre-Tax Returns
After-Tax Return - 3.25% Dividend Yield & 4.25% Capital Gain
Tax Rates - Dividends 15% & Capital Gains 15%

	Pre-Tax Return	Tax Rate	After-Tax Return
Dividends	3.82%	15.00%	3.25%
Capital Gain	5.00%	15.00%	4.25%
Total	8.82%		7.50%

3. Under The New Tax Law, An After-Tax Return of 7.5% is Produced with a Pre-Tax Return of 8.82% [illegible]. The New Tax Law Reduced the Pre-Tax Required Return by 1.18%

Assume that a utility has a 10% expected return – 5.0% in dividends and 5.0% in capital gains. The new tax law reduces the double-taxation of dividends by cutting the tax rate on dividends from 30 percent (the marginal tax bracket for the average individual taxpayer) to 15 percent. Panel A shows that under the old tax law a 10.0% pre-tax return provided for a 7.5% after-tax return. Panel B shows that under the new tax law, with tax rates of 15% on both dividends and capital gains, the 10% pre-tax return is worth 8.5% on an after-tax basis. In Panel C, I have held the after-tax return constant (at 7.5%) to illustrate the effect of the new tax law on required pre-tax returns. Assuming that the entire after-tax 1% return difference (7.5% to 8.5%) is attributed to the lower taxation of dividends, the 10.0% pre-tax return under the new law is now only 8.82%. In other words, to generate an after-tax return of 7.5%, the new tax law reduced the required pre-tax return from 10.0% to 8.82%.

The Impact of the New Tax Law



Schedule SCH-15

Rate of Return Summary

- Allowed Returns on Equity Above 10% are Clearly Excessive

- Interest Rates are at Historic Lows, and Utility Risk is Still Much Lower than Most Industries

- DCF Equity Cost Rates are in the 8-9 Percent Range

- The Big Issue is the Size of the Risk Premium. Most Recent Studies Indicate that Historic Risk Premiums are Excessive. These Studies Suggest a Risk Premium of 3-4 Percent above Long-Term Treasuries.

- Returns on Equity and Market-to-Book Ratios also Support Utility Equity Cost Rates Below 10%

- The New Tax Law has Lowered Equity Cost Rates for Utilities -- by up to 100 Basis Points

J. Randall Woolridge, Ph.D.

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J. Randall Woolridge is a Professor of Finance and the Goldman Sachs & Co. and Frank P. Smeal Endowed University Fellow in the Smeal College of Business at the Pennsylvania State University. He is also the Director of the Smeal College Trading Room. Professor Woolridge's teaching and research interests are in corporate finance and investments, with an emphasis on the valuation consequences of corporate strategic investment and financial decisions. He has published over 35 articles in leading academic and professional journals, including the *Journal of Finance*, *Journal of Financial Economics*, *Strategic Management Journal*, and the *Harvard Business Review*. Dr. Woolridge's research has been highlighted extensively in the financial press. He has been quoted in the *Wall Street Journal, Barron's, Financial Times, New York Times, Washington Post, Fortune, Forbes, Business Week, The Economist, Financial World, CFO Magazine, Investors' Business Daily, Worth Magazine, USA Today,* and other publications. In addition, Dr. Woolridge has appeared as a guest on CNN's *Money Line* and CNBC's *Morning Call* and *Business Today*.

Professor Woolridge has consulted on financial issues with businesses, investment banks, and government agencies. He has testified on financial issues in over 50 public utility rate cases in seven states and the District of Columbia. In addition, Dr. Woolridge has participated in executive development programs and seminars for major corporations, financial institutions, and universities in 25 countries in North and South America, Europe, Asia and Africa

The second edition of Professor Woolridge's popular stock valuation book, *The StreetSmart Guide to Valuing a Stock* (McGraw-Hill, 2003), was recently released. He has also co-authored *Spinoffs and Equity Carve-Outs: Achieving Faster Growth and Better Performance* (Financial Executives Research Foundation, 1999) as well as a new textbook entitled *Modern Corporate Finance, Capital Markets, and Valuation* (Kendall Hunt, 2003). Dr. Woolridge is a founder and a managing director of www.valuepro.net - a stock valuation website.

Kansas City Power & Light Co.
Discounted Cash Flow Analysis
Summary Of DCF Model Results

Company	Traditional Constant Growth DCF Model	Constant Growth DCF Model Long-Term GDP Growth	Low Near-Term Growth Two-Stage Growth DCF Model
1 Alliant Energy Co.	8.3%	10.3%	10.3%
2 Ameren	9.1%	11.7%	10.8%
3 American Elec. Pwr.	9.3%	11.3%	11.2%
4 CH Energy Group	8.8%	11.2%	10.5%
5 Cent. Vermont P.S.	12.4%	11.5%	10.7%
6 Con. Edison	9.2%	11.8%	11.1%
7 DTE Energy Co.	10.3%	11.6%	10.9%
8 Duquesne Light	11.4%	12.5%	11.6%
9 Empire District	10.7%	12.5%	11.6%
10 Energy East Corp.	9.7%	11.8%	11.5%
11 FirstEnergy	11.0%	10.2%	10.1%
12 Green Mtn. Power	8.7%	10.6%	10.7%
13 Hawaiian Electric	9.0%	11.1%	10.4%
14 MGE Energy, Inc.	10.5%	11.1%	10.5%
15 NiSource Inc.	8.4%	10.8%	10.4%
16 NSTAR	10.2%	11.0%	11.0%
17 Pinnacle West	10.8%	11.9%	11.6%
18 Progress Energy	9.3%	12.5%	11.8%
19 Puget Energy, Inc.	10.1%	11.3%	10.9%
20 SCANA Corp.	9.8%	11.2%	11.1%
21 Southern Co.	10.3%	11.6%	11.4%
22 Vectren Corp.	9.5%	11.3%	10.9%
23 Westar Energy	9.3%	11.6%	11.3%
24 Xcel Energy Inc.	10.1%	11.5%	11.3%
GROUP AVERAGE	9.8%	11.4%	11.0%
GROUP MEDIAN	9.7%	11.4%	10.9%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 2, 2006; (Central), Jun 30, 2006; (West), Aug 11, 2006.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Co.
Discounted Cash Flow Analysis
Traditional Constant Growth DCF Model

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
				Projected Growth Rate Analysis										
				Year 2009 "BR" Growth Rate Calculation										
Company	Recent Price(P0)	Next Year's Div(D1)	Dividend Yield	DPS	EPS	Retention Rate (B)	NBV	ROE (R)	B*R Growth	Zacks	Value Line	GDP Growth	Average Growth *(Cols 9-12)*	ROE K=Div Yld+G *(Cols 3+13)*
1 Alliant Energy Co.	34.20	1.25	3.65%	1.55	2.45	36.73%	26.35	9.30%	3.42%	4.00%	4.50%	6.60%	4.63%	8.3%
2 Ameren	50.19	2.54	5.06%	2.54	3.30	23.03%	35.30	9.35%	2.15%	6.00%	1.50%	6.60%	4.06%	9.1%
3 American Elec. Pwr.	34.34	1.60	4.66%	1.90	3.25	41.54%	29.50	11.02%	4.58%	3.30%	4.00%	6.60%	4.62%	9.3%
4 CH Energy Group	47.17	2.16	4.58%	2.20	3.25	32.31%	35.25	9.22%	2.98%	NA	3.00%	6.60%	4.19%	8.8%
5 Cent. Vermont P.S.	18.67	0.92	4.93%	0.92	1.75	47.43%	18.95	9.23%	4.38%	NA	11.50%	6.60%	7.49%	12.4%
6 Con. Edison	44.23	2.32	5.24%	2.38	3.20	25.63%	34.30	9.33%	2.39%	3.90%	3.00%	6.60%	3.97%	9.2%
7 DTE Energy Co.	40.92	2.06	5.03%	2.10	3.75	44.00%	35.75	10.49%	4.62%	5.50%	4.50%	6.60%	5.30%	10.3%
8 Duquesne Light	16.83	1.00	5.94%	1.00	1.50	33.33%	10.60	14.15%	4.72%	NA	5.00%	6.60%	5.44%	11.4%
9 Empire District	21.62	1.28	5.92%	1.28	1.50	14.67%	16.75	8.96%	1.31%	NA	6.50%	6.60%	4.80%	10.7%
10 Energy East Corp.	23.73	1.24	5.23%	1.40	2.00	30.00%	21.25	9.41%	2.82%	4.50%	4.00%	6.60%	4.48%	9.7%
11 FirstEnergy	53.38	1.94	3.63%	2.30	4.50	48.89%	38.75	11.61%	5.68%	5.70%	11.50%	6.60%	7.37%	11.0%
12 Green Mtn. Power	31.07	1.24	3.99%	1.54	2.55	39.61%	24.75	10.30%	4.08%	NA	3.50%	6.60%	4.73%	8.7%
13 Hawaiian Electric	27.26	1.24	4.55%	1.24	1.75	29.14%	17.00	10.29%	3.00%	5.20%	3.00%	6.60%	4.45%	9.0%
14 MGE Energy, Inc.	30.65	1.39	4.53%	1.44	2.45	41.22%	19.05	12.86%	5.30%	NA	6.00%	6.60%	5.97%	10.5%
15 NiSource Inc.	21.86	0.92	4.21%	1.00	1.75	42.86%	21.25	8.24%	3.53%	3.30%	3.50%	6.60%	4.23%	8.4%
16 NSTAR	28.34	1.26	4.45%	1.50	2.50	40.00%	18.75	13.33%	5.33%	5.00%	6.00%	6.60%	5.73%	10.2%
17 Pinnacle West	40.35	2.13	5.28%	2.43	3.55	31.55%	40.20	8.83%	2.79%	6.80%	6.00%	6.60%	5.55%	10.8%
18 Progress Energy	42.45	2.50	5.89%	2.62	3.40	22.94%	36.65	9.28%	2.13%	3.60%	1.50%	6.60%	3.46%	9.3%
19 Puget Energy, Inc.	21.26	1.00	4.70%	1.10	1.75	37.14%	21.25	8.24%	3.06%	7.00%	5.00%	6.60%	5.41%	10.1%
20 SCANA Corp.	38.73	1.80	4.65%	2.10	3.50	40.00%	30.00	11.67%	4.67%	4.70%	4.50%	6.60%	5.12%	9.8%
21 Southern Co.	32.33	1.62	5.01%	1.88	2.75	31.64%	18.60	14.78%	4.68%	4.80%	5.00%	6.60%	5.27%	10.3%
22 Vectren Corp.	26.83	1.27	4.73%	1.39	2.05	32.20%	18.35	11.17%	3.60%	5.00%	4.00%	6.60%	4.80%	9.5%
23 Westar Energy	21.75	1.08	4.97%	1.24	1.80	31.11%	19.35	9.30%	2.89%	3.30%	4.50%	6.60%	4.32%	9.3%
24 Xcel Energy Inc.	19.16	0.93	4.85%	1.10	1.75	37.14%	16.00	10.94%	4.06%	4.50%	6.00%	6.60%	5.29%	10.1%
GROUP AVERAGE	31.97	1.53	4.82%	1.67	2.58	34.75%	25.16	10.47%	3.67%	4.78%	4.90%	6.60%	5.03%	9.8%
GROUP MEDIAN			4.79%											9.7%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 2, 2006; (Central), Jun 30, 2006; (West), Aug 11, 2006.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Co.
Discounted Cash Flow Analysis
Constant Growth DCF Model
Long-Term GDP Growth

	(15)	(16)	(17)	(18)	(19)
Company	Recent Price(P0)	Next Year's Div(D1)	Dividend Yield	GDP Growth	ROE K=Div Yld+G *(Cols 17+18)*
1 Alliant Energy Co.	34.20	1.25	3.65%	6.60%	10.3%
2 Ameren	50.19	2.54	5.06%	6.60%	11.7%
3 American Elec. Pwr.	34.34	1.60	4.66%	6.60%	11.3%
4 CH Energy Group	47.17	2.16	4.58%	6.60%	11.2%
5 Cent. Vermont P.S.	18.67	0.92	4.93%	6.60%	11.5%
6 Con. Edison	44.23	2.32	5.24%	6.60%	11.8%
7 DTE Energy Co.	40.92	2.06	5.03%	6.60%	11.6%
8 Duquesne Light	16.83	1.00	5.94%	6.60%	12.5%
9 Empire District	21.62	1.28	5.92%	6.60%	12.5%
10 Energy East Corp.	23.73	1.24	5.23%	6.60%	11.8%
11 FirstEnergy	53.38	1.94	3.63%	6.60%	10.2%
12 Green Mtn. Power	31.07	1.24	3.99%	6.60%	10.6%
13 Hawaiian Electric	27.26	1.24	4.55%	6.60%	11.1%
14 MGE Energy, Inc.	30.65	1.39	4.53%	6.60%	11.1%
15 NiSource Inc.	21.86	0.92	4.21%	6.60%	10.8%
16 NSTAR	28.34	1.26	4.45%	6.60%	11.0%
17 Pinnacle West	40.35	2.13	5.28%	6.60%	11.9%
18 Progress Energy	42.45	2.50	5.89%	6.60%	12.5%
19 Puget Energy, Inc.	21.26	1.00	4.70%	6.60%	11.3%
20 SCANA Corp.	38.73	1.80	4.65%	6.60%	11.2%
21 Southern Co.	32.33	1.62	5.01%	6.60%	11.6%
22 Vectren Corp.	26.83	1.27	4.73%	6.60%	11.3%
23 Westar Energy	21.75	1.08	4.97%	6.60%	11.6%
24 Xcel Energy Inc.	19.16	0.93	4.85%	6.60%	11.5%
GROUP AVERAGE	31.97	1.53	4.82%	6.60%	11.4%
GROUP MEDIAN			4.79%		11.4%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 2, 2006; (Central), Jun 30, 2006; (West), Aug 11, 2006.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Co.
Discounted Cash Flow Analysis
Low Near-Term Growth
Two-Stage Growth DCF Model

	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)
				CASH FLOWS							
Company	Next Year's Div	2009 Div	Annual Change to 2009	Recent Price	Year 1 Div	Year 2 Div	Year 3 Div	Year 4 Div	Year 5 Div	Year 5-150 Div Growth	ROE=Internal Rate of Return *(Yrs 0-150)*
1 Alliant Energy Co.	1.25	1.55	0.10	34.20	1.25	1.35	1.45	1.55	1.65	6.60%	10.3%
2 Ameren	2.54	2.54	0.00	50.19	2.54	2.54	2.54	2.54	2.71	6.60%	10.8%
3 American Elec. Pwr.	1.60	1.90	0.10	34.34	1.60	1.70	1.80	1.90	2.03	6.60%	11.2%
4 CH Energy Group	2.16	2.20	0.01	47.17	2.16	2.17	2.19	2.20	2.35	6.60%	10.5%
5 Cent. Vermont P.S.	0.92	0.92	0.00	18.67	0.92	0.92	0.92	0.92	0.98	6.60%	10.7%
6 Con. Edison	2.32	2.38	0.02	44.23	2.32	2.34	2.36	2.38	2.54	6.60%	11.1%
7 DTE Energy Co.	2.06	2.10	0.01	40.92	2.06	2.07	2.09	2.10	2.24	6.60%	10.9%
8 Duquesne Light	1.00	1.00	0.00	16.83	1.00	1.00	1.00	1.00	1.07	6.60%	11.6%
9 Empire District	1.28	1.28	0.00	21.62	1.28	1.28	1.28	1.28	1.36	6.60%	11.6%
10 Energy East Corp.	1.24	1.40	0.05	23.73	1.24	1.29	1.35	1.40	1.49	6.60%	11.5%
11 FirstEnergy	1.94	2.30	0.12	53.38	1.94	2.06	2.18	2.30	2.45	6.60%	10.1%
12 Green Mtn. Power	1.24	1.54	0.10	31.07	1.24	1.34	1.44	1.54	1.64	6.60%	10.7%
13 Hawaiian Electric	1.24	1.24	0.00	27.26	1.24	1.24	1.24	1.24	1.32	6.60%	10.4%
14 MGE Energy, Inc.	1.39	1.44	0.02	30.65	1.39	1.41	1.42	1.44	1.54	6.60%	10.5%
15 NiSource Inc.	0.92	1.00	0.03	21.86	0.92	0.95	0.97	1.00	1.07	6.60%	10.4%
16 NSTAR	1.26	1.50	0.08	28.34	1.26	1.34	1.42	1.50	1.60	6.60%	11.0%
17 Pinnacle West	2.13	2.43	0.10	40.35	2.13	2.23	2.33	2.43	2.59	6.60%	11.6%
18 Progress Energy	2.50	2.62	0.04	42.45	2.50	2.54	2.58	2.62	2.79	6.60%	11.8%
19 Puget Energy, Inc.	1.00	1.10	0.03	21.26	1.00	1.03	1.07	1.10	1.17	6.60%	10.9%
20 SCANA Corp.	1.80	2.10	0.10	38.73	1.80	1.90	2.00	2.10	2.24	6.60%	11.1%
21 Southern Co.	1.62	1.88	0.09	32.33	1.62	1.71	1.79	1.88	2.00	6.60%	11.4%
22 Vectren Corp.	1.27	1.39	0.04	26.83	1.27	1.31	1.35	1.39	1.48	6.60%	10.9%
23 Westar Energy	1.08	1.24	0.05	21.75	1.08	1.13	1.19	1.24	1.32	6.60%	11.3%
24 Xcel Energy Inc.	0.93	1.10	0.06	19.16	0.93	0.99	1.04	1.10	1.17	6.60%	11.3%
GROUP AVERAGE	1.53	1.67	0.05	31.97							11.0%
GROUP MEDIAN											10.9%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 2, 2006; (Central), Jun 30, 2006; (West), Aug 11, 2006.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Co.
Discounted Cash Flow Analysis
DCF Analysis Column Descriptions

Column 1: Three-month Average Price per Share (May 2006-Jul 2006)

Column 2: Estimated 2007 Dividends per Share from Value Line

Column 3: Column 2 Divided by Column 1

Column 4: Estimated 2010 Dividends per Share from Value Line

Column 5: Estimated 2010 Earnings per Share from Value Line

Column 6: One Minus (Column 4 Divided by Column 5)

Column 7: Estimated 2010 Net Book Value per Share from Value Line

Column 8: Column 5 Divided by Column 7

Column 9: Column 6 Multiplied by Column 8

Column 10: "Next 5 Years" Company Growth Estimate as Reported by Zacks.com

Column 11: "Est'd 03-05 to 09-11" Earnings Growth Reported by Value Line.

Column 12: Average of GDP Growth During the Last 10 year, 20 year, 30 year, 40 year, 50 year, and 58 year growth periods.

Column 13: Average of Columns 9-12

Column 14: Column 3 Plus Column 13

Column 15: See Column 1

Column 16: See Column 2

Column 17: Column 16 Divided by Column 15

Column 18: See Column 12

Column 19: Column 17 Plus Column 18

Column 20: See Column 2

Column 21: See Column 4

Column 22: (Column 21 Minus Column 20) Divided by Three

Column 23: See Column 1

Column 24: See Column 20

Column 25: Column 24 Plus Column 22

Column 26: Column 25 Plus Column 22

Column 27: Column 26 Plus Column 22

Column 28: Column 27 Increased by the Growth Rate Shown in Column 29

Column 29: See Column 12

Column 30: The Internal Rate of Return of the Cash Flows in Columns 23-28 along with the Dividends for the Years 6-150 Implied by the Growth Rates shown in Column 29

Kansas City Power & Light Co.

Risk Premium Analysis

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1980	13.15%	14.23%	1.08%
1981	15.62%	15.22%	-0.40%
1982	15.33%	15.78%	0.45%
1983	13.31%	15.36%	2.05%
1984	14.03%	15.32%	1.29%
1985	12.29%	15.20%	2.91%
1986	9.46%	13.93%	4.47%
1987	9.98%	12.99%	3.01%
1988	10.45%	12.79%	2.34%
1989	9.66%	12.97%	3.31%
1990	9.76%	12.70%	2.94%
1991	9.21%	12.55%	3.34%
1992	8.57%	12.09%	3.52%
1993	7.56%	11.41%	3.85%
1994	8.30%	11.34%	3.04%
1995	7.91%	11.55%	3.64%
1996	7.74%	11.39%	3.65%
1997	7.63%	11.40%	3.77%
1998	7.00%	11.66%	4.66%
1999	7.55%	10.77%	3.22%
2000	8.14%	11.43%	3.29%
2001	7.72%	11.09%	3.37%
2002	7.53%	11.16%	3.63%
2003	6.61%	10.97%	4.36%
2004	6.20%	10.75%	4.55%
2005	5.67%	10.54%	4.87%
Jun-06	6.11%	10.57%	4.46%
AVERAGE	9.35%	12.49%	3.14%

INDICATED COST OF EQUITY	
PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.95%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.35%
INTEREST RATE DIFFERENCE	-2.40%
INTEREST RATE CHANGE COEFFICIENT	-42.49%
ADUSTMENT TO AVG RISK PREMIUM	1.02%
BASIC RISK PREMIUM	3.14%
INTEREST RATE ADJUSTMENT	1.02%
EQUITY RISK PREMIUM	4.16%
PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.95%
INDICATED EQUITY RETURN	**11.11%**

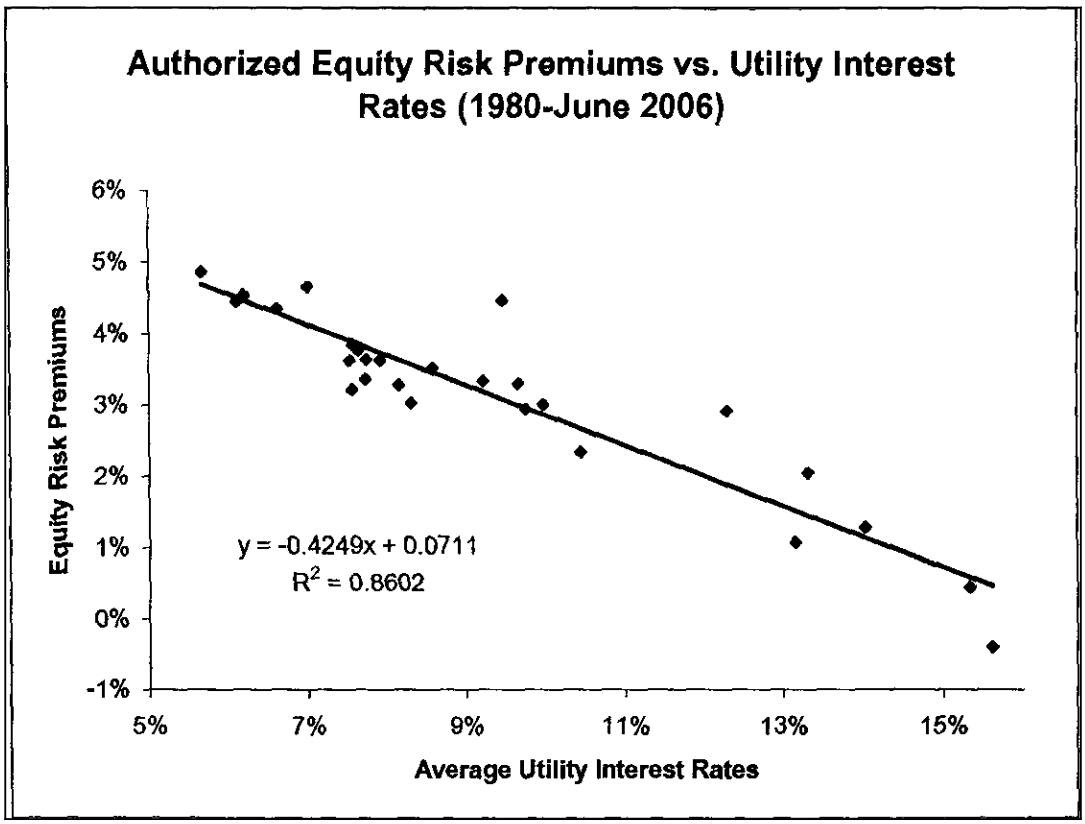
Sources:

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*Projected triple-B utility bond yield is 125 basis points over projected long-term Treasury rate from Schedule SCH-R-3.

Kansas City Power & Light Co.
Risk Premium Analysis



BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariff to Begin the Implementation of Its Regulatory Plan	)))	Case No. ER-2006-0314

AFFIDAVIT OF SAMUEL C. HADAWAY

STATE OF TEXAS	)	
	)	**ss**
COUNTY OF TRAVIS	)	

Samuel C. Hadaway, being first duly sworn on his oath, states:

1. My name is Samuel C. Hadaway. I am employed by FINANCO, Inc. in Austin, Texas. I have been retained by Great Plains Energy, Inc., the parent company of Kansas City Power & Light Company, as an expert witness to provide cost of capital testimony on behalf of Kansas City Power & Light Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of 27 pages and Schedules SCH-9 through SCH-R-17, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Samuel C. Hadaway
Samuel C. Hadaway

Subscribed and sworn before me this 6th day of September 2006.

JENNIFER LYNNE GARNER
Notary Public
STATE OF TEXAS
My Comm. Exp. 04-11-2010

Notary Public

My commission expires: 4-11-2010