Exhibit No.: 137
Issues: Service Company (GPES) Charges; SO_2 Emissions Allowances; Advertising Expense; and, Injuries and Damages Expense
Witness: Graham A. Vesely
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: ER-2006-0314
Date Testimony Prepared: August 8, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

GRAHAM A. VESELY

FILED
NOV 13 2006
Missouri Public Service Commission

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

Jefferson City, Missouri
August 2006

Staff Exhibit No. 137
Case No(s). ER-2006-0315
Date 10-16-06 Rptr KF

** **Denotes Highly Confidential Information** **

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TABLE OF CONTENTS OF

DIRECT TESTIMONY OF

GRAHAM A. VESELY

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

EXECUTIVE SUMMARY 3

SERVICE COMPANY (GPES) CHARGES 3

MSC0140: KCPL STRATEGIC INITIATIVE 8

LED-LDI: LEADERSHIP DEVELOPMENT INITIATIVE 9

CORPDP-KCPL: CORPORATE DEVELOPMENT/PLANNING-KCPL 11

CORPDP-0001: OVERALL CORPORATE STRATEGIC INITIATIVE 12

SO_2 EMISSIONS ALLOWANCES 12

ADVERTISING EXPENSE 19

INJURIES AND DAMAGES EXPENSE 21

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 GRAHAM A. VESELY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Graham A. Vesely, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 23 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Graham A. Vesely

Graham A. Vesely

Subscribed and sworn to before me this 7th day of August 2006.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

D. Suzie Mankin

DIRECT TESTIMONY

OF

GRAHAM A. VESELY

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

Q. Please state your name and business address.

A. Graham A. Vesely, 615 East 13th Street, Kansas City, MO 64106.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your education background.

A. In May of 1985, I received a Bachelor's degree in Civil Engineering from Saint Martins College, Olympia, Washington. In May of 1998, I completed an MBA degree with a focus in Accounting from Central Missouri State University, Warrensburg, Missouri. I am a Certified Public Accountant with a permit to practice in Missouri.

Q. Please describe your employment history.

A. In May of 1985, I was employed as a Facilities Maintenance Engineer by the United States Air Force. From March 1988 until May 1995, I was employed by the United States Army Corps of Engineers as a member of a construction management group. Subsequently, I began working with the engineering firm of Malsy & Associates, Lincoln, Missouri, as a Civil Engineer. On February 26, 1999, I began my current employment with the Commission.

Q. What is the nature of your duties while in the employ of this Commission?

A. I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. With reference to Case No. ER-2006-0314 have you made an investigation of the books and records of Kansas City Power and Light Company (KCPL or Company) relating to the proposed rate application?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. Have you filed testimony previously?

A. Yes. Schedule 1 attached to this direct testimony identifies the cases in which I have participated.

Q. What are your areas of responsibility in this direct testimony filing of Case No. ER-2006-0314?

A. I am responsible for SO_2 emissions allowances sales revenues, advertising expense, injuries and damages expense, and corporate expenses.

Q. What knowledge, skills, experience, training, or education do you have in these subjects?

A. I have acquired general knowledge of these topics through my experience in previous rate cases before this Commission. I have reviewed the Company's testimony, work papers, and data request responses related to these topics. In addition, my college coursework included accounting, auditing, and engineering classes. During my employ with the Commission I have attended formal training on regulatory issues and received training from senior audit Staff throughout the course of this and previous audits.

Q. What adjustments are you sponsoring in Case No. ER-2006-0314?

A. I am sponsoring the following adjustments to the Income Statement Accounting Schedule: S-77.3 (Injuries and Damages Expense); S-80.3, S-80.4, S-80.5, S-80.6, S-80.7 (Advertising Expense); S-73.6, S-75.2: Project CORPDP-KCPL; S-73.7, S-75.3: Project LED-LDI; S-75.1, S-79.4: Project MSC0140 (Corporate Project Expenses). On Schedule 2-Rate Base, I am sponsoring the offset to net plant in service for the balance in Account 254, Regulatory Liability--Emissions Allowances.

EXECUTIVE SUMMARY

Q. Please summarize your testimony.

A. I was responsible for determining: a) the rate base offset for net proceeds from the sale of SO_2 emissions allowances; b) the recommended level of advertising expense; c) the recommended level of injuries and damages expense based on actual cash payments; and d) recommending adjustments to certain corporate project costs charged to expense in 2005 and 2006.

SERVICE COMPANY (GPES) CHARGES

Q. Please describe Great Plains Energy Incorporated (GPE).

A. GPE was incorporated in 2001 as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA 1935) with its headquarters in Kansas City, Missouri. GPE does not own or operate any significant assets other than the stock of its subsidiaries. Under PUHCA 1935, GPE's affiliate transactions, specifically its corporate shared services costs, were regulated by the Securities and Exchange Commission (SEC).

Q. Are GPE's affiliate transaction still regulated by the SEC?

A. No. Most of the SEC's responsibilities to regulate holding company affiliate transactions were recently transferred to the Federal Energy Regulatory Commission. On

August 8, 2005, the Energy Policy Act of 2005 (H.R. 6, 199th Cong.) was signed by the President and became law, Pub.L. 109-58. Title XII of the Energy Policy Act is the Electricity Modernization Act of 2005 (the "Modernization Act"). Subtitle F of the Modernization Act, repeals the Public Utility Holding Company Act of 1935 ("Act") effective February 8, 2006. It also enacted the Public Utility Holding Company Act of 2005 (PUHCA 2005) and gave the Federal Energy Regulatory Commission jurisdiction over its administration.

Q. Does GPE provide corporate services to KCPL?

A. Yes. KCPL is directly charged and allocated costs from Great Plains Energy Plains Energy Services (GPES or Service Company). GPES was created by GPE in April 2003 as a centralized corporate shared service company to provide common services to all of GPE's regulated and non regulated business units.

Q. Please describe Service Company (GPES).

A. Service Company was created in April 2003, when GPE transferred over to it approximately 400 KCPL employees. In its Application before the Commission, made April 22, 2002, to approve the transfer of certain assets to GPES (Case No. EM-2002-1044), KCPL stated that only those functions which currently provide, or may provide, services to both KCPL and other system companies will be transferred to GPES in order to realize economies. From April 2003 through July 31, 2005, GPES provided the following services to KCPL and GPE's other business units:

Accounts Payable Services	Associate Benefit Services
Associate Compensation Services	Associate Relations Services
Associate Services	Associate Training Services
Cash Management Services	Cashier Services
Community Relations	Compliance Audits
Corporate Accounting Services	Corporate Budgeting Services
Corporate Communications Services	Corporate Development & Strategic Planning
Corporate Reporting	Corporate Secretary
Corporate Security Services	Customer Billing Services
Diversity Services	Document Processing Services
Environmental Services	Executive Benefits
Executive Services	Facilities Management Services
Finance Services	Governance Services
Governmental Affairs Services	Insurance Services
Investor Relation Services	Invoice & Charge Back Services
IT Infrastructure Services	IT System Delivery Services
IT Systems Operations Services	Leadership Services
Legal Liability Assessment	Legal Services
Mail Services	Miscellaneous Projects Billed
Network Services	Operational Audits
Payroll Services	Purchasing Services
Safety & Medical Services	Security Services
Tax Services	Telecommunications Services

On August 1, 2005, GPES was reorganized and most GPES employees moved back to KCPL. Prior to August 1, 2005, GPES had approximately 360 employees. The reorganization resulted in the transfer of about 290 employees back to KCPL. As a result many of the above services will no longer be provided by GPES, but will be provided by KCPL employees directly to KCPL.

Q. Does GPES provide corporate services to GPE's other business units?

A. Yes. While GPE has been involved in several non regulated ventures over the past several years, at the current time, substantially all of its business operations consist of KCPL and Strategic Energy, LLC (Strategic Energy).

Q. Please describe Strategic Energy.

A. Strategic Energy, headquartered in Pittsburgh, Pa., manages electricity procurement for commercial, institutional and government customers in states that offer retail electricity choice, including California, Connecticut, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas. The company earns a management fee for providing its coordination services to customers.

Q. Does Strategic Energy have its own management team?

A. Yes. At the end of 2005, Strategic Energy has approximately 240 employees, and was governed by its own President/Chief Executive Officer, Chief Financial Officer, General Counsel, Corporate Secretary, Executive Vice President of Human Resources & Corporate Services, and Vice Presidents of Sales and Marketing.

Q. What was the total value of the corporate services performed by GPES in the 2005 test year, and KCPL's share of these costs?

A. The following illustrates the costs incurred by GPES for services to all units of Great Plains Energy, and the share of these costs picked up by KCPL:

GPES—Total 2005	$52,300,000
KCPL—Direct Charged	$19,200,000
KCPL—Allocated	$22,200,000
KCPL—Total	$41,400,000

As stated above, GPES was greatly downsized when 290 employees were transferred from GPES to KCPL August 1, 2005. For example, whereas overall in 2005 KCPL was charged

$18,500,000 for labor and related costs by GPES, KCPL is more currently being charged about $3.9 million, or 67 percent, of GPES' payroll and related costs.

Q. Does the Staff believe that the overall costs charged by GPES to KCPL in the Company's rate case filing were reasonable?

A. Yes. The Staff did not perform a detailed study of the process GPES employs for allocating costs to KCPL, and does not express an opinion on the merits of the individual allocation factors used by GPES in the rate case. However, from the Staff review of corporate costs in this case, which involved a review of Company documents and the responses to several data requests as well as information obtained from several meetings on corporate allocations with Company personnel, the Staff determined that the level of corporate costs allocated to KCPL was at least reasonable.

Q. Why didn't Staff perform a detailed study of KCPL's corporate allocation procedures?

A. The primary reason was the significant reorganization of GPES in 2005. GPES is a much smaller service company in 2006 than it was in 2005 and it no longer performs many of the services that it did in 2005. The Staff felt that any detailed study it performed of KCPL's 2005 corporate costs allocation procedures would be outdated. The Staff's goal was to ensure that total corporate costs charged in this case were not obviously unreasonable. The Staff believes that given the results of using GPES's allocation factors in 2005, and with the adjustments the Staff is proposing to certain corporate costs, the overall level of corporate costs charged to KCPL by GPES is reasonable.

Q. What adjustments did the Staff make to GPES's corporate costs?

A. During its reviews of GPES's costs, the Staff noted certain projects that included significant outside consultant costs. The Company designated these projects as follows in its accounting system:

MSC0140: KCPL Strategic Initiative
LED-LDI: Leadership Development Initiative
CORPDP-KCPL: Corporate Development/Planning
CORPDP-0001: Overall Corporate Strategic Initiative

The Staff held meetings with Company personnel specifically knowledgeable on those matters. Based on the review of GPES documents and the results of these meetings with the Company, Staff determined that charging these project costs to expense in 2005 is not appropriate as these projects are designed to provide benefits to the Company for several years into the future.

Q. Is Staff recommending disallowing any of the costs the Company has incurred in the 18-month period ending June 30, 2006?

A. No, Staff is not recommending any disallowances. Rather, though these costs may have been incurred and paid for during this historical period, they relate to projects that will provide benefits over a future period, therefore Staff believes the costs should be amortized gradually to expense.

MSC0140: KCPL STRATEGIC INITIATIVE

Q. Please describe what this project involves and what type of costs it includes.

A. The Staff determined that costs charged to this project are related to preparing KCPL's Regulatory Plan adopted in Case No. EO-2005-0329.

Q. Please explain.

A. From review of Company documents and discussions with Mr. Chris Giles, KCPL's Vice President, Regulatory Affairs, during a July 26, 2006, meeting with Staff it was determined that the cost of this project was directly related to the Iatan II Project. Included in this project was $496,210 paid to Bridge Strategy Group LLC (Bridge Strategy) for work on presentations, workshops, internal presentations, weekly meeting agendas, writing press releases, and working with Fleishman-Hilliard, Inc. on the Company website Frequently Asked Questions (FAQs), such as "Why a Coal Plant?", and "What's up with Wind?" Fleishman-Hilliard was GPE's advertising consultant on this project and was paid $385,026. Other costs included in this project were for legal work related to the Regulatory Plan in Kansas with the Kansas Corporation Commission and its Staff and in Missouri with the Missouri Public Service Commission and its Staff. Finally, this project included approximately $700,000 in internal Company payroll and payroll-related costs. The total cost of this project for KCPL in 2005 was $2,776,237, and in 2006 (through May) was $76,986.

These costs were directly related to KCPL's Comprehensive Energy Plan, which is a major part of GPE's Strategic Intent. The Comprehensive Energy Plan relates to the Iatan 2 base load coal-fired generation, wind energy generation and the environmental construction projects currently under way at LaCygne 1 and scheduled at Iatan 1 later this decade.

Q. How is Staff recommending treating these project costs?

A. Staff has made adjustments to reflect in rates amortizing the non payroll test year costs, updated through May, 2006, over a five-year period.

<u>LED-LDI: LEADERSHIP DEVELOPMENT INITIATIVE</u>

Q. Please describe the nature of this project and the types of costs it includes.

A. This project is directly related to the concept adopted by the Company as its Strategic Intent. In 2004, GPE began a planning process that resulted in the statement of GPE's Strategic Intent. As described in GPE's 2005 Annual Report, Strategic Intent is GPE's vision for the future in which it "will demonstrate leadership in the supply and delivery of electricity, and provide innovative energy solutions to meet the needs of its customers now and for years to come". According to GPE, progress towards fulfilling the Strategic Intent vision is measured in five key areas:

- Achievement of top-tier operating performance
- Implementation of KCPL's Comprehensive Energy Plan
- Success in the competitive supply business through Strategic Energy
- Realization of Great Plains Energy's "Winning Culture"
- Development and strengthening of relationships with our communities

Q. Did the Company go through a process of corporate-wide workforce evaluation and skills assessment?

A. Yes, it did. In response to its Data Request No. 240, wherein the Staff asked about this initiative, KCPL's reply was:

> Based on our Strategic Intent Initiatives, we needed to ensure that we had the appropriate skill sets to accomplish our objectives. We need people who will lead change, look for better ways of doing things, be proactive and continually question processes while looking for ways to improve. We need people who are committed to GPE and to the Winning Culture.

The Company asserts that its concept of Winning Culture can be illustrated by the acronym (GPE) IDEAL, which stands for:

> **I**nspired Leadership…
> **D**isciplined Performance Management…
> **E**ngaged Employees…
> **A**ccountability…
> **L**oyalty

Thus, to develop the workforce, GPE made a complete evaluation of substantially all of its employees and effectively "raised the bar" on expected employee performance. This evaluation led to significant employee "realignment" with over 122 employees deciding to leave the Company in March 2006, with a cost of $9.5 million.

The total cost of this project in 2005 was $1,785,990. KCPL was directly charged $183,780. GPES recorded the remaining $1,602,210 on its books and allocated approximately 97% to KCPL. The largest cost charged to this project was $526,956 paid to Bridge Strategy Group. Bridge Strategy provided the framework for the engaged employee evaluation process.

The second largest cost charged to this project in 2005 was $417,279 paid to Strategic Talent Solutions. Strategic Talent Solutions helped GPE develop GPE University, an internal management training program, and also developed performance review plans for officers and employees.

The Staff is proposing to defer the total costs charged to these projects from January 2005 through May 2006 and amortize these costs over five years.

<u>CORPDP-KCPL: CORPORATE DEVELOPMENT/PLANNING-KCPL</u>

Q. What is the nature of this project, and what types of costs does it include?

A. As the Company explains, among other places, in its Annual Report to Shareholders (Form 10K), part of GPE's Strategic Intent is "the creation of the Delivery System of the Future". This involves "partnering with customers to dynamically manage load shape, demand response and efficiency programs, system automation and monitoring". Of the $2.3 million charged to this project in 2005, $1.4 million was paid to Bridge Strategy Group to develop and help implement this part of the Strategic Intent. Substantially all of the remaining costs charged to this project consisted of KCPL internal payroll costs. Similar to the projects described above, these costs were incurred to provide benefits to ratepayers for years into the future. The Staff recommends that test year and update period charges to this project be deferred and amortized to expense over five years.

CORPDP-0001: OVERALL CORPORATE STRATEGIC INITIATIVE

Q. How is the Staff proposing to treat the costs of this project?

A. From the July 26, 2006, meeting with the Company, Staff learned that this was the project that started GPE's overall Strategic Initiative. This project was started in December 2003, soon after Michael Chesser became Chairman and Chief Executive Officer of GPE. This project led to GPE's Strategic Development Process that was rolled out in 2004 with the Strategic Intent and GPE's Comprehensive Energy Plan. According to the Company, this project is substantially complete and Staff has determined that only immaterial costs were charged to this project in the test year, and through May, 2006. Therefore, Staff is not recommending any adjustments of these project costs.

SO_2 EMISSIONS ALLOWANCES

Q. What were your responsibilities in this area?

A. I was responsible for including in the Staff's case the June 30, 2006, balance in Account 254, Regulatory Liability—Emissions Allowances. The balance of this account represents the cumulative net proceeds from sales of SO_2 emissions allowances, reduced by any premiums the Company had to pay to its suppliers for the coal it received being lower in SO_2 content than required by contract. This lower SO_2 content makes the coal more valuable because, when burned, it leads to lower SO_2 smokestack emissions and therefore a reduced usage of valuable emissions allowances. Utilities are required to surrender one allowance for each ton of SO_2 emissions produced, but any remaining allowances not needed by the utility may be sold on the open market, as KCPL in fact does. For a complete discussion of SO_2 coal premiums paid by KCPL and charged to Account 254, see the direct testimony of Staff Witness Charles R. Hyneman filed in this case.

Q. Please describe the terms governing the treatment of sales proceeds of SO_2 emissions allowances in this case.

A. In Case No. EO-2005-0329, the Commission issued its Report and Order dated effective August 7, 2005, approving a Stipulation and Agreement (Agreement) between parties to that case concerning KCPL's Regulatory Plan. Appendix A to the Agreement contained the Company's SO_2 Emission Allowance Management Policy (SEAMP) providing the details that KCPL, Staff, and the other Signatory Parties to the Agreement concurred will govern transactions related to the Company's inventory of SO_2 allowances. More specifically, the Agreement in Case EO-2005-0329 states:

> KCPL is authorized to manage its SO_2 emissions allowance in inventory, including the sales of such allowances, under the Stipulation and Agreement in Case No. EO-2000-357. Under such Stipulation and Agreement, KCPL must Record all SO_2 emission allowance sales proceeds as a regulatory liability in Account 254, Other Regulatory Liabilities, for ratemaking purposes. The following, including the attached SO_2 Emission Allowance Management Policy ("SEAMP") contained in Appendix A, supersedes the plan approved in The Stipulation and Agreement in Case No. EO-2000-357. The Signatory Parties agree upon the SEAMP contained in Appendix A. The proceeds and costs of all transactions identified in the SEAMP will be recorded in Account 254 for ratemaking purposes. The regulatory liability will be amortized over the same time period used to depreciate environmental assets (emission control equipment and other emission control investments...
>
> [pages 8-9, Stipulation and Agreement in Case No. EO-2005-0329]

In the SEAMP the Company commits to providing Staff and OPC annually with its SO_2 Plan (Plan), to be effective for the period commencing April 1 of the following year and ending March 31 of the next successive year.

Q. Did KCPL submit an SO_2 plan for 2006?

A. Yes, it did, in December of 2005.

Q. Please describe the key features of the SO_2 plan for 2006.

A. The Plan begins by restating its primary objective as first set out in Appendix A to the Agreement, namely:

> ...to identify transactions that will 'minimize the expected present value of long-run utility revenue requirements while fulfilling obligations to provide adequate service at reasonable rates through transactions of allowances'.

Then the pollution control equipment KCPL expects to install, in accordance with the Resource Plan provisions of the Agreement, is presented as follows:

Iatan 1 baghouse in 2008
Iatan 1 FGD scrubber in 2008
Iatan 1 SCR in 2008
LaCygne 1 baghouse in 2009
LaCygne1 FGD scrubber replacement in 2009
LaCygne 1 SCR in 2007

The Plan explains further that its analysis assumes ** ______________________________

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The Plan elaborates by stating that at this point ** ______________________________

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____ ____________________ **

Q. What conclusions could be drawn from the analysis contained in the 2006 Plan regarding ** ________ **?

A. Allowance market prices ** __________ ** would tend to shift the decision process towards selling a greater portion of the Company's inventory in order to fund the acquisition, installation, and operation of ** ______________________ _________ **. With this equipment in place KCPL could be seen as "producing" additional allowances that could in turn be sold. Again, though, according to the analysis contained in the 2006 Plan this scenario is only thought to be economical with market prices for allowances ** ______________ **. At lower prices, the decision process shifts, all else being equal, towards ** ______________________________ ** and merely continuing to use up allowances to offset actual SO_2 emissions.

Q. What uncertainties are discussed in the Plan that affect the extent of the proposed SO_2 transactions, i.e., whether to, and how many, allowances to buy, sell, exchange, or hedge?

A. The Plan recognizes the following risk factors have the potential to cause KCPL to revise its current, and future, plans for carrying out allowance transactions intended to minimize the expected present value of long-term revenue requirement, including changes in:

- The market price of allowances
- Actual or proposed environmental regulations
- Cost and/or effectiveness of emission control technology
- The energy market for coal and substitutes
- Market opportunities

Q. Please describe briefly what the Plan conveys about each one of these factors.

A. The uncertainty in predicting the market price of SO_2 allowances was described in the Plan by recalling that at the beginning of May 2004 the price of allowances was $280. It then began rising to the point where in October of 2005 the price reached $1,600. In its analysis the Company states it has attempted to examine the possible effects of such big swings in the price of allowances.

As specified in the Plan, KCPL continued to expect that existing provisions of the Clean Air Interstate Rule (CAIR) would require one allowance per ton of SO_2 emissions through 2009, two allowances per ton from 2010 until 2015, and then 2.85 allowances beginning in 2015 for each ton of SO_2 emissions at its Missouri units (Hawthorn, Iatan, Montrose). KCPL reports that on December 20, 2005, the Environmental Protection Agency (EPA) proposed lowering the daily standards for fine particulate pollution, and then setting a 90-day period for public comment. The EPA is required to issue a final rule on the matter by September 27, 2006. Additionally, KCPL relays the occurrence of various judicial and state actions with regard to mercury emissions, continued state actions to make SO_2/NO_x/mercury standards more stringent than those of the EPA, and the prospect of CO_2 emissions regulations by the Regional Greenhouse Initiative. All of these items would tend to cause coal plant owners to install environmental equipment, thus leading to lower SO_2 emissions, and therefore a reduced demand, and price, for allowances. ** ______________

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Q. What did the Plan discuss in the way of risk from changes in emission control technology?

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A. KCPL does not expect significant changes in the effectiveness of current technology. ** ______________________________ ______________________________ ** KCPL states it believes the greater risk associated with scrubbers is posed by the question of their availability should the demand for them continue to challenge manufacturers ability to deliver.

Q. What changes in other energy markets did KCPL discuss in its 2006 Plan?

A. Natural gas and low sulfur western coal are fuel options for generation that produce lower SO_2 emissions levels and, therefore, less demand for emissions allowances. As of late 2005 the prices of these two fuels alternatives to eastern coal were at all time highs, providing price support for SO_2 allowances.

Q. What conclusions about its expected allowance sales level in 2006 did KCPL reach as a result of its analysis?

A. On page 7 of the Plan, the Company summarized as follows:

- ** ______________________________
- ______________________________
- ______________________________
- ______________________________ **

Q. Has the Company reported any new developments, as of June 30, 2006, that might prudently affect its decision as to SO_2 transactions in 2006?

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A. Yes. First, the EPA decided not to extend CAIR to the Company's Kansas units. Also, the market for natural gas has come down drastically in price since the beginning of the year, and no longer provides as much support for higher SO_2 allowance prices. The spot price per allowance was around $627 at June 30, 2006, compared with the $1,600 level in October 2005.

Q. Did the SO_2 Emission Allowance Management Policy (SEAMP) included in Appendix A to the Stipulation and Agreement provide for the possibility of the Plan needing to be revised during the Plan year?

A. Yes, on page A-3 of Appendix A to the Agreement the SEAMP states:

> The annual SO_2 Plan may need to be updated throughout the Plan year. Changes in circumstances which may require interim updates would include, but not be limited to, market opportunities and substantial changes in (1) the price of allowances...KCPL will provide any such updated annual SO_2 Plan to Staff and OPC and allow time for them to notify KCPL of any concerns, prior to exceeding the level of planned transactions contained in its most recent effective annual SO_2 Plan.

Q. Has the Company submitted an update to its 2006 Plan?

A. No, not as of the date of the filing of this testimony.

Q. Has KCPL carried out the level of SO_2 emissions allowances transactions expected by its 2006 Plan?

A. ** ____

____ **

Q. What ratemaking treatment of KCPL's SO_2 allowance inventory was stipulated to in the Agreement?

A. The Company is in a surplus position when comparing the cumulative number of allowances issued to it each year to date by the EPA versus the quantity it has used up at its coal plants. KCPL's inventory results from this surplus of no-cost allowances issued by the

EPA, therefore the Company has no investment in said inventory. The Agreement requires that KCPL continue the practice of recording as a regulatory liability in Account 254 the proceeds of all sales of allowances. The balance of this account shall serve as a rate base offset.

ADVERTISING EXPENSE

Q. Please explain adjustments.

A. These adjustments restate the test year advertising levels to reflect allowable expense.

Q. Please explain the history of such adjustments before the Commission.

A. In Re: Kansas City Power and Light Company, 28 MO P.S.C. (N.S.) 228 (1986) (KCPL), the Commission adopted an approach that classifies advertisements into five categories and provides separate rate treatment for each category. The five categories of advertisements recognized by the Commission therein were as follows:

1. General: advertising that is useful in the provision of adequate service;
2. Safety: advertising which conveys the ways to safely use electricity and to avoid accidents;
3. Promotional: advertising used to encourage or promote the use of electricity;
4. Institutional: advertising used to improve the company's public image;
5. Political: advertising associated with political issues.

The Commission adopted these categories of advertisements because it believed that a utility's revenue requirement should: 1) always include the reasonable and necessary cost of general and safety advertisements; 2) never include the cost of institutional or political advertisements; and 3) include the cost of promotional advertisements only to the extent that the utility can provide cost-justification for the advertisement (Report and Order in KCPL Case No. EO-85-185, 28 Mo.P.S.C. (N.S.) 228, 269-271 (April 23, 1986)).

Q. What standard did the Staff use to evaluate the Company's advertising expense in this case and to develop the adjustments?

A. The Staff used the standard set out in the above KCPL case to organize the test year advertising expenses into general, safety, and institutional categories. General advertising related to Iatan 2 construction program, was also aggregated. No promotional or political advertising costs were found. The Staff proposes to disallow advertisements that are institutional, that are unrelated to the electric industry, or that ask for charitable donations, for example, to hurricane Katrina relief efforts. The Staff allowed all general and safety advertisements to the extent that they were related to the electric industry and beneficial to Missouri electric ratepayers.

Q. Has the Company provided the Staff with copies of all test year advertisements that were charged to expense by KCPL in 2005, the test year in this proceeding?

A. Yes, the Company has provided all advertisements charged to expense in 2005. In response to Data Request No. 306S (Supplemental), KCPL provided advertisement and associated costs.

Q. How did the Staff treat these advertisements for rate purposes?

A. The Staff allowed all general and safety-related advertisements to the extent that they were related to the electric industry and beneficial to Missouri electric ratepayers. The Staff further made an adjustment to remove all advertisements from test year level of expenses that provide information on the upcoming energy infrastructure projects and customer programs included in the Stipulation and Agreement. The Staff believes these advertising expenses should be deferred and charged to the overall cost of those projects/programs that KCPL refers to in its advertisements as the Comprehensive Energy Plan. For one thing, these ads served the one-time purpose of informing customers of the features of the *upcoming* Comprehensive Energy Plan, and would be obsolete or redundant if repeated once the various components of the Plan are already at various stages of completion. Additionally, since the benefits of the Comprehensive Energy Plan will not occur until the various facilities and programs are in place and providing service, charging customers for the cost of these ads prior to that time results in a mismatch of costs and benefits. Thus, the costs of the advertisements related to the wind energy project, known as Spearville Wind Energy Facility, and the Iatan 2 coal plant to be built in Weston, Missouri, should be assigned to those construction projects.

Q. Does KCPL have a mechanism in place for assigning costs to specific projects included in its Comprehensive Energy Plan?

A. Yes, it does. KCPL uses a work order system to capture all identified costs related to specific construction projects in general, and the Spearville and Iatan 2 projects in particular. These two projects are scheduled to be undertaken first from among the initiatives contained in the Comprehensive Energy Plan.

INJURIES AND DAMAGES EXPENSE

Q. Please explain how the Company accounts for the costs of work-related injuries to persons and damages to property.

A. KCPL pays premiums on a general liability insurance plan in order to cover costs incurred above its $1,000,000 self-insured level. Charges to Federal Energy Regulatory

Commission (FERC) Uniform System of Accounts (USOA) Account 925, Injuries and Damages, consist of: 1) Insurance premium expense, 2) Numerous minor to moderate cash payments made for damages to third parties and medical services for injured employees, and 3) Non-cash accruals for estimated contingencies. The Company explained that it credits Account 228 for a reserve amount each year equal to the expense accruals in Account 925. These reserves are primarily intended to cover estimated liabilities for third party claims, (i.e., non-employee).

Q. How did you determine the proper level of the Staff's annualized injuries and damages expense?

A. When the Company pays for claims that it does not charge directly to Account 925, the payment amount is debited to reserve Account 228 (KCPL's Resource Codes 201 and 203). I compared the three-year average of the cash payments debited to the reserve account to the amount accrued to the reserve account in 2005. The difference between the two is the only adjustment I made to the test year level of Account 925.

Q. How does the three-year average of cash payments debited to reserve Account 228 compare with the 2005 level of these payments?

A. It is higher because of the effects on the average of the amount paid out in 2003. However, it is normal for the yearly amount to fluctuate so any one year's experience can be expected to be either higher or lower than the moving three-year average.

Q. Please summarize your approach to annualizing injuries and damages expense.

A. I have left test year amounts in Account 925 for all cash payments charged directly to that account; by inspection these are smaller but numerous charges whose occurrence is probably tied to the level of man-hours each year, and the impact of which is unlikely to vary materially from year to year. I have also left un-adjusted the amounts charged for insurance premiums. Lastly, I have effectively removed accrued amounts for estimated claims by replacing them with the three-year average of actual cash payments charged to reserve Account 228.

Q. Does this conclude your direct testimony?

A. Yes, it does.

GRAHAM A. VESELY

CASE PARTICIPATION

Date Filed	Issue	Case Number	Exhibit	Case Name
5/13/1999	Maintenance Expense Normalization	ER99247	Direct	St. Joseph Light & Power Company
5/13/1999	Maintenance Expense Normalization	EC98573	Direct	St. Joseph Light & Power Company
5/13/1999	Customer Growth	EC98573	Direct	St. Joseph Light & Power Company
5/13/1999	Customer Growth	ER99247	Direct	St. Joseph Light & Power Company
5/13/1999	Maintenance Expense	GR99246	Direct	St. Joseph Light & Power Company
5/13/1999	Normalization	GR99246	Direct	St. Joseph Light & Power Company
3/1/2000	Pension Asset Transfer	GM2000312	Rebuttal	Atmos Energy Company and Associated Natural Gas Company
4/19/2001	Payroll	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Payroll Taxes	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Cash Working Capital	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Bonuses	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
12/6/2001	Payroll Taxes	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Incentive Compensation	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Fuel Inventories	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Fuel Inventories	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Incentive Compensation	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service

Date Filed	Issue	Case Number	Exhibit	Case Name
12/6/2001	Payroll	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Employee Benefits	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll Taxes	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Employee Benefits	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Incentive Compensation	EC2002265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Incentive Compensation	ER2001672	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public
8/16/2002	Fuel Inventory	ER2002424	Direct	The Empire District Electric Company
8/16/2002	Fuel and Purchase Power	ER2002424	Direct	The Empire District Electric Company
10/16/2002	Fuel and Purchase Power Expense	ER2002424	Surrebuttal	The Empire District Electric Company
12/9/2003	Fuel and Purchase Power Expense	ER20040034	Direct	Aquila, Inc.
1/26/2004	Fuel and Purchase Power Expense	ER20040034	Rebuttal	Aquila, Inc.
2/4/2004	Fuel and Purchase Power Expense	ER20040034	Surrebuttal	Aquila, Inc.
10/14/2005	Overview of Electric Generation; Fuel and Purchased Power Expense; Fuel Prices; Demand Charges-Fuel Inventories; Transmission Expense; Pipeline Reservation Charge; and Emission Allowances	ER20050436	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS – Electric and Aquila Networks-L&P - Electric
12/13/2005	Coal Prices; Fuel Oil Prices; SO2 Emissions	ER20050436	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS – Electric and Aquila Networks-L&P - Electric

INFORMAL CASES

Raytown Water Company
Timbercreek Sewer Company
Silverleaf Resorts
Taney County Utilities
Stockton Hills