Exhibit No.:	
Issue(s):	Return on Equity/ Rate of Return
Witness:	Richard Baudino
Type of Exhibit:	Direct
Sponsoring Party:	Public Counsel
Case Number:	ER-2006-00314
Date Testimony Prepared:	August 8, 2006

DIRECT TESTIMONY

OF

RICHARD A. BAUDINO

Submitted on Behalf of
the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

Case No. ER-2006-0314

August 8, 2006

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan	)))))	**Case No. ER-2006-0314**

AFFIDAVIT OF RICHARD A. BAUDINO

STATE OF GEORGIA)
) ss
COUNTY OF FULTON)

Richard A. Baudino, of lawful age and being first duly sworn, deposes and states:

1. My name is Richard A. Baudino. I am Director of Consulting and am currently employed by the firm of J. Kennedy and Associates, Inc.

2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 27 and Schedule(s) RAB-1 through RAB-6.

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

Richard A. Baudino
Director of Consulting

Subscribed and sworn to me this 4th day of August 2006.

Randy A. Futral
Notary Public

RANDY A. FUTRAL
NOTARY PUBLIC
Cobb County
State of Georgia
My Comm. Expires Aug. 26, 2008

DIRECT TESTIMONY

OF

RICHARD A. BAUDINO

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. Richard A. Baudino. My business address is J. Kennedy and Associates, Inc., 570 Colonial Park Drive, Suite 305, Roswell, Georgia.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as Director of Consulting with the firm of J. Kennedy and Associates, Inc.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received my Master of Arts degree with a major in Economics and a minor in Statistics from New Mexico State University in 1982. I also received my Bachelor of Arts Degree with majors in Economics and English from New Mexico State in 1979.

I began my professional career with the New Mexico Public Service Commission Staff in October 1982 and was employed there as a Utility Economist. During my employment with the Staff, my responsibilities included the analysis of a broad range of issues in the ratemaking field. Areas in which I testified included cost of service, rate of return, rate design, revenue requirements, analysis of sale/leasebacks of generating plants, utility finance issues, and generating plant phase-ins.

In October 1989, I joined the utility consulting firm of Kennedy and Associates as a Senior Consultant where my duties and responsibilities covered substantially the same areas as those during

my tenure with the New Mexico Public Service Commission Staff. I became Manager in July 1992 and was named to my current position in January 1995.

Schedule RAB-1 summarizes my expert testimony experience.

Q. ON BEHALF OF WHAT PARTY ARE YOU FILING THIS TESTIMONY?

A. I am filing testimony on behalf of the Missouri Office of the Public Counsel.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my Direct Testimony is to present my recommendation to the Missouri Public Service Commission for the fair rate of return on common equity for Kansas City Power and Light ("KCPL" or "Company"). I will also present recommendations regarding the capital structure and overall cost of capital.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.

A. I recommend that the Commission adopt a 9.90% return on equity for KCPL based on my average Discounted Cash Flow Analysis (DCF) results for the comparison group. I have adopted the Company's proposed capital structure and cost of debt and preferred stock. The weighted cost of capital based on my recommended return on equity is 8.15%.

Utilizing the DCF model, I developed cost of equity estimates for a comparison group of electric utility companies which indicated a range from 8.45% to 10.65%.

I also performed a Capital Asset Pricing Model (CAPM) analysis and the results ranged from 8.39% to 12.49%.

Although my proposed 9.90% rate of return on equity falls well within the CAPM range, it is my opinion that the CAPM results for the comparison group may be overstated. This overstatement is due, in part, to three factors: (1) the application of Value Line's beta using historical price data over the last five years; (2) the CAPM results using the Value Line forecast for market return is greatly overstated; and (3) a recent study by Ibbotson and Chen suggests that the historical risk premiums may be too high.

II. REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS

Q. PLEASE DESCRIBE THE GENERAL ECONOMIC TRENDS THAT HAVE AFFECTED UTILITIES IN THE LAST FEW YEARS.

A. The trend for the stock and bond markets was quite positive through the '90s. Although there was a recession in late 1990 through early 1991, the markets posted strong, above average gains through 1999. During the period from 1990 - 1999, the S&P 500 posted an average annual return of 18.2%, well above the long-term average stock market return of 12.3 %[1]. Long-term government bonds also provided excellent returns during the '90s, averaging 8.8% per year compared to the long-run average of 5.8%. During the 1990s, inflation remained moderate, averaging 2.9%.

In the years from 2000 - 2005, the stock and bond markets substantially diverged. Large company stocks as measured by the S&P 500 produced a negative annual return of -1.1%, while small company stocks actually did quite well, posting a compound annual return of 12.8%. Long-term corporate and government bonds also performed well, with annual compound returns of 9.9%. Inflation averaged a moderate 2.6% per year during this period.

More recently, in 2005 Ibbotson Associates reported[2] that the S&P 500 index gained 4.91%, significantly below the long-term average return of 12.3%. Gross Domestic Product rose at an inflation-adjusted rate of 3.5%. Inflation was up 3.42% and the unemployment rate stood at 4.9% at the end of 2005, which was a decline from 5.4% at the end of 2004. The Federal Reserve continued to increase interest rates, raising the federal funds rate 8 times during the year to 4.25%, an increase of 200 basis points from the 2.25% level at the end of 2004.

[1] *Stocks, Bonds Bills, and Inflation 2006 Yearbook*, Ibbotson Associates, pages 17 and 119.
[2] *Ibid,* pp. 9 through 16.

So far through June 2006, the Bureau of Labor Statistics reported that the inflation rate was 5.2% on an annualized basis. The Federal Reserve continued to raise the Federal Funds rate in an effort to curb inflation. The rate currently stands at 5.25%.

Q. WHAT HAS THE TREND IN LONG-TERM CAPITAL COSTS BEEN OVER THE LAST FEW YEARS?

A. ScheduleRAB-2 presents a graphic depiction of the trend in interest rates from January 1995 through June 2006. The interest rates shown are for the 20-year U.S. Treasury Bond and the average public utility bond from the Mergent Bond Record. ScheduleRAB-2 shows that the yields on long-term treasury and utility bonds have declined significantly since early 1995, although rates have been quite volatile. Increased bond market volatility actually began in the early 1970s, when inflation became more of a sustained long-term concern.

Yields trended downward from 2002 through 2005, with the 20-year bond yield declining from 5.69% to 4.73% at the end of December 2005. The yield on the average public utility bond also decreased significantly over the last three years, falling from 7.83% in March 2002 to 5.83% in December 2005, a decline of 200 basis points. Public utility bond yields fell far more than long-term Treasury yields during this time.

In 2006, however, both long-term Treasuries and utility bond yields began to rise. As of June 2006, the 20-year Treasury bond yield was 5.29%, while the average public utility bond yield was 6.39%.

Current bond yields are either at or near their lowest levels in recent history. ScheduleRAB-2 shows that since 1995 public utility bond yields are near their lowest level over that ten-year historical

period. I also reviewed the Mergent *Public Utility Manual* and found that average public utility bond yields have not been as low as they are now since the 1968 – 1969 time period, almost 37 years ago.

Q. MR. BAUDINO, IN YOUR OPINION WHAT EFFECT DOES THE CURRENT INTEREST RATE ENVIRONMENT HAVE ON UTILITY STOCKS?

A. In my view, low current bond yields strongly suggest lower return on equity requirements on the part of the investing public. The results of my return on equity analysis in the subsequent section of my Direct Testimony are consistent with these historically low bond yields.

Q. IN 2003, CONGRESS ENACTED A CHANGE IN TAX POLICY THAT LOWERED THE TAX RATE ON DIVIDENDS AND CAPITAL GAINS. PLEASE EXPLAIN THE EFFECT OF THIS TAX CHANGE ON UTILITY COMMON STOCKS AND ON INVESTOR REQUIRED RETURNS FOR UTILITIES.

A. Other things being equal, the dividend tax rate reduction means that investors should require lower pre-tax rates of return for utilities. This is because the after-tax dividend streams have now become more valuable due to the reduction in federal taxation. Thus, for a given stock price, investors will discount the future dividend payments at a lower return on equity. The stock prices that I use in my cost of equity analyses fully incorporate the effects of this change in tax rates and on the expected returns for utilities. This also means that investors require *lower* risk premiums for stocks compared to utility bonds.

Q. HOW DOES THE INVESTMENT COMMUNITY REGARD THE ELECTRIC UTILITY INDUSTRY AS A WHOLE?

A. In its February 10, 2006, report on the Electric Utility (West) Industry, Value Line stated that despite rising short-term interest rates, the valuation of electric utility stocks remains at a historically high

level. Value Line noted that the reduced tax rate on dividends has been a "boon" to investors, although there is some uncertainty as to whether this tax reduction will remain in effect past 2008.

More recently, Value Line noted the following in its June 2, 2006 report on the Electric Utility Industry:

> "Since our last report on the eastern electrics, the broader market averages have suffered, largely due to investors' concerns about inflations and rising borrowing rates. Domestic growth has been quite strong, and elevated energy and other commodity prices are lifting costs for producers and consumers. Thus, it appears that the Federal Reserve Board is not yet ready to take a pause in raising rates.
>
> As have the major stock indexes, the eastern electrics have posted share-price declines, but their losses have been more limited. The utilities have gained in the *Value Line* ranking system. By the end of this year, we expect a moderation in economic growth and a suspension of Fed rate hikes. Utility stocks possess good price stability and a few offer high yields. We caution, however, that the sector is untimely and its total-return potential to 2009-2011 is below the average of all other companies under our review.
>
> * * * *
>
> Currently, the average yield of all dividend-paying utility stocks is 4.3%, which is better than that (1.7%) of all stocks under out review, but historically low for this market sector. We project dividend growth of 2%-3% a year, and average 3- to 5-year utility total returns near 7.5% versus the *Value Line* universe average of 12.3%. At this juncture, utility stocks offer modest income and a fair measure of capital preservation."

The following quote comes from the June 30, 2006 issue of Value Line:

> "Interest rates are an important determinant of utility stock prices. In tandem with rising interest rates this year, utility stock prices have declined. Our expectation that the Federal Reserve will raise rates again at its meeting on June 28th and 29th shortly after we went to press suggests further small price props. Additional tightening by the Fed will depend on the strength of economic data and the general business outlook."

Q. WHAT CONCLUSIONS DO YOU DRAW FROM VALUE LINE'S AND S&P'S COMMENTS REGARDING THE STATE OF THE ELECTRIC INDUSTRY TODAY?

A. In my opinion, it appears that the electric industry is entering a more stable, less risky environment than it experienced during the last few years. Companies that focus on core electric operations will be lower risk than those with unregulated and/or deregulated operations and investments.

Q. MR. BAUDINO, HOW DOES THE INVESTMENT COMMUNITY CURRENTLY VIEW KANSAS CITY POWER AND LIGHT?

A. KCPL is currently carries investment grade bond ratings from Moody's (A2) and Standard and Poor's (BBB).

In its Credit Opinion dated January 17, 2006, Moody's stated that the Company's senior unsecured debt rating "reflects cash flows that are supported by a stable service territory with limited reliance on industrial customers and a low cost electric generation fleet." Moody's listed the Company's credit strengths as stable and improving financial metrics, legislative support in Missouri for pass-through of fuel and environmental costs, stable service territory with limited industrial customer exposure, and a low-cost, efficient power generating fleet. Credit challenges included increasing coal costs and environmental spending, financing needs for nearly $1.2 billion of incremental capital expenditures over the next five years, reliance on the wholesale power market for a sizable portion of its revenues, *and increased pressure from the parent company, Great Plains Energy, to support its unregulated businesses.*

On May 3, 2006 Standard and Poor's issued a Research Update that affirmed Great Plains Energy's bond ratings. The S&P report stated that KCPL's "satisfactory" business position is characterized by

a healthy service territory with little industrial concentration, solid nuclear operations, very low fuel costs, and competitive electric rates. S&P also mentioned challenges related to fuel concentration in Powder River Basin coal plants, nuclear risks from Wolf Creek station, a challenging but improving regulatory environment, and future capital requirement associated with emission standards. S&P also noted that Great Plains Energy's unregulated subsidiary, Strategic Energy, has a weak business position due to the high degree of competition in the energy supply industry, high supplier concentration, and moderate exposure to speculative grade counterparties.

Q. MR. BAUDINO, DO YOU HAVE ANY CONCLUDING COMMENTS REGARDING THE CURRENT RISK STRUCTUE OF KCPL?

A. Yes. Great Plains' overall business position is rated as a "7" (with 1 being the highest rating and 10 being the lowest). KCPL's business position is rated at 6, which is higher than Great Plains. In my opinion, this suggests that KCPL supports the overall business position of Great Plains Energy and that the weaker business position of Strategic Energy adds risk to the holding company's business profile. Further, the statement I quoted from the Moody's report suggests that KCPL may be under pressure from the Great Plains to support the operations of Strategic Energy. This additional risk from the unregulated operations of Strategic Energy should not be considered in estimating the return on equity for KCPL in this proceeding.

Further, KPCL is the beneficiary of a regulatory plan that ensures that the Company meets financial parameters sufficient to support investment grade bond ratings. The plan enables the Company to request and the Commission to authorize additional amortization amounts in the rate case that

enhances KCPL's cash flows. Other things being equal, the regulatory plan reduces the risk for KCPL.

III. DETERMINATION OF FAIR RATE OF RETURN

Q. PLEASE DESCRIBE THE METHODS YOU EMPLOYED IN ESTIMATING A FAIR RATE OF RETURN FOR THE KCPL.

A. I employed a Discounted Cash Flow ("DCF") analysis for a group of comparison electric companies to estimate the cost of equity for the Companies' regulated electric operations. I also employed several Capital Asset Pricing Model ("CAPM") analyses, although I did not incorporate these results into my recommendation.

Q. WHAT ARE THE MAIN GUIDELINES TO WHICH YOU ADHERE IN ESTIMATING THE COST OF EQUITY FOR A FIRM?

A. Generally speaking, the estimated cost of equity should be comparable to the returns of other firms with similar risk structures and should be sufficient for the firm to attract capital. These are the basic standards set out in Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944) and Bluefield W.W. & Improv. Co. v. Public Service Comm'n., 262 U.S. 679 (1922).

From an economist's perspective, the notion of "opportunity cost" plays a vital role in estimating the cost of equity. One measures the opportunity cost of an investment equal to what one would have obtained in the next best alternative. For example, let us suppose that an investor decides to purchase the stock of a publicly traded electric utility. That investor made the decision based on the expectation of dividend payments and perhaps some appreciation in the stock's value over time; however, that investor's opportunity cost is measured by what she or he could have invested in as the next best alternative. That alternative could have been another utility stock, a utility bond, a mutual fund, a money market fund, or any other number of investment vehicles.

The key determinant in deciding whether to invest, however, is based on comparative levels of risk. Our hypothetical investor would not invest in a particular electric company stock if it offered a return lower than other investments of similar risk. The opportunity cost simply would not justify such an investment. Thus, the task for the rate of return analyst is to estimate a return that is equal to the return being offered by other risk-comparable firms. Failing this, the subject firm will be impaired in its ability to attract capital.

Q. WHAT ARE THE MAJOR TYPES OF RISK FACED BY UTILITY COMPANIES?

A. In general, risk associated with the holding of common stock can be separated into three major categories: business risk, financial risk, and liquidity risk. Business risk refers to risks inherent in the operation of the business. Volatility of the firm's sales, long-term demand for its product(s), the amount of operating leverage, and quality of management are all factors that affect business risk. The quality of regulation at the state and federal levels also plays an important role in business risk for regulated utility companies.

Financial risk refers to the impact on a firm's future cash flows from the use of debt in the capital structure. Interest payments to bondholders represent a prior call on the firm's cash flows and must be met before income is available to the common shareholders. Additional debt means additional variability in the firm's earnings, leading to additional risk.

Liquidity risk refers to the ability of an investor to quickly sell an investment without a substantial price concession. The easier it is for an investor to sell an investment for cash, the lower the liquidity risk will be. Stock markets, such as the New York and American Stock Exchanges, help ease liquidity risk substantially. Investors who own stocks that are traded in these markets know on a daily basis what the market prices of their investments are and that they can sell these investments fairly

quickly. Many electric utility stocks, including KCPL's, are traded on the New York Stock Exchange and are considered liquid investments.

Q. ARE THERE ANY INDICES AVAILABLE TO INVESTORS THAT QUANTIFY THE TOTAL RISK OF A COMPANY?

A. Yes. Bond ratings are a good tool that investors may utilize to determine the risk comparability of firms. Bond rating agencies such as Moody's and Standard and Poor's perform detailed analyses of factors that contribute to the business and financial risk of a particular investment. The end result of their analyses is a bond rating that reflects these risks.

Discounted Cash Flow Method

Q. PLEASE DESCRIBE THE BASIC DCF APPROACH.

A. The basic DCF approach is rooted in valuation theory. It is based on the premise that the value of a financial asset is determined by its ability to generate future net cash flows. In the case of a common stock, those future cash flows take the form of dividends and appreciation in price. The value of the stock to investors is the discounted present value of future cash flows. The general equation then is:

$$V = \frac{R}{(1+r)} + \frac{R}{(1+r)^2} + \frac{R}{(1+r)^3} + ... \frac{R}{(1+r)^n}$$

Where: V = *asset value*
R = *yearly cash flows*
r = *discount rate*

This is no different from determining the value of any asset from an economic point of view; however, the commonly employed DCF model makes certain simplifying assumptions. One is that the stream of income from the equity share is assumed to be perpetual; that is, there is no salvage or

residual value at the end of some maturity date (as is the case with a bond). Another important assumption is that financial markets are reasonably efficient; that is, they correctly evaluate the cash flows relative to the appropriate discount rate, thus rendering the stock price efficient relative to other alternatives. Finally, the model I employ also assumes a constant growth rate in dividends. The fundamental relationship employed in the DCF method is described by the formula:

$$k = \frac{D_1}{P_0} + g$$

Where: D_1 = *the next period dividend*
P_0 = *current stock price*
g = *expected growth rate*
k = *investor-required return*

It is apparent that the "k" so determined must relate to the investors' expected return. Use of the discounted cash flow method to determine an investor-required return is complicated by the need to express investors' expectations relative to dividends, earnings, and book value over an infinite time horizon. Financial theory suggests that stockholders purchase common stock on the assumption that there will be some change in the rate of dividend payments over time. We assume that the rate of growth in dividends is constant over the assumed time horizon, but the model could easily handle varying growth rates if we knew what they were. Finally, the relevant time frame is prospective rather than retrospective.

Q. WHAT WAS YOUR FIRST STEP IN CONDUCTING YOUR DCF ANALYSIS FOR KCPL?

A. My first step was to construct a comparison group of companies with a risk profile that is reasonably similar to KCPL. Since the Company is wholly owned subsidiary of Great Plains Energy and does

not have publicly traded common stock, its cost of equity cannot be estimated directly using the DCF model. As a result, it is necessary to construct a group of comparison companies that has a risk profile that is reasonably similar to KCPL.

Q. PLEASE DESCRIBE YOUR APPROACH FOR SELECTING A COMPARISON GROUP OF ELECTRIC COMPANIES.

A. I used several criteria to select a comparison group. First, using the July 2006 issue of the *AUS Utility Reports,* I selected electric companies that were rated either Baa/BBB or A/A by Moody's and Standard and Poor's. I used this criterion because KCPL currently has a split bond rating, BBB from S&P and A2 from Moody's. From that group I selected companies that had at least 50% of their revenues from electric operations and that had long-term earnings growth forecasts from either Zack's or First Call/Thomson. I will describe Zack's and First Call/Thomson later in my testimony. This resulted in a group of electric and/or electric and gas companies that have operational and risk profiles similar to the Companies.

From this group, I then eliminated companies that had cut or eliminated dividends since 2003, were recently or currently involved in merger activities, and had recent experience with significant earnings fluctuations. These criteria are important because utilities that are undergoing those types of changes are not good candidates for the DCF model.

The resulting group of comparison electric companies I used in my analysis is:

1. Cleco Corporation
2. Consolidation Edison
3. DPL, Inc.
4. DTE Energy
5. Empire District Electric
6. Energy East Corporation
7. Entergy

8. FirstEnergy Corporation
9. Hawaiian Electric Industries
10. Northeast Utilities
11. NSTAR
12. Pepco Holdings
13. Pinnacle West Capital Corp.
14. PNM Resources
15. PPL Corporation
16. Progress Energy Inc.
17. Puget Energy
18. Southern Company
19. UIL Holdings
20. Wisconsin Energy
21. Xcel Energy

Q. WHAT WAS YOUR FIRST STEP IN DETERMINING THE DCF RETURN ON EQUITY FOR THE COMPARISON GROUP?

A. I first determined the current dividend yield, D_0/P_0, from the basic equation. My general practice is to use six months as the most reasonable period over which to estimate the dividend yield. The six-month period I used covered the months from January through June 2006. I obtained historical prices and dividends from Yahoo! Finance. The annualized dividend divided by the average monthly price represents the average dividend yield for each month in the period.

The resulting average dividend yield for the group is 4.37%. The average dividend yield for the group excluding UIL Holdings is 4.30%. I will explain later in my testimony why I believe it is reasonable to exclude UIL Holdings from the calculation of return on equity for the comparison group. These calculations are shown in ScheduleRAB-3.

Q. HAVING ESTABLISHED THE AVERAGE DIVIDEND YIELD, HOW DID YOU DETERMINE THE EXPECTED GROWTH RATE FOR THE ELECTRIC COMPARISON GROUP?

A. "Expected" refers to the investor's expected growth rate. The task, in theory, is to use a growth rate that will correctly forecast the constant rate of growth in dividends. We refer to a perpetual growth rate since the DCF model has no arbitrary cut-off point. The obvious fact is that there is no way to know with absolute certainty what investors expect the growth rate to be in the short term, much less in perpetuity. The dividend growth rate is a function of earnings growth and the payout ratio, neither of which is known precisely for the future.

In this analysis, I relied on three major sources of analysts' forecasts for growth. These sources are Value Line, Zacks Investment Research ("Zacks"), and First Call/Thomson Financial.

Q. PLEASE BRIEFLY DESCRIBE VALUE LINE, ZACKS, AND FIRST CALL/THOMSON FINANCIAL.

A. Value Line is an investment survey that is published for approximately 1,700 companies, both regulated and unregulated. It is updated quarterly and probably represents the most comprehensive and widely used of all investment information services. It provides both historical and forecasted information on a number of important data elements. Value Line neither participates in financial markets as a broker nor works for the utility industry in any capacity of which I am aware.

According to Zacks' website, Zacks "was formed in 1978 to compile, analyze, and distribute investment research to both institutional and individual investors." Zacks gathers opinions from a variety of analysts on earnings growth forecasts for numerous firms including regulated electric utilities. The estimates of the analysts responding are combined to produce consensus average and median estimates of earnings growth.

Like Zacks, First Call/Thomson Financial also provides detailed investment research on numerous companies. First Call/Thomson also compiles and reports consensus analysts' forecasts of earnings growth.

Q. WHY DID YOU RELY ON ANALYSTS' FORECASTS IN YOUR ANALYSIS?

A. The finance literature has shown that analysts' forecasts provide better predictions of future growth than do estimates based on historical growth alone.[3]

Q. HOW DID YOU UTILIZE YOUR DATA SOURCES TO ESTIMATE GROWTH RATES FOR THE COMPARISON GROUP?

A. Schedule RAB-4, pages 1 through 4, presents the details of the calculations for the Value Line, Zacks, and First Call/Thomson Financial forecasted growth estimates. The Value Line growth estimates are based on five-year forecasts for dividend growth and six-year forecasts for earnings growth. The Zacks and First Call/Thomson Financial earnings growth estimates are forecasts for the next three to five years. These earnings and dividend growth estimates for the comparison group are summarized on Columns (1) through (5) of page 1 of ScheduleRAB-4.

I also utilized the sustainable growth formula in estimating the expected growth rate. The sustainable growth method, also known as the retention ratio method, recognizes that the firm retains a portion of its earnings fuels growth in dividends. These retained earnings, which are plowed back into the firm's asset base, are expected to earn a rate of return. This, in turn, generates growth in the firm's book value, market value, and dividends.

The sustainable growth method is calculated using the following formula:

3 See Rozeff (Journal of Forecasting, Volume 2, Issue No. 4, 1983), Brown and Rozeff (Journal of Finance, March 1978), Moyer, Chatfield and Kelley (International

$$G = B \times R$$

Where: *G = expected retention growth rate*
B = the firm's expected retention ratio
R = the expected return

In its proper form, this calculation is forward-looking. That is, the investors' expected retention ratio and return must be used in order to measure what investors anticipate will happen in the future. Data on expected retention ratios and returns may be obtained from Value Line.

The expected sustainable growth estimates for the comparison group are presented in Column (3) on page 1 of ScheduleRAB-4. The data came from the Value Line forecasts for the comparison group.

Q. SCHEDULES RAB-3 AND RAB-4 SHOW CALCULATIONS THAT EXCLUDE UIL HOLDINGS. PLEASE EXPLAIN WHY YOU EXCLUDED THIS COMPANY FROM THE AVERAGE DIVIDEND YIELD AND GROWTH RATE CALCULATIONS.

A. The Zack's and First Call/Thomson growth forecasts are not representative of long-run growth for UIL. Clearly, the 18% First Call/Thomson forecast is not sustainable for the long term and including in the growth rate calculations for the group would inflate the results. Likewise, the 11% Zack's growth forecast is an outlier compared to the forecasts for the other companies. My review of the Zack's and First Call/Thomson reports suggests that the analysts are expecting significant recovery in earnings per share from lower historical levels. As a result, the forecasted growth in earning over the next few years overstates the sustainable long-run growth rate for UIL Holdings. Thus, I recommend that the UIL Holdings be excluded from the calculations for purposes of estimating return on equity in this case.

Journal of Forecasting, 1985), and a study by Vander Weide and Carleton that was incorporated as part of the Edison Electric Institute's comments in the Federal Energy Regulatory Commission's generic cost of capital proceedings.

Q. HOW DID YOU PROCEED TO DETERMINE THE DCF COST OF EQUITY FOR THE ELECTRIC COMPARISON GROUP?

A. To estimate the expected dividend yield (D_1) for the group (excluding UIL Holdings), the current dividend yield must be moved forward in time to account for dividend increases over the next twelve months. I estimated the expected dividend yield by multiplying the current dividend yield, 4.30% excluding UIL Holdings, by one plus one-half the expected growth rate.

I then added the expected growth rate ranges to the expected dividend yield for the comparison group excluding UIL Holdings. The calculation of the resulting DCF returns on equity is presented on page 5 of Schedule RAB-4. The expected growth rates I utilized were the Value Line dividend and earnings forecasts and the Zack's and First Call/Thomson forecasts, which ranged from 4.06% to 6.21%.

Q. PLEASE EXPLAIN HOW YOU CALCULATED YOUR DCF COST OF EQUITY ESTIMATES.

A. Page 5 of Schedule RAB-4 shows four alternative DCF cost of equity calculations using four of the growth estimates shown on page 1. The DCF returns range from 8.45% to 10.65%. The DCF return on equity utilizing the average of all four growth rates is 9.89%.

Capital Asset Pricing Model

Q. BRIEFLY SUMMARIZE THE CAPITAL ASSET PRICING MODEL ("CAPM") APPROACH.

A. The theory underlying the CAPM approach is that investors, through diversified portfolios, may combine assets to minimize the total risk of the portfolio. Diversification allows investors to diversify away all risks specific to a particular company and be left only with market risk that affects all

companies. Thus, the CAPM theory identifies two types of risks for a security: company-specific risk and market risk. Company-specific risk includes such events as strikes, management errors, marketing failures, lawsuits, and other events that are unique to a particular firm. Market risk includes inflation, business cycles, war, variations in interest rates, and changes in consumer confidence. Market risk tends to affect all stocks and cannot be diversified away. The idea behind the CAPM is that diversified investors are rewarded with returns based on market risk.

Within the CAPM framework, the expected return on a security is equal to the risk-free rate of return plus a risk premium that is proportional to the security's market, or nondiversifiable risk. Beta is the factor that reflects the inherent market risk of a security. It measures the volatility of a particular security relative to overall market for securities. For example, a stock with a beta of 1.0 indicates that if the market rises by 15.00%, that stock will also rise by 15.00%. This stock moves in tandem with movements in the overall market. Stocks with a beta of 0.5 will only rise or fall 50.00% as much as the overall market. So with an increase in the market of 15.00%, this stock will only rise 7.50%. Stocks with betas greater than 1.0 will rise and fall more than the overall market. Thus, beta is the relevant measure of the risk of individual securities vis-à-vis the market.

Based on the foregoing discussion, the equation for determining the return for a security in the CAPM framework is:

$$K = Rf + \beta(MRP)$$

Where:
K = *Required Return on equity*
Rf = *Risk-free rate*
MRP = *Market risk premium*
β = *Beta*

This equation tells us about the risk/return relationship posited by the CAPM. Investors are risk averse and will only accept higher risk if they receive higher returns. These returns can be determined in relation to a stock's beta and the market risk premium. The general level of risk aversion in the economy determines the market risk premium. If the risk-free rate of return is 3.00% and the required return on the total market is 15.00%, then the risk premium is 12.00%. Any stock's required return can be determined by multiplying its beta by the market risk premium. Stocks with betas greater than 1.0 are considered riskier than the overall market and will have higher required returns. Conversely, stocks with betas less than 1.0 will have required returns lower than the market as a whole.

Q. IN GENERAL, ARE THERE CONCERNS REGARDING THE USE OF THE CAPM IN ESTIMATING THE RETURN ON EQUITY?

A. Yes. There is considerable controversy surrounding the use of the CAPM.[4] There is strong evidence that beta is not the primary factor in determining the risk of a security. For example, Value Line states that its Safety Rank is a measure of total risk, not its calculated beta coefficient. Beta coefficients usually describe only a small amount of total investment risk. Also, recent finance literature has questioned the usefulness of beta in predicting the relationship between risk and required return. Finally, a considerable amount of judgment must be employed in determining the risk-free rate and market return portions of the CAPM equation. The analyst's application of judgment can significantly influence the results obtained from the CAPM. My past experience with the CAPM indicates that it is prudent to use a wide variety of data in estimating returns. Of course,

[4] For a more complete discussion of some of the controversy surrounding the use of the CAPM, refer to *A Random Walk Down Wall Street* by Burton Malkiel, pages 229 – 239, 1999 edition.

the range of results may also be wide, indicating the difficulty in obtaining a reliable estimate from the CAPM.

Q. HOW DID YOU ESTIMATE THE MARKET RETURN PORTION OF THE CAPM?

A. The first source I used was the Value Line Investment Survey for Windows for July 2006. Value Line provides a summary statistical report detailing, among other things, forecasted growth in dividends, earnings, and book value for the companies Value Line follows. I have presented these three growth rates and the average on page 3 of Schedule RAB-5. The average growth rate is 12.53%. Combining this growth rate with the average expected dividend yield of the Value Line companies of 1.18% results in an expected market return of 13.71%. The detailed calculations are shown on pages 1 and 2 of Schedule RAB-5.

I also considered a supplemental check to this market estimate. Ibbotson Associates published a study of historical returns on the stock market in its *Stocks, Bonds, Bills, and Inflation 2006 Yearbook*. Some analysts employ this historical data to estimate the market risk premium of stocks over the risk-free rate. The assumption is that a risk premium calculated over a long period of time is reflective of investor expectations going forward. Schedule RAB-6 presents the calculation of the market return using the Ibbotson historical data.

Q. PLEASE ADDRESS THE USE OF HISTORICAL EARNED RETURNS TO ESTIMATE THE MARKET RISK PREMIUM.

A. The use of historic earned returns on the Standard and Poor 500 to estimate the current market risk premium is rather suspect because it naively assumes that investors currently expect historical risk premiums to continue unchanged into the future forever regardless of present or forecasted economic conditions. Brigham, Shome and Vinson noted the following with respect to the use of historic risk

premiums calculated using the returns as reported by Ibbotson and Sinquefield (referred to in the quote as "I&S"):

> "There are both conceptual and measurement problems with using I&S data for purposes of estimating the cost of capital. Conceptually, there is no compelling reason to think that investors expect the same relative returns that were earned in the past. Indeed, evidence presented in the following sections indicates that relative expected returns should, and do, vary significantly over time. Empirically, the measured historic premium is sensitive both to the choice of estimation horizon and to the end points. These choices are essentially arbitrary, yet can result in significant differences in the final outcome."[5]

In summary, the use of historic earned returns should be viewed with a great deal of caution. There is no real support for the proposition that an unchanging, mechanistically applied historical risk premium is representative of current investor expectations and return requirements.

Q. HOW DID YOU DETERMINE THE RISK FREE RATE?

A. I used the average yields on the 20-year Treasury bond and five-year Treasury note over the six-month period from January through June 2006. The 20-year Treasury bond is often used by rate of return analysts as the risk-free rate, but it contains a significant amount of interest rate risk. The five-year Treasury note carries less interest rate risk than the 20-year bond and is more stable than three-month Treasury bills. Therefore, I have employed both of these securities as proxies for the risk-free rate of return. This approach provides a reasonable range over which the CAPM may be estimated.

Q. WHAT IS YOUR ESTIMATE OF THE MARKET RISK PREMIUM?

A. Schedule RAB-5, line 9 of page 1, presents my estimates of the market risk premium based on a DCF analysis applied to current market data. The market risk premium is 8.69% using the 20-year Treasury bond and 8.94% using the five-year Treasury bond.

Utilizing the historical Ibbotson data on market returns, the market risk premium ranges from 5.20% to 7.20%. This is shown on Schedule RAB-6.

Q. HOW DID YOU DETERMINE THE VALUE FOR BETA?

A. I obtained the betas for the companies in the electric company comparison group from most recent Value Line reports and from First Call/Thomson. The average of the Value Line and First Call/Thomson betas for the electric group is .86 and .65, respectively.

Q. PLEASE SUMMARIZE THE CAPM RESULTS.

A. Please refer to line 14 of pages 1 and 2 of Schedule RAB-5 for the CAPM results for the 20-year and five-year Treasury bond yields. For the electric comparison group, the CAPM returns range from 10.56% to 12.49%.

The CAPM results using the historical Ibbotson data range from 8.39% to 11.13%. These results are shown on Schedule RAB-6.

Conclusions and Recommendations

Q. PLEASE SUMMARIZE THE COST OF EQUITY YOU RECOMMEND THIS COMMISSION ADOPT FOR KCPL.

A. This Commission should adopt the DCF model I developed and the cost of equity estimates for a comparison group of electric utility companies. The results for the electric company comparison group using the constant-growth DCF model ranged from 8.45% to 10.65%.

[5] Brigham, E.F., Shome, D.K. and Vinson, S.R., "The Risk Premium Approach to Measuring a Utility's Cost of Equity", *Financial Management*, Spring 1985, pp. 33-45.

Q. WHAT IS YOUR RECOMMENDATION FOR A FAIR RATE OF RETURN ON EQUITY FOR THE COMPANIES?

A. I recommend that the Commission adopt a 9.90% return on equity for KCPL in this proceeding. This recommendation is based on my average DCF results for the comparison group.

Q. MANY OF YOUR CAPM RESULTS ARE HIGHER THAN YOUR DCF RESULTS. WHY DID YOU NOT TAKE THIS INTO ACCOUNT IN YOUR RECOMMENDED RETURN ON EQUITY?

A. Although I would note that my proposed rate of return on equity of 9.90% falls well within the CAPM range, it is my opinion that the CAPM results for the comparison group may overstated at this time for a number of reasons. First, this overstatement is due, in part, to the application of Value Line's beta for the group of .86. Value Line determines its betas based on five years of historical price data. Over the last five years, utility share prices in general have been quite volatile due to restructuring, deregulation, and the increase of unregulated investments that were more risky than core electric operations. These factors may have increased Value Line's historical betas for electric utilities, other things being equal. It now appears that the industry will be more stable going forward and, in my opinion, historical betas are therefore likely to fall from their current level. In fact, First Call/Thomson shows betas for the comparison companies that are significantly lower than Value Line's betas, supporting a much lower CAPM result than the Value Line betas.

Second, I believe that the CAPM results utilizing the Value Line forecast for market return is greatly overstated. The market return of 13.71% is completely out of line with the results based on historical data and with a recent forecast of market returns by Standard and Poor's. I conducted an alternative analysis using a forecast of earnings growth for the S&P 500 as a check on the results from the Value

Line calculation. First Call's five-year forecast of earnings growth for the S&P 500 is 10.74%. Combining this growth forecast with the current dividend yield on the S&P 500 of 1.92%[6] results in a total return on the market:

Market ROE = 2.02% + 10.74% = 12.76%

I believe that the Value Line forecasts for the next five years exceed long-term expectations for market returns and I recommend that the Commission disregard these results.

Third, a recent study by Ibbotson and Chen[7] suggests that the historical risk premiums I presented in Schedule RAB-6 may be too high. The Ibbotson/Chen study estimated a revised risk premium that factors out rising price/earnings ("P/E") ratios over time, which inflated achieved historical returns. The assumption in this analysis is that Price/Earnings ratios would not be expected to rise continuously into the future. The results of the study indicate a revised historical risk premium of 4% to 6%, well below the historical risk premiums of 5.2% - 7.1% shown in Schedule RAB-6. Incorporating the lower revised risk premiums from the Ibbotson/Chen study would result in the Value Line CAPM estimates of 8.47% to 10.19%, which would place my proposed rate of return on equity of 9.90% at the upper end of that range. The CAPM results using the First Call/Thomson betas would be even lower, with a range of 7.63% to 8.93%.

Q. IN SECTION II OF YOUR DIRECT TESTIMONY, YOU MENTIONED THE PASSAGE OF THE 2003 TAX BILL THAT REDUCED TAXES ON QUALIFYING DIVIDENDS TO 15%. DO YOU BELIEVE THAT THIS REDUCED TAX RATE

[6] The S&P dividend yield as of June 30, 2006 was 1.92%.

[7] Roger G. Ibbotson and Peng Chen, *Long Run Stock Returns: Participating in the Real Economy*, January/February 2003, AIMR.

ON DIVIDENDS HAS AFFECTED THE INVESTOR REQUIRED RETURNS FOR ELECTRIC UTILITY COMPANIES?

A. Yes. As I stated earlier, I believe that the new favorable tax rate on dividends has reduced the investors' required pre-tax cost of equity for electric utilities. Basic economic theory supports this proposition.

Prior to the passage of the 2003 tax bill, dividends were taxed at the normal tax rates, which could be as high as 35%. These same dividends are now being taxed at a much lower 15% rate. What this means is that for a given after-tax rate of return, such as 7% for example, an investor would now require a lower pretax return in order to earn that 7% after-tax return. In the realm of regulation, experts must estimate, and commissions must set, a pretax rate of return on equity that will be applied to a company's rate base. With lower tax rates on dividends, these pretax returns will inevitably decline.

In conclusion, other things being equal, the reduction in dividend taxation should lead to lower required returns for investors. When viewed from this perspective, a 9.90% return on equity for KCPL is quite reasonable.

Overall Cost of Capital

Q. HAVE YOU REVIEWED KCPL'S REQUESTED CAPITAL STRUCTURE AND COST OF DEBT?

A. Yes. For purposes of this case I have adopted the Company's proposed capital structure and cost of debt and preferred stock.

Q. WHAT IS YOUR OVERALL COST OF CAPITAL RECOMMENDATION?

A. Adjusting the Company's proposed overall cost of capital for my recommended return on equity has the following results:

Component	Ratio	Cost	Wtd. Cost
Debt	44.67%	6.16%	2.75%
Preferred Stock	1.52%	4.29%	0.07%
Common Equity	53.81%	9.90%	5.33%
Overall Cost of Capital			8.15%

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes.

RESUME OF RICHARD A. BAUDINO, DIRECTOR OF CONSULTING

EDUCATION

New Mexico State University, M.A.
Major in Economics
Minor in Statistics

New Mexico State University, B.A.
Economics
English

Twenty two years of experience in utility ratemaking. Broad based experience in revenue requirement analysis, cost of capital, utility financing, phase-ins, auditing and rate design. Has designed revenue requirement and rate design analysis programs.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

Electric and Gas Utility Rate Design
Cost of Capital for Electric, Gas and Water Companies
Ratemaking Treatment of Generating Plant Sale/Leasebacks
Electric and Gas Utility Cost of Service
Revenue Requirements
Gas industry restructuring and competition
Fuel cost auditing

RESUME OF RICHARD A. BAUDINO, DIRECTOR OF CONSULTING

EXPERIENCE

1989 to Present: **Kennedy and Associates: Director of Consulting** - Responsible for consulting assignments in the area of revenue requirements, rate design, cost of capital, economic analysis of generation alternatives, gas industry restructuring and competition.

1982 to 1989: **New Mexico Public Service Commission Staff: Utility Economist** - Responsible for preparation of analysis and expert testimony in the areas of rate of return, cost allocation, rate design, finance, phase-in of electric generating plants, and sale/leaseback transactions.

CLIENTS SERVED

Regulatory Commissions

Louisiana Public Service Commission
Georgia Public Service Commission
New Mexico Public Service Commission

Industrial Groups

Ad Hoc Committee for a Competitive Electric Supply System
Air Products and Chemicals, Inc.
Arkansas Electric Energy Consumers
Arkansas Gas Consumers
Armco Steel Company, L.P.
Association of Business Advocating Tariff Equity
Climax Molybdenum Company
General Electric Company
Industrial Energy Consumers
Kentucky Industrial Utility Consumers
Large Electric Consumers Organization
Newport Steel
Northwest Arkansas Gas Consumers
Maryland Industrial Group
Occidental Chemical
PSI Industrial Group
Taconite Intervenors (Minnesota)
Tyson Foods
West Virginia Energy Users Group

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2006

Date	Case	Jurisdict.	Party	Utility	Subject
3/83	1780	NM	New Mexico Public Service Commission	Boles Water Co.	Rate design, rate of return.
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop	Rate design.
11/84	1833	NM	New Mexico Public Service Commission	El Paso Electric Co.	Service contract approval, rate design, performance standards for Palo Verde nuclear generating system
1983	1835	NM	New Mexico Public Service Commission	Public Service Co. of NM	Rate design.
1984	1848	NM	New Mexico Public Service Commission	Sangre de Cristo Water Co.	Rate design.
02/85	1906	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
09/84	1907	NM	New Mexico Public Service Commission	Jornada Water Co.	Rate of return.
11/85	1957	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
04/86	2009	NM	New Mexico Public Service Commission	El Paso Electric Co.	Phase-in plan, treatment of sale/leaseback expense.
06/86	2032	NM	New Mexico Public Service Commission	El Paso Electric Co.	Sale/leaseback approval.
09/86	2033	NM	New Mexico Public Service Commission	El Paso Electric Co.	Order to show cause, PVNGS audit.
02/87	2074	NM	New Mexico Public Service Commission	El Paso Electric Co.	Diversification.
05/87	2089	NM	New Mexico Public Service Commission	El Paso Electric Co.	Fuel factor adjustment.
08/87	2092	NM	New Mexico Public Service Commission	El Paso Electric Co.	Rate design.
10/88	2146	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Financial effects of restructuring, reorganization.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2006

Date	Case	Jurisdict.	Party	Utility	Subject
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.
01/89	2194	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Economic development.
1/89	2253	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	89-208-TF	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Rider M-33.
01/90	U-17282	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
09/90	90-158	KY	Kentucky Industrial Utility Consumers	Louisville Gas & Electric Co.	Cost of equity.
09/90	90-004-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Cost of equity, transportation rate.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
04/91	91-037-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Transportation rates.
12/91	91-410-EL-AIR	OH	Air Products & Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Cost of equity.
05/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Cost of equity, rate of return.
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2006

Date	Case	Jurisdict.	Party	Utility	Subject
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/94	E-015/ GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.
5/94	R-00942993	PA	PG&W Industrial Intervenors	Pennsylvania Gas & Water Co.	Analysis of recovery of transition costs.
5/94	R-00943001	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Evaluation of cost allocation, rate design, rate plan, and carrying charge proposals.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2006

Date	Case	Jurisdict.	Party	Utility	Subject
7/94	R-00942986	PA	Armco, Inc., West Penn Power Industrial Intervenors	West Penn Power Co.	Return on equity and rate of return.
7/94	94-0035-E-42T	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Return on equity and rate of return.
8/94	8652	MD	Westvaco Corp.	Potomac Edison Co.	Return on equity and rate of return.
9/94	930357-C	AR	West Central Arkansas Gas Consumers	Arkansas Oklahoma Gas Corp.	Evaluation of transportation service.
9/94	U-19904	LA	Louisiana Public Service Commission	Gulf States Utilities	Return on equity.
9/94	8629	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Transition costs.
11/94	94-175-U	AR	Arkansas Gas Consumers	Arkla, Inc.	Cost-of-service, rate design, rate of return.
3/95	RP94-343-000	FERC	Arkansas Gas Consumers	NorAm Gas Transmission	Rate of return.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Return on equity.
6/95	U-10755	MI	Association of Businesses Advocating Tariff Equity	Consumers Power Co.	Revenue requirements.
7/95	8697	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Cost allocation and rate design.
8/95	95-254-TF U-2811	AR	Tyson Foods, Inc.	Southwest Arkansas Electric Cooperative	Refund allocation.
10/95	ER95-1042-000	FERC	Louisiana Public Service Commission	Systems Energy Resources, Inc.	Return on Equity.
11/95	I-940032	PA	Industrial Energy Consumers of Pennsylvania	State-wide - all utilities	Investigation into Electric Power Competition.
5/96	96-030-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Revenue requirements, rate of return and cost of service.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2006

Date	Case	Jurisdict.	Party	Utility	Subject
7/96	8725	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Return on Equity.
7/96	U-21496	LA	Louisiana Public Service Commission	Central Louisiana Electric Co.	Return on equity, rate of return.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
1/97	RP96-199-000	FERC	The Industrial Gas Users Conference	Mississippi River Transmission Corp.	Revenue requirements, rate of return and cost of service.
3/97	96-420-U	AR	West Central Arkansas Gas Corp.	Arkansas Oklahoma Gas Corp.	Revenue requirements, rate of return, cost of service and rate design.
7/97	U-11220	MI	Association of Business Advocating Tariff Equity	Michigan Gas Co. and Southeastern Michigan Gas Co.	Transportation Balancing Provisions
7/97	R-00973944	PA	Pennsylvania American Water Large Users Group	Pennsylvania-American Water Co.	Rate of return, cost of service, revenue requirements.
3/98	8390-U	GA	Georgia Natural Gas Group and the Georgia Textile Manufacturers Assoc.	Atlanta Gas Light	Rate of return, restructuring issues, unbundling, rate design issues.
7/98	R-00984280	PA	PG Energy, Inc.	PGE Industrial Intervenors	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	U-23358	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity, rate of return.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2006

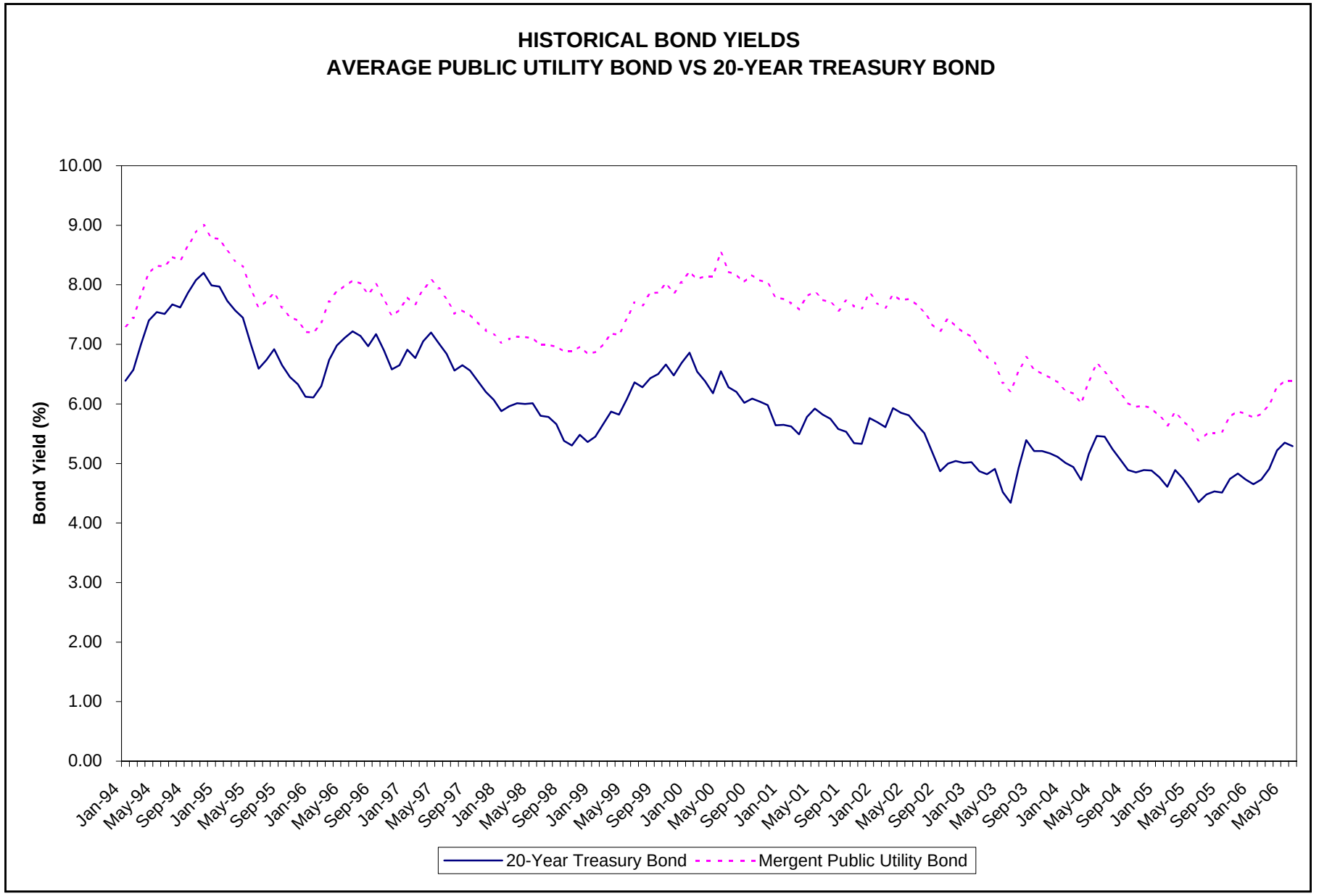
Date	Case	Jurisdict.	Party	Utility	Subject
3/99	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co	Return on equity.
3/99	99-082	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Return on equity.
4/99	R-984554	PA	T. W. Phillips Users Group	T. W. Phillips Gas and Oil Co.	Allocation of purchased gas costs.
6/99	R-0099462	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States,Inc.	Cost of debt.
10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity assignment.
01/00	8829	MD	Maryland Industrial Gr. & United States	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00994788	PA	Penn Fuel Transportation	PFG Gas, Inc., and	Tariff charges, balancing provisions.
05/00	U-17735	LA	Louisiana Public Service Comm.	Louisiana Electric Cooperative	Rate restructuring.
07/00	2000-080	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric Co.	Cost allocation.
07/00	U-21453 LA U-20925 (SC), U-22092 (SC) (Subdocket E)		Louisiana Public Service Comm.	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005654	PA	Philadelphia Industrial And Commercial Gas Users Group.	Philadelphia Gas Works	Interim relief analysis.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2006

Date	Case	Jurisdict.	Party	Utility	Subject
10/00	U-21453 LA U-20925 (SC), U-22092 (SC) (Subdocket B)		Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring, Business Separation Plan.
11/00	R-00005277 PA (Rebuttal)		Penn Fuel Transportation Customers	PFG Gas, Inc. and North Penn Gas Co.	Cost allocation issues.
12/00	U-24993	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Stranded cost analysis.
04/01	U-21453 LA U-20925 (SC), U-22092 (SC) (Subdocket B) (Addressing Contested Issues)		Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring issues.
04/01	R-00006042 PA		Philadelphia Industrial and Commercial Gas Users Group	Philadelphia Gas Works	Revenue requirements, cost allocation and tariff issues.
11/01	U-25687	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/02	14311-U	GA	Georgia Public Service Commission	Atlanta Gas Light	Capital structure.
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021612	PA	Philadelphia Industrial And Commercial Gas Users Group	Philadelphia Gas Works	Transportation rates, terms, and conditions.
01/03	2002-00169 KY		Kentucky Industrial Utility Customers	Kentucky Power	Return on equity.
02/03	02S-594E	CO	Cripple Creek & Victor Gold Mining Company	Aquila Networks – WPC	Return on equity.
04/03	U-26527	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
10/03	CV020495AB	GA	The Landings Assn., Inc.	Utilities Inc. of GA	Revenue requirement & overcharge refund
03/04	2003-00433	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric	Return on equity, Cost allocation & rate design

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2006

Date	Case	Jurisdict.	Party	Utility	Subject
03/04	2003-00434	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Return on equity
4/04	ER03-583-000, et. al.	FERC	Louisiana Public Service Commission	Entergy Corp.	Return on Equity
4/04	04S-035E	CO	Cripple Creek & Victor Gold Mining Company, Goodrich Corp., Holcim (U.S.) Inc., and The Trane Co.	Aquila Networks – WPC	Return on equity.
9/04	U-23327, Subdocket B	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Fuel cost review
10/04, 07/06	U-23327 Subdocket A	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on Equity
06/05	050045-EI	FL	South Florida Hospital and HeallthCare Assoc.	Florida Power & Light Co.	Return on Equity.
08/05	9036	MD	Maryland Industrial Group	Baltimore Gas & Electric	Revenue requirement, cost allocation, rate design, tariff issues
11/05	05S-264G	CO	Climax Molybdenum Co.	Public Service Co. of Colorado	Cost allocation and rate design
01/06	2005-00341	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power	Return on equity
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalchian Power Co.	Return on equity
04/06	U-25116	LA	Louisiana Public Service Commission	Entergy Louisiana, LLC	Transmission Issues


HISTORICAL BOND YIELDS
AVERAGE PUBLIC UTILITY BOND VS 20-YEAR TREASURY BOND
Bond Yield (%)
10.00
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Jan-94
May-94
Sep-94
Jan-95
May-95
Sep-95
Jan-96
May-96
Sep-96
Jan-97
May-97
Sep-97
Jan-98
May-98
Sep-98
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
20-Year Treasury Bond
Mergent Public Utility Bond

KANSAS CITY POWER AND LIGHT
COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		June '06	May '06	Apr '06	Mar '06	Feb '06	Jan '06
Cleco Corporation	High Price ($)	23.260	23.690	23.000	22.720	22.690	22.320
	Low Price ($)	21.450	21.260	21.230	21.080	20.810	20.820
	Avg. Price ($)	22.355	22.475	22.115	21.900	21.750	21.570
	Dividend ($)	0.225	0.225	0.225	0.225	0.225	0.225
	Mo. Avg. Div.	4.03%	4.00%	4.07%	4.11%	4.14%	4.17%
	6 mos. Avg.	4.09%					
Consolidated Edison	High Price ($)	45.000	44.480	43.880	45.870	47.190	47.520
	Low Price ($)	43.050	41.170	41.620	43.350	44.930	46.060
	Avg. Price ($)	44.025	42.825	42.750	44.610	46.060	46.790
	Dividend ($)	0.575	0.575	0.575	0.575	0.575	0.575
	Mo. Avg. Div.	5.22%	5.37%	5.38%	5.16%	4.99%	4.92%
	6 mos. Avg.	5.17%					
DPL, Inc.	High Price ($)	27.170	27.640	27.880	27.660	27.150	26.470
	Low Price ($)	26.110	26.320	26.640	26.460	25.030	25.480
	Avg. Price ($)	26.640	26.980	27.260	27.060	26.090	25.975
	Dividend ($)	0.250	0.250	0.250	0.250	0.250	0.240
	Mo. Avg. Div.	3.75%	3.71%	3.67%	3.70%	3.83%	3.70%
	6 mos. Avg.	3.73%					
DTE Energy	High Price ($)	41.910	41.110	41.620	43.350	43.800	44.230
	Low Price ($)	39.500	38.770	39.160	40.000	41.060	42.080
	Avg. Price ($)	40.705	39.940	40.390	41.675	42.430	43.155
	Dividend ($)	0.515	0.515	0.515	0.515	0.515	0.515
	Mo. Avg. Div.	5.06%	5.16%	5.10%	4.94%	4.86%	4.77%
	6 mos. Avg.	4.98%					
Empire District	High Price ($)	22.350	22.990	23.050	22.700	23.000	22.680
	Low Price ($)	20.260	21.570	21.710	21.500	21.700	20.330
	Avg. Price ($)	21.305	22.280	22.380	22.100	22.350	21.505
	Dividend ($)	0.320	0.320	0.320	0.320	0.320	0.320
	Mo. Avg. Div.	6.01%	5.75%	5.72%	5.79%	5.73%	5.95%
	6 mos. Avg.	5.82%					
Energy East Corp.	High Price ($)	24.590	24.590	25.390	25.110	25.440	25.570
	Low Price ($)	22.920	22.180	23.240	24.120	24.070	22.980
	Avg. Price ($)	23.755	23.385	24.315	24.615	24.755	24.275
	Dividend ($)	0.290	0.290	0.290	0.290	0.290	0.290
	Mo. Avg. Div.	4.88%	4.96%	4.77%	4.71%	4.69%	4.78%
	6 mos. Avg.	4.80%					

KANSAS CITY POWER AND LIGHT
COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		June '06	May '06	Apr '06	Mar '06	Feb '06	Jan '06
Entergy Corp.	High Price ($)	72.970	70.900	71.130	72.470	72.970	71.700
	Low Price ($)	69.370	67.080	66.780	68.750	67.970	68.350
	Avg. Price ($)	71.170	68.990	68.955	70.610	70.470	70.025
	Dividend ($)	0.540	0.540	0.540	0.540	0.540	0.540
	Mo. Avg. Div.	3.03%	3.13%	3.13%	3.06%	3.07%	3.08%
	6 mos. Avg.	3.08%					
FirstEnergy Corp.	High Price ($)	54.570	53.750	51.280	52.170	51.290	52.000
	Low Price ($)	51.920	49.900	48.230	48.760	47.750	48.810
	Avg. Price ($)	53.245	51.825	49.755	50.465	49.520	50.405
	Dividend ($)	0.450	0.450	0.450	0.450	0.450	0.450
	Mo. Avg. Div.	3.38%	3.47%	3.62%	3.57%	3.63%	3.57%
	6 mos. Avg.	3.54%					
Hawaiian Electric	High Price ($)	27.920	27.050	27.440	27.260	27.050	26.740
	Low Price ($)	26.670	25.690	26.200	26.350	25.910	25.710
	Avg. Price ($)	27.295	26.370	26.820	26.805	26.480	26.225
	Dividend ($)	0.310	0.310	0.310	0.310	0.310	0.310
	Mo. Avg. Div.	4.54%	4.70%	4.62%	4.63%	4.68%	4.73%
	6 mos. Avg.	4.65%					
Northeast Utilities	High Price ($)	21.030	20.450	20.170	20.160	20.230	20.230
	Low Price ($)	20.130	19.190	19.120	19.070	19.200	19.340
	Avg. Price ($)	20.580	19.820	19.645	19.615	19.715	19.785
	Dividend ($)	0.175	0.175	0.175	0.175	0.175	0.175
	Mo. Avg. Div.	3.40%	3.53%	3.56%	3.57%	3.55%	3.54%
	6 mos. Avg.	3.53%					
NSTAR	High Price ($)	28.610	27.950	28.830	29.350	29.760	30.160
	Low Price ($)	27.500	26.500	26.770	28.060	28.000	28.270
	Avg. Price ($)	28.055	27.225	27.800	28.705	28.880	29.215
	Dividend ($)	0.303	0.303	0.303	0.303	0.303	0.303
	Mo. Avg. Div.	4.32%	4.45%	4.36%	4.22%	4.20%	4.15%
	6 mos. Avg.	4.28%					
Pepco Holdings	High Price ($)	23.720	23.920	23.490	24.240	24.280	23.990
	Low Price ($)	22.500	21.790	21.890	22.540	22.710	22.150
	Avg. Price ($)	23.110	22.855	22.690	23.390	23.495	23.070
	Dividend ($)	0.260	0.260	0.260	0.260	0.260	0.260
	Mo. Avg. Div.	4.50%	4.55%	4.58%	4.45%	4.43%	4.51%
	6 mos. Avg.	4.50%					
Pinnacle West Capital	High Price ($)	40.530	40.490	41.060	41.010	42.650	44.140
	Low Price ($)	38.650	38.310	38.980	38.760	40.890	41.340
	Avg. Price ($)	39.590	39.400	40.020	39.885	41.770	42.740
	Dividend ($)	0.500	0.500	0.500	0.500	0.500	0.500
	Mo. Avg. Div.	5.05%	5.08%	5.00%	5.01%	4.79%	4.68%
	6 mos. Avg.	4.93%					

KANSAS CITY POWER AND LIGHT
COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		June '06	May '06	Apr '06	Mar '06	Feb '06	Jan '06
PNM Resources	High Price ($)	26.600	25.990	25.660	24.890	25.180	25.500
	Low Price ($)	24.960	24.100	23.920	22.490	23.610	24.310
	Avg. Price ($)	25.780	25.045	24.790	23.690	24.395	24.905
	Dividend ($)	0.220	0.220	0.220	0.220	0.220	0.200
	Mo. Avg. Div.	3.41%	3.51%	3.55%	3.71%	3.61%	3.21%
	6 mos. Avg.	3.50%					
PPL Corp.	High Price ($)	32.310	30.840	30.440	32.160	31.860	31.120
	Low Price ($)	29.850	28.450	27.830	29.210	29.440	29.450
	Avg. Price ($)	31.080	29.645	29.135	30.685	30.650	30.285
	Dividend ($)	0.275	0.275	0.275	0.275	0.275	0.250
	Mo. Avg. Div.	3.54%	3.71%	3.78%	3.58%	3.59%	3.30%
	6 mos. Avg.	3.58%					
Progress Energy Inc.	High Price ($)	43.320	43.330	45.160	45.310	45.060	44.490
	Low Price ($)	41.650	40.270	41.510	43.500	42.540	42.630
	Avg. Price ($)	42.485	41.800	43.335	44.405	43.800	43.560
	Dividend ($)	0.605	0.605	0.605	0.605	0.605	0.605
	Mo. Avg. Div.	5.70%	5.79%	5.58%	5.45%	5.53%	5.56%
	6 mos. Avg.	5.60%					
Puget Energy	High Price ($)	21.620	21.290	21.430	21.680	21.670	21.470
	Low Price ($)	20.710	20.280	20.130	20.700	20.750	20.260
	Avg. Price ($)	21.165	20.785	20.780	21.190	21.210	20.865
	Dividend ($)	0.250	0.250	0.250	0.250	0.250	0.250
	Mo. Avg. Div.	4.72%	4.81%	4.81%	4.72%	4.71%	4.79%
	6 mos. Avg.	4.76%					
Southern Company	High Price ($)	33.040	32.450	33.250	34.100	34.850	35.890
	Low Price ($)	31.650	30.480	31.130	32.340	33.020	34.450
	Avg. Price ($)	32.345	31.465	32.190	33.220	33.935	35.170
	Dividend ($)	0.388	0.388	0.388	0.373	0.373	0.373
	Mo. Avg. Div.	4.80%	4.93%	4.82%	4.49%	4.40%	4.24%
	6 mos. Avg.	4.61%					
UIL Holdings	High Price ($)	56.860	57.350	56.120	52.370	51.650	49.160
	Low Price ($)	53.760	52.800	50.210	47.220	46.490	45.740
	Avg. Price ($)	55.310	55.075	53.165	49.795	49.070	47.450
	Dividend ($)	0.720	0.720	0.720	0.720	0.720	0.720
	Mo. Avg. Div.	5.21%	5.23%	5.42%	5.78%	5.87%	6.07%
	6 mos. Avg.	5.60%					
Wisconsin Energy	High Price ($)	40.900	40.910	40.690	41.020	42.350	41.670
	Low Price ($)	38.530	38.230	38.160	39.110	39.410	38.920
	Avg. Price ($)	39.715	39.570	39.425	40.065	40.880	40.295
	Dividend ($)	0.230	0.230	0.230	0.230	0.230	0.230
	Mo. Avg. Div.	2.32%	2.32%	2.33%	2.30%	2.25%	2.28%
	6 mos. Avg.	2.30%					

KANSAS CITY POWER AND LIGHT
COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		June '06	May '06	Apr '06	Mar '06	Feb '06	Jan '06
Xcel Energy	High Price ($)	19.760	19.180	18.940	18.840	19.610	19.500
	Low Price ($)	18.580	18.100	17.800	17.910	18.270	18.280
	Avg. Price ($)	19.170	18.640	18.370	18.375	18.940	18.890
	Dividend ($)	0.223	0.215	0.215	0.215	0.215	0.215
	Mo. Avg. Div.	4.65%	4.61%	4.68%	4.68%	4.54%	4.55%
	6 mos. Avg.	4.62%					
Average Dividend Yield		4.37%					
Average Excluding UIL Holdings		4.30%					

Source: Yahoo! Finance, S&P Stock Guide

KANSAS CITY POWER AND LIGHT
COMPARISON GROUP
DCF Growth Rate Analysis

Company	(1) Value Line DPS	(2) Value Line EPS	(3) Value Line B x R	(4) Zacks	(5) First Call/ Thomson
Cleco Corporation	2.13%	4.64%	3.86%	8.00%	8.00%
Consolidation Edison	0.86%	2.79%	2.43%	4.00%	3.58%
DPL, Inc.	3.86%	5.57%	6.58%	7.00%	7.50%
DTE Energy	0.39%	4.44%	4.62%	6.00%	4.33%
Empire District Electric	0.00%	6.58%	1.39%	N/A	3.33%
Energy East Corporation	4.56%	3.83%	2.85%	5.00%	4.33%
Entergy	5.33%	4.77%	4.95%	8.00%	9.00%
FirstEnergy Corporation	6.11%	11.36%	5.62%	5.00%	4.60%
Hawaiian Electric Industries	0.00%	2.99%	2.91%	5.00%	2.83%
Northeast Utilities	7.36%	11.51%	5.15%	9.00%	7.75%
NSTAR	5.28%	5.86%	5.40%	5.00%	5.00%
Pepco Holdings	3.71%	7.40%	4.55%	5.00%	5.20%
Pinnacle West Capital Corp.	4.72%	6.23%	2.84%	7.00%	7.20%
PNM Resources	6.84%	5.35%	3.58%	8.00%	8.50%
PPL Corporation	11.44%	9.58%	9.11%	8.00%	9.86%
Progress Energy Inc.	1.94%	1.28%	2.06%	4.00%	3.26%
Puget Energy	1.92%	4.81%	3.16%	7.00%	3.50%
Southern Company	4.90%	4.99%	4.59%	5.00%	4.75%
UIL Holdings	0.00%	4.78%	0.31%	11.00%	18.00%
Wisconsin Energy	4.56%	6.53%	7.28%	7.00%	7.82%
Xcel Energy	5.29%	6.00%	3.90%	5.00%	5.00%
Averages	3.87%	5.78%	4.15%	6.45%	6.35%
Forecasts excluding UIL Holdings	4.06%	5.83%	4.34%	6.21%	5.77%

Sources: **Zack's and First Call/Thomson Earnings Reports, July 2006**
Value Line Investment Survey, May 12, June 2, and June 30, 2006

KANSAS CITY POWER AND LIGHT
COMPARISON GROUP

Value Line Projected Dividend Per Share Growth

Company	2005 DPS	Projected DPS	Compound Growth Rate
Cleco Corporation	$ 0.90	$ 1.00	2.13%
Consolidation Edison	$ 2.28	$ 2.38	0.86%
DPL, Inc.	$ 0.96	$ 1.16	3.86%
DTE Energy	$ 2.06	$ 2.10	0.39%
Empire District Electric	$ 1.28	$ 1.28	0.00%
Energy East Corporation	$ 1.12	$ 1.40	4.56%
Entergy	$ 2.16	$ 2.80	5.33%
FirstEnergy Corporation	$ 1.71	$ 2.30	6.11%
Hawaiian Electric Industries	$ 1.24	$ 1.24	0.00%
Northeast Utilities	$ 0.68	$ 0.97	7.36%
NSTAR	$ 1.16	$ 1.50	5.28%
Pepco Holdings	$ 1.00	$ 1.20	3.71%
Pinnacle West Capital Corp.	$ 1.93	$ 2.43	4.72%
PNM Resources	$ 0.79	$ 1.10	6.84%
PPL Corporation	$ 0.96	$ 1.65	11.44%
Progress Energy Inc.	$ 2.38	$ 2.62	1.94%
Puget Energy	$ 1.00	$ 1.10	1.92%
Southern Company	$ 1.48	$ 1.88	4.90%
UIL Holdings	$ 1.73	$ 1.73	0.00%
Wisconsin Energy	$ 0.88	$ 1.10	4.56%
Xcel Energy	$ 0.85	$ 1.10	5.29%
Average			3.87%

KANSAS CITY POWER AND LIGHT
COMPARISON GROUP
DCF Growth Rate Analysis

Value Line Projected Earnings Per Share Growth

Company	3-Year Avg. EPS	Projected EPS	Compound Growth Rate
Cleco Corporation	$ 1.33	$ 1.75	4.64%
Consolidation Edison	$ 2.71	$ 3.20	2.79%
DPL, Inc.	$ 1.30	$ 1.80	5.57%
DTE Energy	$ 2.89	$ 3.75	4.44%
Empire District Electric	$ 1.02	$ 1.50	6.58%
Energy East Corporation	$ 1.60	$ 2.00	3.83%
Entergy	$ 4.01	$ 5.30	4.77%
FirstEnergy Corporation	$ 2.36	$ 4.50	11.36%
Hawaiian Electric Industries	$ 1.47	$ 1.75	2.99%
Northeast Utilities	$ 1.04	$ 2.00	11.51%
NSTAR	$ 1.78	$ 2.50	5.86%
Pepco Holdings	$ 1.43	$ 2.20	7.40%
Pinnacle West Capital Corp.	$ 2.47	$ 3.55	6.23%
PNM Resources	$ 1.39	$ 1.90	5.35%
PPL Corporation	$ 1.88	$ 3.25	9.58%
Progress Energy Inc.	$ 3.15	$ 3.40	1.28%
Puget Energy	$ 1.32	$ 1.75	4.81%
Southern Company	$ 2.05	$ 2.75	4.99%
UIL Holdings	$ 1.36	$ 1.80	4.78%
Wisconsin Energy	$ 2.22	$ 3.25	6.53%
Xcel Energy	$ 1.23	$ 1.75	6.00%
Average			5.78%

KANSAS CITY POWER AND LIGHT
COMPARISON GROUP

Sustainable Growth Calculation

Company	Forecasted Payout Ratio	Forecasted Retention Ratio	Expected Return	Growth Rate
Cleco Corporation	57.14%	42.86%	9.00%	3.86%
Consolidation Edison	74.38%	25.63%	9.50%	2.43%
DPL, Inc.	64.44%	35.56%	18.50%	6.58%
DTE Energy	56.00%	44.00%	10.50%	4.62%
Empire District Electric	85.33%	14.67%	9.50%	1.39%
Energy East Corporation	70.00%	30.00%	9.50%	2.85%
Entergy	52.83%	47.17%	10.50%	4.95%
FirstEnergy Corporation	51.11%	48.89%	11.50%	5.62%
Hawaiian Electric Industries	70.86%	29.14%	10.00%	2.91%
Northeast Utilities	48.50%	51.50%	10.00%	5.15%
NSTAR	60.00%	40.00%	13.50%	5.40%
Pepco Holdings	54.55%	45.45%	10.00%	4.55%
Pinnacle West Capital Corp.	68.45%	31.55%	9.00%	2.84%
PNM Resources	57.89%	42.11%	8.50%	3.58%
PPL Corporation	50.77%	49.23%	18.50%	9.11%
Progress Energy Inc.	77.06%	22.94%	9.00%	2.06%
Puget Energy	62.86%	37.14%	8.50%	3.16%
Southern Company	68.36%	31.64%	14.50%	4.59%
UIL Holdings	96.11%	3.89%	8.00%	0.31%
Wisconsin Energy	33.85%	66.15%	11.00%	7.28%
Xcel Energy	62.86%	37.14%	10.50%	3.90%
Average	63.02%	36.98%	10.93%	4.15%

RETURN ON EQUITY CALCULATION
COMPARISON GROUP

	(1) Value Line Dividend Gr.	(2) Value Line Earnings Gr.	(3) Zack's Earning Gr.	(4) First Call Earning Gr.	(5) Average of All Gr. Rates
Dividend Yield	4.30%	4.30%	4.30%	4.30%	4.30%
Growth Rate	4.06%	5.83%	6.21%	5.77%	5.47%
Expected Div. Yield	4.39%	4.43%	4.44%	4.43%	4.42%
DCF Return on Equity	8.45%	10.26%	10.65%	10.20%	9.89%

KANSAS CITY POWER AND LIGHT
Capital Asset Pricing Model Analysis
Comparison Group

20-Year Treasury Bond, Value Line Beta

Line No.		Value Line
1	Market Required Return Estimate	
2	Expected Dividend Yield	1.18%
3	Expected Growth	12.53%
4	Required Return	13.71%
5	Risk-free Rate of Return, 20-Year Treasury Bond	
6	Average of Last Six Months	5.03%
8	Risk Premium	
9	@ 6 Month Average RFR (Line 4 minus Line 6)	8.69%
10	Comparison Group Beta	0.86
11	Comparison Group Beta * Risk Premium	
12	@ 6 Month Average RFR (Line 10 * Line 9)	7.47%
13	CAPM Return on Equity	
14	@ 6 Month Average RFR (Line 12 plus Line 6)	12.49%

5-Year Treasury Bond, Value Line Beta

1	Market Required Return Estimate	
2	Expected Dividend Yield	1.18%
3	Expected Growth	12.53%
4	Required Return	13.71%
5	Risk-free Rate of Return, 5-Year Treasury Bond	
6	Average of Last Six Months	4.77%
8	Risk Premium	
9	@ 6 Month Average RFR (Line 4 minus Line 6)	8.94%
10	Comparison Group Beta	0.86
11	Comparison Group Beta * Risk Premium	
12	@ 6 Month Average RFR (Line 9 * Line 10)	7.69%
13	CAPM Return on Equity	
14	@ 6 Month Average RFR (Line 12 plus Line 6)	12.46%

KANSAS CITY POWER AND LIGHT
Capital Asset Pricing Model Analysis
Comparison Group

20-Year Treasury Bond, First Call/Thomson Beta

Line No.		Value Line
1	Market Required Return Estimate	
2	Expected Dividend Yield	1.18%
3	Expected Growth	12.53%
4	Required Return	13.71%
5	Risk-free Rate of Return, 20-Year Treasury Bond	
6	Average of Last Six Months	5.03%
8	Risk Premium	
9	@ 6 Month Average RFR (Line 4 minus Line 6)	8.69%
10	Comparison Group Beta	0.65
11	Comparison Group Beta * Risk Premium	
12	@ 6 Month Average RFR (Line 10 * Line 9)	5.63%
13	CAPM Return on Equity	
14	@ 6 Month Average RFR (Line 12 plus Line 6)	10.65%

5-Year Treasury Bond, First Call/Thomson Beta

1	Market Required Return Estimate	
2	Expected Dividend Yield	1.18%
3	Expected Growth	12.53%
4	Required Return	13.71%
5	Risk-free Rate of Return, 5-Year Treasury Bond	
6	Average of Last Six Months	4.77%
8	Risk Premium	
9	@ 6 Month Average RFR (Line 4 minus Line 6)	8.94%
10	Comparison Group Beta	0.65
11	Comparison Group Beta * Risk Premium	
12	@ 6 Month Average RFR (Line 9 * Line 10)	5.79%
13	CAPM Return on Equity	
14	@ 6 Month Average RFR (Line 12 plus Line 6)	10.56%

KANSAS CITY POWER AND LIGHT
Capital Asset Pricing Model Analysis
Comparison Group

Supporting Data for CAPM Analyses

20 Year Treasury Bond Data

	Avg. Yield
January-06	4.65%
February-06	4.73%
March-06	4.91%
April-06	5.22%
May-06	5.35%
June-06	5.29%
6 month average	5.03%

5 Year Treasury Bond Data

	Avg. Yield
January-06	4.35%
February-06	4.57%
March-06	4.72%
April-06	4.90%
May-06	5.00%
June-06	5.07%
6 month average	4.77%

Value Screen III Growth Rate Data:

Forecasted Data:	
Earnings	15.02%
Book Value	11.28%
Dividends	11.29%
Average	12.53%

Source: Value Line Investment Survey for Windows, July 2006

Comparison Group Betas:	Value Line	First Call/ Thomson
Cleco Corporation	1.25	0.96
Consolidation Edison	0.70	0.41
DPL, Inc.	1.00	0.81
DTE Energy	0.75	0.51
Empire District Electric	0.80	0.70
Energy East Corporation	0.90	0.69
Entergy	0.85	0.62
FirstEnergy Corporation	0.80	0.51
Hawaiian Electric Industries	0.70	0.74
Northeast Utilities	0.85	0.64
NSTAR	0.80	0.60
Pepco Holdings	0.90	0.84
Pinnacle West Capital Corp.	0.95	0.69
PNM Resources	0.95	0.85
PPL Corporation	1.05	0.66
Progress Energy Inc.	0.85	0.58
Puget Energy	0.80	0.53
Southern Company	0.65	0.36
Wisconsin Energy	0.80	0.73
Xcel Energy	0.85	0.53
Average	0.86	0.65

Sources: Value Line Investment Reports,
May 12, June 2, and June 30, 2006;
July 2006 First Call/Thomson reports

KANSAS CITY POWER AND LIGHT
Capital Asset Pricing Model Analysis
Historic Market Premium

	Geometric Mean	Arithmetic Mean
Long-Term Annual Return on Stocks	10.40%	12.30%
Long-Term Annual Income Return on Long-Term Government Bonds	5.20%	5.20%
Historical Market Risk Premium	5.20%	7.10%
Comparison Group Beta, Value Line	0.86	0.86
Beta * Market Premium	4.47%	6.11%
Current 20-Year Treasury Bond Yield	5.03%	5.03%
CAPM Cost of Equity, Value Line Beta	**9.50%**	**11.13%**
Comparison Group Beta, First Call/Thomson	0.65	0.65
Beta * Market Premium	3.37%	4.60%
Current 20-Year Treasury Bond Yield	5.03%	5.03%
CAPM Cost of Equity, First Call/Thomson Beta	**8.39%**	**9.63%**

Source: *Stocks, Bonds, Bills, and Inflation 2006 Yearbook,* Ibbotson Associates