BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

June 15, 2015

Jefferson City, Missouri

Volume 9

In The Matter of Kansas City	)	
Power & Light Company's Request	)	File No. ER-2014-0370
for Authority To Implement a	)	
General Rate Increase for	)	
Electric Service	)	

MICHAEL BUSHMANN, Presiding
SENIOR REGULATORY LAW JUDGE

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STEPHEN M. STOLL,
WILLIAM P. KENNEY,
DANIEL Y. HALL,
SCOTT T. RUPP,
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JUDGE BUSHMANN: Good morning. Today is June 15, 2015. The Commission has set this time for an evidentiary hearing in the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase For Electric Service, File Number ER-2014-0370. My name's Michael Bushmann. I'm the Regulatory Law Judge that will be handling this proceeding.

Some parties have requested to be excused from portions of the hearing. Those requests from Sierra Club, Brightergy, and Ameren Missouri have been granted. I was notified that the attorney for the Department of Energy Federal Executive Agencies has been delayed due to travel problems, and so we'll probably push his opening to one of the mini openings that occurs a little bit later.

Let's have the counsel for the remaining parties make their entry of appearance.

For Kansas City Power & Light Company?

MR. HACK: Thank you, Judge. On behalf of Kansas City Power & Light Company, let the record reflect the appearance of Robert J. Hack, Roger W. Steiner, Karl Zobrist, and James M. Fischer. Our contact information is on the written entry form.

JUDGE BUSHMANN: Thank you.

For Commission Staff.

MR. THOMPSON: Thank you, Judge. Kevin Thompson, Nathan Williams, Cully Dale, Cydney Mayfield, Jeff Keevil, Marcie Mueth, Whitney Payne, Nicole Mers, and Hampton Williams for the Staff of the Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri.

JUDGE BUSHMANN: Thank you.

Office of Public Counsel.

MR. POSTON: Good morning. Marc Poston and Tim Opitz, appearing for the Office of the Public Counsel and the public.

JUDGE BUSHMANN: Missouri Division of Energy.

MR. ANTAL: For the Missouri Division of Energy, Alex Antal.

JUDGE BUSHMANN: Midwest Energy Consumers Group.

MR. WOODSMALL: Good morning, Your Honor. David Woodsmall appearing on behalf of MECG.

JUDGE BUSHMANN: Missouri Industrial Energy Consumers.

MR. DOWNEY: Good morning, Judge. Edward Downey, Carole Iles, Diane Vuylsteke on behalf of the MIEC, 221 Bolivar Street, Jefferson City, Missouri.

JUDGE BUSHMANN: City of Kansas City.

MR. COMLEY: Good morning, Judge Bushmann. Mark W. Comley, Newman, Comley & Ruth, 601 Monroe, Post Office Box 20106, Jefferson City, Missouri, on behalf of the City of Kansas City.

JUDGE BUSHMANN: IBEW Local Unions 412, 1464, and 1613.

Consumers Council of Missouri.

MR. COFFMAN: John B. Coffman, appearing on behalf of the Consumers Council of Missouri.

JUDGE BUSHMANN: And Missouri Gas Energy.

MR. ZELLERS: Good morning, Your Honor. Rick ZELLERS here on behalf of Laclede Gas Company doing business as Missouri Gas Energy, 700 Market Street, St. Louis, Missouri 63101. And at this point we would ask for Missouri Gas Energy to be excused from the remainder of the hearing.

JUDGE BUSHMANN: That request is granted. Thank you.

I'd like you to -- ask that people in the audience please silence your cell phones during the hearing today.

I'm sorry. Go ahead, from Brightergy.

MR. ZELLERS: Judge, Andy Zellers for Brightergy, LLC.

JUDGE BUSHMANN: Okay. Thank you, Mr. Zellers. I didn't see you back there. Didn't expect to see you.

All right. There's a preliminary matter we have to deal with, a couple of pending motions. There was a motion of Staff to late file its position statement. That motion is granted.

MR. THOMPSON: Thank you, Judge.

JUDGE BUSHMANN: There was a motion, MIEC and the Office of the Public Counsel, filed on June 10th, a motion to strike pleadings, reject tariff sheets, and strike testimony relating to whether KCP&L is foreclosed from applying for and receiving a fuel adjustment clause as a result of the terms of a stipulation and agreement the Company entered into in 2005.

This has been a live issue in the case for months and appears in the list of disputed issues identified by the parties. Rather than ruling on the motion at this late date, I will defer a ruling now and take the motion with the case. Interested parties should question revelant -- relevant witnesses and discuss the issue in their briefs.

As far as the order of witnesses today, my understanding is we're going to try and stick to the order that the parties have provided on the hearing schedule. With doing mini openings in addition to the general openings today, it's -- my hope would be that we would easily have the four witnesses today testify; and if we're running ahead of time, it would be nice if we could do a few of tomorrow's witnesses since that's quite a lengthy list for tomorrow. We'll just have to see how that goes.

Also, I think before we do openings, it would be a good time for parties, if they have not already done so, to have their prefiled exhibits marked so we can get that out of the way. So if you would like to take a few minutes to do that, why don't we do that now.

MR. HACK: Judge, if I may with one item?

JUDGE BUSHMANN: Yes, Mr. Hack.

MR. HACK: On the witness list for the policy issues that are to start week two, KCP&L inadvertently omitted Mr. Tim Rush, and we would ask that he go up after Mr. Overcast on that -- that first day of week two.

JUDGE BUSHMANN: That would be granted.

MR. HACK: Thank you, sir.

MR. FISCHER: Judge, we've -- we've given the parties the exhibit list with the numbers. Do you want the testimony brought forward with the numbers on it? Is that what you had in mind or --

JUDGE BUSHMANN: That's what I had -- that's what I was thinking we should do, if you haven't already done so.

MR. WOODSMALL: Your Honor, similar to KCP&L's request, I just noted that Mr. Brubaker had filed testimony on jurisdictional allocations but was left off the witness list for July 1st. So his name should be listed there.

JUDGE BUSHMANN: That was jurisdictional cost allocations?

MR. WOODSMALL: Correct. Issue number 21.

JUDGE BUSHMANN: And what was the witness name again?

MR. WOODSMALL: Maurice Brubaker.

JUDGE BUSHMANN: And he would appear after Mr. Featherstone?

MR. WOODSMALL: That would be fine.

JUDGE BUSHMANN: Request is granted.

MR. WOODSMALL: Finally, Your Honor, to the extent it's necessary, I may come and go throughout this hearing, and I would ask if I'm not here that I'll be excused?

JUDGE BUSHMANN: You are.

MR. WOODSMALL: Thank you.

JUDGE BUSHMANN: And that would go for any other attorneys. No need to make a formal request if you need to be absent during a part that doesn't affect your client.

(Off the record.)

(Company Exhibits 100 through 138 marked for identification.)

(Staff Exhibits 200 through 242 marked for identification.)

(OPC Exhibits 300 through 312 marked for identification.)

(MO-DOE Exhibits 350 through 355 marked for identification.)

(Sierra Club Exhibits 400 through 403 marked for identification.)

(Brightergy Exhibit 450 marked for identification.)

(MECG Exhibits 500 through 504 marked for identification.)

(MIEC Exhibits 550 through 559 marked for identification.)

(DOE/FEA Exhibits 700 through 704 marked for identification.)

JUDGE BUSHMANN: All right. I think we're done with that. Why don't we go ahead and move on now into opening statements.

First opening statement will be by Kansas City Power & Light Company.

MR. FISCHER: May it please the Commission. Good morning. This case is a request for authority to implement a general rate increase of $120.9 million, or 15.75 percent, for Kansas City Power & Light's Missouri service area.

While the Commission approved a rate increase for KCPL back in December -- or, excuse me, back on January 26th of 2013 in our last case, which was ER-2012-0174, since that time the Company has been unable to earn its authorized rate of return for the reasons that I'm going to discuss in just a few minutes.

In this case KCPL seeks to increase rates to recover significant capital expenditures since its last rate case, including specifically the environmental retrofit of the LaCygne plant and significant improvements at the Wolf Creek nuclear power plant, and also reset the cost of service based upon more current information and experience.

Now, the primary drivers of the rate increase, from the Company's perspective are these: LaCygne represents about $47 million of the $120.9 million increase, or about 39 percent of the case; the Wolf Creek investments represent $28.8 million of the rate increase, or about a quarter of the Company's case; transmission costs represent $16.6 million, or 14 percent of the Company's overall case; the other infrastructure investments represent 17.1 million, or 14 percent; and property taxes represent 10.4 percent -- or, I'm sorry, 10.4 million, or 9 percent of the increase.

And this chart up here that I put on the slide kind of shows you in a graphic form what the major things are. The blue is LaCygne, green is Wolf Creek, the orange is the other infrastructure, and the transmission costs are in gray. So you can kind of get a feel for what's really driving this case.

The LaCygne plant has met its in-service criteria agreed to by the Company and the Staff experts. The in-service reports themselves were filed last week in EFIS. And as of March 24th of this year, LaCygne Unit 2 and the common equipment were in service. As of April 30th of 2015 LaCygne Unit 1 was in service, subject of course to the Commission's approval.

I'm very happy to say that the environmental retrofit of the LaCygne plant has come in, it's been completed ahead of schedule; and when all the costs are finalized, it's expected to come in under its original budget. KCPL currently expects the overall cost of the plant to come in at $1.15 billion, which is about $75 million less than the definitive estimate of 1.23 billion.

Now, I found in the Iatan cases that we've tried here, it's difficult to really explain in words the magnitude of these projects. So what we've decided to do is give you a before and after picture of the project. And I put -- I put exhibits on your -- on your desk so you can put them side by side. But this is a before, the preconstruction picture. You can see all the area out in front that is open. It's not -- there's nothing there. Well, the after picture shows you just how much additional equipment was added at that site. So before and after (indicating). Substantial amount. That's what -- that's what the $1.15 billion has purchased for consumers of the Company. Before and after (indicating).

No party, with the exception of the Sierra Club, has raised any questions at all regarding the LaCygne plant upgrades. The Sierra Club is raising similar issues, though, to those that were raised at the predetermination hearing in Kansas. In that proceeding the Kansas Corporation Commission rejected outright the Sierra Club's arguments and determined that it was reasonable and prudent for KCPL to retrofit the LaCygne plant. I think I'm going to leave, though, for the mini openings more detailed discussion of the specific issues that the Sierra Club's raising in this case.

Turning to cost of capital. In this proceeding the Company is recommending a 10.3 percent return on equity, utilizing the capital structure of Great Plains Energy, the parent of the regulated utility. The Company's updated range is from 10.0 to 10.6 ROE. Staff is recommending an ROE in the range of 9.0 to 9.5, with a midpoint of 9.25, utilizing the capital structure of 50.31 percent equity.

Now, in Surrebuttal Staff suggested that KCPL's ROE should not be significantly different from the ROE authorized in the recent Ameren rate case. We're going to have some testimony, and we'll show you that we believe the recent market changes justify a higher ROE than authorized in that case.

Staff's recommendation is -- is not based upon its underlying analysis of the Company's overall cost of equity. Rather than relying on Staff's assessment of the actual cost of equity, which I believe Mr. Marevangepo indicates he believes is in the range of 7.18 to 7.96, which we find very low, rather than relying on that analysis, he -- he arrives at his recommendation by erroneously arguing that the cost of equity has substantially declined since the Commission authorized the

9.7 ROE for KCPL in the last rate case.

However, we think the competent substantial evidence will show that since January 2013 there's been no discernible downward trend in the level of authorized rate of returns for vertically-integrated electric utilities across the country. In addition, interest rates are not materially different from the interest rates prevailing from the -- at the time of the last Company's case.

If we go to the intervenors, Mr. Gorman, on behalf of the Industrial Intervenors, is recommending a 9.1 percent ROE, within the range of 8.8 to 9.4. Mr. Gorman's low end of the range is so low, though, that it's never been authorized by any state commission, according to the reports of the Regulatory Research Associates. As to Gorman's high end, the 9.4, only twice in history has a vertically-integrated electric utility return -- received a return that low.

Ms. Reno, on behalf of the U.S. Department of Energy and the Federal Executive Agencies, she's recommending something even lower, the 9.0.

As you know, under Hope and Bluefield, the Company is entitled to an ROE commensurate with the ROEs of other companies of commensurate risk. Staff's witness acknowledges that the recent ROEs for other companies have been in the 10 percent range. In fact, as noted in the Staff's Cost of Service Report itself, the average ROE for electric utility companies for the first three quarters of 2014 was 9.92 percent. That's what the average was for those first three quarters.

Besides the revenue requirement issues themselves, there's another very important aspect to this case. KCPL is seeking to establish a fuel adjustment clause that recovers fuel, purchased power, and transmission costs, and trackers for the Critical Infrastructure Protection, which I sometimes refer to as CIPs, the CIPs cyber costs, property taxes, and vegetation management costs. These mechanisms are necessary to provide the Company with a reasonable opportunity to earn its authorized rate of return. Without them the Company will have no realistic opportunity to earn the Commission-authorized return.

Now I'd like to show you a very important slide here. This shows you the earned ROE compared to the authorized ROE. The red line up above is the authorized ROE over the last seven years since 2007, and the blue lines show you the actual earned amounts that the Company has earned. Now, the gap between those two lines in the bar graphs, the gap there between the earned returns and the authorized returns from 2007 through 2013 on that slide has resulted in an aggregate earning shortfall for KCPL's shareholders over that period of $220 million, or about $32 million on average per year.

The updated earnings results for 2014 show that

KCPL Missouri only earned 5.69 percent on equity, down from last year's previous -- the previous year results of 6.5 percent return on equity. Of course, during that period our authorized return was 9.7. So last year, although we had an authorized of 9.7, we only earned 5.69. And the previous year we only earned 6.5. And then this -- this gap is just continuing to exist.

Now, some parties to this case will tell you that the solution is for the Company to file more rate cases to address the shortfall in earned ROEs. This chart covers a seven-year period, from 2007 to 2013, and it reflects the results from five general rate increases that were filed during that period. So filing more rate cases is just not the answer.

A significant factor contributing to the earnings shortfall for KCPL is that the Company is experiencing little or no growth in its Missouri sales due to stagnation in the population in the Missouri service territory, energy efficiency initiatives, which we've been proposing, and solar installations, conservation measures, and other factors.

Now, historically, KCPL, like -- like other regional companies, have experienced low growth in the range of 2 to 3 percent annually. And in the past that increased kWh usage on the Company's system has provided additional revenues that exceeded the revenues that were established in the last rate case. Utilities like KCPL were able to utilize the increased revenues to offset the increasing costs that occurred in the year after the rates were set.

However, today the Company is experiencing flat to declining kWh usage in its Missouri territory; and this lack of load growth, coupled with the fact that we have significant cost increases largely driven by the need to meet government mandates for SPP transmission costs, property taxes, and the CIP cybersecurity compliance, those costs are -- largely explain the reason why the historical regulatory model has not worked since KCPL's last rate order and why KCPL continues to have such a large shortfall in its earnings.

KCPL has not earned its last authorized ROE because the costs have been higher and the costs that were -- that were included in the last rate case, while the revenues have been flat. And I'd like to show you more specifically what the costs were that went up.

The retail revenues first were down nearly $14.5 million, and the wholesale sales were down $7.9 million. But if you look on the cost side, the fuel and the purchased power costs were up 13.7 million, transmission costs were up 6.9 million, and nonfuel operations and maintenance expenses were up $6 million. And there's a few other things. Depreciation expenses were up 3.3 million, and property taxes were up 3.9 million, while rate base was increasing 78.2 million.

I'd like to show you, though, the GMO performance and contrast that. By contrast, KCPL Greater Missouri Operations Company, which of course is KCPL's sister company, they had their rates set at the same time that KCPL did in the last case, and those rates became effective on the same date, and they were authorized the same 9.7 percent ROE. That was true for both of their divisions, the MPS division and the L&P division where St. Joe is located.

Now, for that period the MPS division earned a return of 9.76 percent, or very close to its authorized return, L&P earned return on equity of 11.31 percent for 2013, and at the same time KCPL Missouri was earning -- only earning 6.5 percent on equity. And if you look at the update, as I had already mentioned, in 2014 that number has dropped to 5.69 percent.

Okay. So what are the reasons for the differences? Well, there are really two. The differences between GMO and KCPL are these: GMO had a fuel adjustment clause in place in 2013, while KCPL Missouri did not; and in 2013 GMO experienced growth in billing determinates -- or what I mean by that are customer numbers and kilowatt hour sales -- relative to the levels that were put in the rate case, while KCPL Missouri did not.

KCPL's earnings in Kansas where it has a fuel adjustment clause and the property tax tracker, were also considerably better than in the Missouri jurisdiction.

For KCPL to have a realistic opportunity to earn its Commission-authorized return, the Missouri Commission must recognize that there's a disconnect between the change in environment faced by KCPL and the historical regulatory construct in the state. It's essential that the Commission recognize this by either granting the authority for the modest regulatory mechanisms that KCPL's requesting in this case or by including forecasted amounts in the cost of service for SPP transmission fees, property taxes, and cybersecurity costs. Absent such actions by the Commission, KCPL's earnings shortfalls that I showed you on that chart will continue to persist, and it will have no realistic opportunity to achieve its authorized rate of return.

In 2005 in the KCPL regulatory plan case, Case EO-2005-0329, the Company entered into a stipulation and agreement with a number of the parties to that case. That stipulation and agreement included a provision that the Company would not seek to utilize a fuel adjustment clause or a single-issue ratemaking mechanism prior to June 1st, 2015. And the Judge has already mentioned that there's a motion pending on this topic. But in this case the Company is seeking to utilize a fuel adjustment clause effective with the new Commission-authorized rates, which will be well after June 1st, 2015. I think we're expecting the new rates to go into effect at the end of September.

Now, some parties are arguing that the language of that comprehensive energy plan stipulation precludes the Company from asking for a fuel adjustment clause in this case. We've addressed those arguments in testimony, we'll address them in briefs, and we'll also address them in the opening. But needless to say, we're not asking to utilize a fuel adjustment clause until the new rates go into effect at the end of September. Needless to say, KCPL is the only Missouri electric company that doesn't have a fuel adjustment clause and practically the only -- only integrated electric company in a nonrestructured state across the country that doesn't have a fuel clause. There might be one or two exceptions to that. This needs to change.

I do want to address one aspect of the fuel adjustment clause, however. The Company is requesting that transmission costs associated with charges and revenues for the Southwest Power Pool billings and transmission costs to buy and sell energy be recovered through the FAC mechanism. In the recent KCPL case, File Number EU-2014-0077, the Commission denied KCPL's application for accounting authority order to cover transmission costs.

While the Commission denied KCPL's request for an AAO in that case, it indicated that the Commission -- excuse me -- it indicated that the Company could include transmission costs in the fuel clause in the Company's next rate case. And I put paragraph 12 of that order on the board. The order stated, The transmission expenses for which companies seek an AAO are the type of expenses which may be collected through a Commission-approved fuel adjustment clause authorized during a general rate case proceeding.

Now, based on this Unanimous Order, KCPL believed that this was the Commission's preferred approach to recovery and tracking of transmission costs. KCPL certainly believes it's appropriate to recover its transmission costs through an FAC approved in this proceeding. Transmission costs are directly linked to the Company's fuel and purchased power requirements, particularly because of the new SPP-integrated marketplace, which is also sometimes referred to as the Day Ahead Market. Prior -- prior to the Commission's decision in the Ameren rate case, KCPL understood that the Commission considered it appropriate to include transmission costs in the FAC, as it stated in that particular order.

KCPL respectfully requests in this proceeding that the Commission allow KCPL to recover SPP transmission costs through the FAC. However, if the Commission decides not to include SPP transmission costs in the FAC, then KCPL would respectfully request that the Commission approve a transmission tracker in this proceeding. This is appropriate because basing the rate allowance for SPP transmission fees on historical levels with no ability to account for changes, which we all know are going to be coming in that area, will lead to a mismatch of costs and revenues with a significant detrimental impact on the Company's earnings in the year after the new rates go into effect.

But if the Commission decides it doesn't want to authorize an FAC with the transmission costs included or if it decides that it doesn't want to do a transmission tracker, then there is a third alternative that we'd ask you to consider. That alternative would be to include KCPL's forecast of SPP transmission costs in base rates, subject to refund. This is similar to the way the Commission treated fuel cost back in the 1980s when the fuel cost was held to be unlawful. In those days the Commission included forecasted fuel in the revenue requirement and then had a subsequent true-up proceeding to review the actual increase or decrease in fuel costs. If the fuel costs were higher than the actual costs, the difference was refunded or credited with interest to consumers.

Property taxes are also outside the Company's control and are a significant contributor to earnings erosion. The adoption of a property tax tracker would be a tool that could be used to reduce the frequency of rate cases. Property taxes, as you can see from the slide, have been escalating over the last five years. In 2009 they were 67.2 million, and in 2013 they have grown to 83 million. Based on this history of property tax increases in each of the last five years, KCPL is projecting additional property tax increases in the next few years.

COMMISSIONER KENNEY: Judge, can I interrupt here?

MR. FISCHER: I can take a question.

COMMISSIONER KENNEY: Excuse me. I just want to interrupt. Could you get me the numbers going back to 2005? Because I know most properties I saw the county, a lot of them dropped, dropped, dropped, and then they've been increasing lately.

MR. FISCHER: Property taxes back to --

COMMISSIONER KENNEY: I just want two thou -- just so I can see a reference.

MR. FISCHER: Sure. We can --

COMMISSIONER KENNEY: Does that make sense?

MR. FISCHER: We can --

COMMISSIONER KENNEY: All right. Thank you.

MR. FISCHER: We'll get that to you, Judge.

COMMISSIONER KENNEY: Sorry for interrupting.

MR. FISCHER: No problem at all.

But, anyway, that's where -- that's what it shows from 2009 to 2013, and we'll get you a broader view of that.

Now under -- under these circumstances, we believe it's appropriate for the Commission to authorize a tracker for property taxes that would both protect the customers and the shareholders for increases or decreases. Again, that's an alternative that would be to include forecasted property taxes, subject to refund pending a true-up in the Company's next rate case.

Another critical area is a Critical Infrastructure Protection, which we call CIPs, and -- which relates to cybersecurity costs. The Company is committed to and required to comply with the NERC standards set out in the CIPs version 5 and subsequent versions of the CIPs standards. The cost to comply will be substantial. And the Company is already committed significant resources towards compliance. Going forward those efforts and resources will be increasing. In this case, the Company is requesting that the Commission authorize it to establish a tracker for those costs. The amounts above the costs will be included in base rates -- or the amounts above costs that are in the base rates would be tracked for recovery consideration in the next general rate case.

Now, there's been a substantial amount of testimony devoted to the FAC and the trackers that KCPL requested. And the shear volume of all that testimony, it's easy to get lost in the details, and it's hard to plow through it. I find myself getting lost in those details. But that being said, I want to ask you to make one mental note, and that is about what is not being said about SPP transmission costs, property taxes, or the cybersecurity costs.

Not a single witness in this case, among all those that are testifying in opposition to the Company's request, has claimed in any way whatsoever that these costs are not reasonable and that they're not necessary costs for providing electric service, nor has any witness claimed that the transmission fees, property taxes, or cybersecurity costs should not be included in the Company's revenue requirement. But the treatment that they propose will preclude the Company from having the ability to recover all of those costs.

This is disallowance by process, from our perspective. In other words, the process itself is what's causing the disallowance. And if it's adopted by the Commission, it will simply perpetuate the Company's consistent poor earnings performance after the new rates are in effect.

I'd like to give you one big picture look, and I -- that is a little hard to read, so let me pass out an exhibit so you can look at it.

Judge, this gives you a big-picture look at where the Company and the Staff cases stand at this point. So I mentioned earlier, the Company's original request was for $120.9 million. With the estimate of the true-up impact included, our current case now supports a $128.1 million increase. However, that doesn't reflect a settlement of depreciation issues, which has been reached in principle, which will lower that amount.

Now, according to the reconciliation, the Staff's updated revenue requirement is 21.2 million, but that's before the true-up proceeding where all the LaCyne costs will be coming in. In its original filing, Staff has included an estimate of $65 million for the impact of that true-up proceeding and their increase, when you included that, was 82.3 million to 91.3 million.

So, in summary, this case is important not only to review the Company's revenue requirement, but it's also critical to consider regulatory policies that will be used to protect both customers and shareholders under the circumstances that exist today.

Given the lack of meaningful growth in customer count and usage and the expected increases in transmission costs, property taxes, and cybersecurity costs, which no one seriously disputes, this case is also largely about putting in place regulatory mechanisms that will give the Company a realistic opportunity to earn the authorized rate of return or at least something close to what the Commission determines is a reasonable rate of return.

Now, if the Commission believes that the regulatory process should give utilities a reasonable opportunity to earn its authorized rate of return -- and I think that's something the law requires -- then it should not adopt the views advanced by Staff, Public Counsel, and MECG, among other parties, that will undoubtedly perpetuate a regulatory system that will result in disallowance by process, when there's clearly a better way that will protect the Company's customers and its shareholders.

I appreciate very much your attention today. I'd be happy to answer your questions. We have a lot of witnesses coming up that will be able to answer the technical questions, as well.

Thank you very much.

Judge, I don't know if I need to mark those as illustrative exhibits or not, but I'd like to do that --

JUDGE BUSHMANN: Not unless you're going to offer them.

MR. FISCHER: I was not going to offer them.

JUDGE BUSHMANN: Then I don't think you need to.

MR. FISCHER: Thank you very much.

JUDGE BUSHMANN: Questions?

CHAIR R. KENNEY: Yeah, just a couple.

Good morning. Thank you.

MR. FISCHER: Good morning.

CHAIR R. KENNEY: Let me start backwards with your primary revenue requirement issues. You said that the $128.1 million revenue requirement doesn't reflect the impact of the settlement in principle regarding depreciation?

MR. FISCHER: Yes.

CHAIR R. KENNEY: How much -- by how much would it be reduced, approximately?

MR. FISCHER: Well, it depends on if you look at it right now or at the time of the true-up. I understand that it's about 7 to $10 million. At true-up it will be 10 million. Right now it's probably 7, depending on what part of the case you look at.

CHAIR R. KENNEY: Okay. Let me -- let me turn to the stipulation and agreement in EO-2005-0329.

MR. FISCHER: Yes, sir.

CHAIR R. KENNEY: The operative sentence is in 3B, yeah, 3B, 1C.

MR. FISCHER: Yes.

CHAIR R. KENNEY: Single issue rate mechanisms. And it indicates, and I'm paraphrasing or I'm abbreviating it, KCP&L will not seek to utilize any mechanism prior to June 1, 2015.

MR. FISCHER: Yes.

CHAIR R. KENNEY: So the discrepancy is whether filing the rate case prior to June 1, 2015 constitutes seeking to utilize on the one hand versus actually not having the mechanism in place until after June 1st, 2015.

MR. FISCHER: That's my understanding. I think it's -- the record reflects I think it's June 15th, and we're not utilizing -- we don't want to utilize it until September 30. Our perspective is that that language does not seek (sic) us from filing a case. It just seeks (sic) us from utilizing it, which we're not -- we don't want to do that. We know -- we've always said we didn't want to add the fuel clause until the end of this case, and that would be September 30.

CHAIR R. KENNEY: And Staff's argument is that you couldn't even file the rate case asking -- your rate case shouldn't have even requested it?

MR. FISCHER: I guess that's their argument, yes, and we'll be -- we've addressed that in testimony too.

CHAIR R. KENNEY: And so who's going to -- who's going to speak to that?

MR. FISCHER: I think that testimony is in Darrin Ives and in Tim Rush, I believe.

CHAIR R. KENNEY: Okay.

MR. FISCHER: And we'll have it in briefs as well.

CHAIR R. KENNEY: But it's a -- it --

MR. FISCHER: It's a legal question.

CHAIR R. KENNEY: It's a legal question; right?

MR. FISCHER: And we'll be briefing it, but we want to give you the opportunity to ask questions if you have any.

CHAIR R. KENNEY: And I will. But let me just ask a few now. I mean, you -- you were a signatory it. You were one of the lawyers on the case when it was --

MR. FISCHER: I certainly was, yes.

CHAIR R. KENNEY: -- negotiated. And Mr. Coffman was Public Counsel at the time, and it looks like Dan Joyce and Steve Dottheim represented Staff, but I'm guessing Mr. Williams and Mr. Thompson may have been around at the time that that was negotiated also.

If it's purely a legal question and there's an ambiguity as to the meaning of the language, do we construe it against the drafter? Who do we construe the ambiguous language against?

MR. FISCHER: I don't think it's ambiguous, Judge. But I think we all drafted it together, to be honest. Nobody's drafted that. We spent -- we spent months and months in the downstairs conference room working that document out. So I don't think anybody could be considered the drafter.

CHAIR R. KENNEY: So you're all equal drafters, and you all spent months and months and months, and you're all good lawyers. This issue never came up in the course of these discussions.

MR. FISCHER: Well, that was in 2004 or '5 when we were first talking about that. It seemed clear to us that we couldn't have one until -- we couldn't have a fuel adjustment clause until after June 1st, 2015. We couldn't seek to utilize one, we're not seeking to utilize one until September 30th.

CHAIR R. KENNEY: So this is all really going to come down to the intent of the parties?

MR. FISCHER: I think it's going to come down to how you interpret the language. But our intent was certainly not to have one until after June 1st, 2015. As I stand here today, we don't have one.

CHAIR R. KENNEY: All right. Okay. Let me just ask a couple of quick questions about regulatory lag and KCP&L's inability to earn its authorized ROE.

MR. FISCHER: Certainly.

CHAIR R. KENNEY: At one point you mentioned declining load growth --

MR. FISCHER: Yes.

CHAIR R. KENNEY: -- declining to -- you know, flat to declining load growth. Then you mentioned the NERC CIP standards.

MR. FISCHER: Yes.

CHAIR R. KENNEY: But you also threw in there solar installations and energy efficiency.

MR. FISCHER: I did that --

CHAIR R. KENNEY: You didn't put in -- it's not in your -- you said it's -- verbally.

MR. FISCHER: I did, that's right.

CHAIR R. KENNEY: It's not in any of the documentation. Are you able to attribute of how much of your -- of KCP&L's inability to earn its ROE would be attributable to energy efficiency and to solar installations?

MR. FISCHER: We might ask the technical experts. I don't have a number that would do that, for sure.

CHAIR R. KENNEY: Who would be the witness to direct that question to?

MR. FISCHER: Probably -- Tim Rush and Darrin Ives, again, would probably be the two that might be able to get that information to you. We've got -- we've had, of course, a lot of solar installations. And to the extent that -- or Burton Crawford might be another opportunity. He might have some information about how that's affected the forecast.

CHAIR R. KENNEY: As a general proposition, though, the bigger items are the lack of an FAC, property taxes, NERC CIP standards, and vegetation management?

MR. FISCHER: Yeah, certainly the cybersecurity, the CIPs, is the newest issue; and it's right around the corner. We see that as a substantial increase, and we believe that will have a significant impact on it. But transmission, of course, is the big -- the big-dollar item.

CHAIR R. KENNEY: So the energy efficiency and the solar installations would be a much less significant component?

MR. FISCHER: I think those have affected the load growth, along with lack of population growth, and just the area itself has not had load growth, and that's -- because there's no load growth, there's no revenue growth. But yet we do have cost increases that are just around the corner, right after a rate case gets established -- the new rates get established.

CHAIR R. KENNEY: And GMO was able to earn its ROE in both the MPS district and the Light & Power district?

MR. FISCHER: And KCPL was able to earn it in Kansas where they had a fuel clause and property tax tracker.

CHAIR R. KENNEY: So would you say, then, that the most significant component would be the presence or absence of an FAC and the presence or absence of a property tax tracker?

MR. FISCHER: Along with the fact that there wasn't load growth. But, yes, those -- from a regulatory standpoint, those are the things that are absent.

CHAIR R. KENNEY: All right. That's all I have. Thank you very much.

MR. FISCHER: Thank you.

COMMISSIONER HALL: I have no questions. Thank you.

MR. FISCHER: Thank you.

JUDGE BUSHMANN: Thank you, Mr. Fischer.

Opening statement by Staff.

MR. THOMPSON: May it please the Commission. You will hear issue-specific opening statements prior to every issue in this case, and so I will not detain you very long at all at this point. There's a lot of witnesses to get through; and the sooner we start, the better.

In this case KCPL seeks an increase in its retail rates of 120.9 million. I was -- I was excited to learn just a minute ago that it's actually 128.1 million. It's expanding as time goes by.

The original increase, 120.9, is an increase of 15.75 percent. 15.75 percent. KCPL has 519,000 retail customers, more or less, and about 275,000 of them, more or less, are in Missouri. KCPL also operates in Kansas. Currently, KCPL collects about $770 million a year from its Missouri customers. This case is KCPL's sixth general rate case in Missouri since 2006. In 2006 KCPL got a rate increase of 10.46 percent; in 2007, an increase of 8.4 percent; in 2009, an increase of 16.1 percent; in 2010, an increase of 5.23 percent; and in 2012, an increase of 9.64 percent. Those numbers add up to 49.83 percent. 49.83 percent. If you add in the requested increase here, you get up to over 65 percent. Over 65 percent for the increase of electricity, a basic necessity of life. Maybe the fact that kWh sales are dropping are because people can't afford them. Maybe that's what that reflects.

But we're told that KCPL's load growth is not only flat, it's declining. So it's selling less electricity, and outside of any energy efficiency considerations. But KCPL wants more money for less electricity. 88 percent of KCPL's customers are residential customers. They will bear the brunt of any rate increase that's granted.

So how are these residential customers doing? I think that's a fair question. In the counties that compose KCPL's service area, they continue to experience challenges in the wake of the Great Recession, 2008 and following. Real gross domestic product growth has been smaller in Missouri than in the United States as a whole since the recession ended. In fact, GDP growth was negative in Missouri in the year 2011. Annual unemployment levels in Missouri are still higher than the prerecession unemployment levels. The unemployment rates for 2014 show that Missouri unemployment is leveling off near 6 percent. Nationally, however, there's a downward trajectory that's continuing. So, in other words, Missouri is not resolving unemployment as well as the nation as a whole. We lag.

The number of jobs in KCPL's service territory peaked in 2008, and it's still below 2004 levels. The current economic outlook suggests that unemployment -- or, excuse me, that employment, household income, and GDP will improve over the short term. So there's some good news. There's some good news.

From 2007 to 2013 the counties in the KCPL service area collectively experienced an 11.47 increase in average weekly wages, but this was somewhat lower than the overall Missouri compounded increase in average weekly wages of 11.56 percent, and it's also about 9.1 percent below the increase in the Consumer Price Index. So, in other words, whatever wage growth has occurred has been less than the increase in the cost of living. Life got harder between 2007 and 2013. Life got harder for people in Kansas City. That's what that tells us.

During that same time electric rates for residential customers increased 57.69 percent. Those rate increase numbers we went through earlier, that was overall for the Company as a whole. The impact of rate increases on the residential class was higher. Was higher.

KCPL has also experienced inflationary pressure -- we understand that -- illustrated by a 17.84 percent increase in the Producer Price Index for industrial commodities between 2007 and 2013. So prices are going up for Kansas City Power & Light as well.

KCPL is requesting $128 million on an annual basis in additional revenue requirement. From 2007 to 2013 the increase in average weekly wages for the counties in the KCPL service area was less than one-fifth of the increase in electric rates for those same folks. The increase in wages was less than a fifth of the increase in electric rates.

If KCPL gets the 15.75 percent increase they asked for -- and I guess it's actually slightly more now that the numbers are higher -- average weekly wages will be less than one-seventh. The increase in wages will be less than one-seventh of the increase in electric rates. So maybe it ain't so great living in Kansas City.

Mr. Ives, testifying for KCPL, had a lot to say about regulatory lag. The Company, despite its best efforts, cannot earn its authorized rate of return. Well, the cure for what ails KCPL clearly is an FAC. No question about that. And KCPL has looked across the state at Ameren Missouri, which consistently earns over its authorized rate of return, and has seen how an FAC has cured the regulatory lag problem there. I mean, we used to have Warner Baxter in here with charts exactly like the one that Mr. Ives showed us weeping, weeping into his beer over their failure to earn their authorized rate of return. Well, that's not a problem anymore. In the last Ameren case, we didn't hear any of that. Mr. Baxter didn't make an appearance.

So KCPL is asking for alternative regulatory mechanisms, and Staff's response to that really falls into two different categories. On the part of the FAC, our position is, yes, that will solve your problem, yes, all the other kids have one, but you made a deal. You made a deal; you could not seek to utilize an FAC before June 15, 2015. Staff's interpretation of that admittedly not so clear language is that they could not ask for an FAC before the target date. Not only can they not have one, they can't ask for one. That's our reading of the language. You guys are going to have to decide what that language means, what the parties meant by it.

They also want some other alternative regulatory mechanisms. Trackers. They want trackers. They mentioned to you a property tax tracker, cybersecurity tracker, they want some help with the SPP transmission costs. Staff is opposed to trackers, except in very specific, limited circumstances. There are times when a tracker is the right regulatory tool to use. Absolutely.

Let me give you a good example: When the Commission imposed new and more onerous vegetation management and infrastructure inspection obligations on these companies. The Commission did that by rule. The Commission understood at the time that this was going to cost the Company significant money that they had not budgeted, significant amounts of money that were not built into existing rates. And so the Commission gave them trackers. Let's see how much this costs, and let's make sure you recover that money in the next rate case. It was fair and it worked, and it illustrates the right circumstances in which to use a tracker. Staff says these are the wrong circumstances. We're opposed to the trackers that KCPL is asking for in this case.

Mr. Hevert is here. We're happy to see him. He's sponsoring return on equity, as Mr. Fischer told you, of 10.3 percent. Recently you gave Ameren an ROE of 9.53 percent, and we don't see any reason why you should treat KCPL any better. That was the right way to go, and we urge you to go that way with this Company as well.

Also notable in this case, Staff is taking a new position with respect to rate case expense. Staff believes that rate case expense should be shared on a 50/50 basis between the ratepayers and the shareholders.

In closing, I will just say that Kansas City is a beautiful place, the City of Fountains. Staff urges you to make life just a little bit easier for the people that live there. Staff suggests that KCPL should get a rate increase, but no more than $21.2 million on an annual basis. That's just under 3 percent.

Thank you very much.

CHAIR R. KENNEY: Just a couple, Mr. Thompson. Thank you. I appreciate Staff's evolution.

MR. THOMPSON: We're always changing and growing, sir.

CHAIR R. KENNEY: That's excellent. Let me ask you a question about the seek to utilize language.

MR. THOMPSON: Yes, sir.

CHAIR R. KENNEY: Why not just say -- if the intent was that KCPL wouldn't try to get it, just say they wouldn't seek it?

MR. THOMPSON: There were a lot of lawyers involved in those negotiations. And, frankly, they all get a D. They get a D. We learned in law school that if you're going to write a contract, make it clear, make it unambiguous. Otherwise, all you're doing is building a landmine into the path that you're going to travel across. Well, they didn't pay any attention to that. They built a landmine into that path.

I was not part of those negotiations. I was upstairs. I was -- I was an RLJ in those days. I'm not saying I would have done any better if I had. Let me be quick to say that. I'm just giving you the historical fact that I was not part of that.

CHAIR R. KENNEY: So --

MR. THOMPSON: So I can't tell you what I think it means --

CHAIR R. KENNEY: All right.

MR. THOMPSON: -- from experience.

CHAIR R. KENNEY: So seek to utilize versus simply seeking would --

MR. THOMPSON: If they just used one of those words, either seek or utilize, it would have been clear.

CHAIR R. KENNEY: All right. And then how do we -- how does the finder of fact in law discern the meaning of the language in an ambiguous contract? What --

MR. THOMPSON: Plain language.

CHAIR R. KENNEY: Plain language first. But if it's ambiguous, then what do we look to?

MR. THOMPSON: Well, you try to determine the intent -- intent of the parties.

CHAIR R. KENNEY: And what's the evidence we look to to determine the intent of the parties?

MR. THOMPSON: The four corners of the document.

CHAIR R. KENNEY: That's if it's -- that's if it's unambiguous. So, I mean, looking outside of the four corners of the document, what extrinsic evidence can we look -- can we properly look to to discern the intent of the parties?

MR. THOMPSON: I guess you could ask the lawyers who were involved.

CHAIR R. KENNEY: Are you all going to put any of those lawyers on?

MR. THOMPSON: We're not putting any on.

CHAIR R. KENNEY: All right. Okay. Thank you.

MR. THOMPSON: Sir, nice to see you.

COMMISSIONER KENNEY: Nice to see you. Have you ever lived in Kansas City?

MR. THOMPSON: No, sir, but my son did. It's a beautiful place.

COMMISSIONER KENNEY: Well, you just made reference that things aren't good in Kansas City.

MR. THOMPSON: Well, that --

COMMISSIONER KENNEY: I take issue on that, because I've lived there for 30 years. The Royals went to the World Series first time in 30 years.

MR. THOMPSON: I personally --

COMMISSIONER KENNEY: Kansas City Chiefs --

MR. THOMPSON: -- was very proud.

COMMISSIONER KENNEY: -- playoffs again.

MR. THOMPSON: I was very proud. And you know I'm a huge Chiefs fan.

COMMISSIONER KENNEY: Oh, but, hey, we got some -- we have some great barbecue, don't we, Mr. Chairman?

CHAIR R. KENNEY: You do, indeed. And I've sampled much of it, yes.

COMMISSIONER KENNEY: Yes, I know. I do take issue with that.

MR. THOMPSON: I apologize.

COMMISSIONER KENNEY: Things are good in Kansas City.

MR. THOMPSON: They could be better.

COMMISSIONER KENNEY: They could be better. I just have one question.

MR. THOMPSON: Yes, sir.

COMMISSIONER KENNEY: You mentioned that since 2006 that KCP&L has had rate increases of about

49-point-something percent. If this would be included, it would be over 60 percent. Is that an anomaly compared to our other two utilities, electrical utilities, in this state or is that pretty close to what they are doing?

MR. THOMPSON: It's close, but somewhat higher than the same figures for Ameren Missouri. Is it --

COMMISSIONER KENNEY: Are you saying it's higher if they would get what they're asking or it's higher as from it 2006 till before this rate case? Because I think Ameren is about 50-something percent. And if I remember, we just had -- Empire was about the same. So --

MR. THOMPSON: It's a little bit higher than -- as we're poised here today considering a new rate increase, looking back over what's already happened, the amount of the increase for KCPL is higher than the amount of the increase was for Ameren at the same point in that case.

COMMISSIONER KENNEY: Okay.

MR. THOMPSON: Ameren, as I recall, was 47 percent.

COMMISSIONER KENNEY: Okay. And then they're 49.

MR. THOMPSON: So it's close.

COMMISSIONER KENNEY: Pretty close.

MR. THOMPSON: It's close.

COMMISSIONER KENNEY: So it's not -- it's not that unusual.

MR. THOMPSON: No, sir.

COMMISSIONER KENNEY: We're finding that trait around -- and I'm just reminded of a clip I saw, our president of the United States 2007 campaign. Under his administration he said electrical prices will most likely double. So, I mean, and it's -- it's going that way; correct?

MR. THOMPSON: Yes, sir.

COMMISSIONER KENNEY: Okay. That's all I wanted. Thank you.

COMMISSIONER HALL: Good morning.

MR. THOMPSON: Good morning, sir.

COMMISSIONER HALL: Just a few questions. Going back to the 2005 stipulation, is it Staff's position that it would not be a violation of the stipulation had KCP&L filed its rate case June 1?

MR. THOMPSON: If that was the target date, then yes, that would not be a violation.

COMMISSIONER HALL: I don't understand what you mean by target date.

MR. THOMPSON: Was it the 1st or the 15th? 1st? Oh, yeah. 1st, that's not a violation.

COMMISSIONER HALL: Okay. What if KCP&L's CEO or some high-ranking officer stood up the day before June 1st and said we intend to seek an FAC?

MR. THOMPSON: No violation.

COMMISSIONER HALL: Okay. Well, why is that?

MR. THOMPSON: Because it's not a formal filing in front of the Commission.

COMMISSIONER HALL: So where -- so by seek to utilize you would say that it's implicit that that is before this Commission?

MR. THOMPSON: Yes, sir.

COMMISSIONER HALL: Okay. Going back to the -- to the question that the chairman asked you. If we were to determine that -- that looking at the four corners of the document, the specific words in this provision and the entire contract, and we were to determine that it's -- that it's ambiguous and we have to go to extraneous sources and you're not going to put on any of the lawyers who were involved in negotiations, what extraneous sources should we rely on?

MR. THOMPSON: If the Commission were to request that Staff put the lawyers who were involved in negotiating that agreement on the stand for questions, we would be happy to do that. In the case that we have currently planned based on our prefiled testimony, we don't have those lawyers planned as witnesses. But if the Commission requests, we will make them available, to the extent they're still here.

COMMISSIONER HALL: Do -- do you believe the language is ambiguous?

MR. THOMPSON: I believe it is, yes.

COMMISSIONER HALL: And so in order to convince us -- to convince the Commission as to the meaning of that ambiguous language, what evidence do you plan to present?

MR. THOMPSON: Argument.

COMMISSIONER HALL: Argument based upon what?

MR. THOMPSON: Based upon the plain meaning of the language. I think our argument is that the word seek -- the appearance of the word seek in the sentence shows that it applied to the act of asking for the FAC.

COMMISSIONER HALL: Okay. I was -- I was listening to your discussion of economic indicators in Missouri, and I was a little confused -- well, in Missouri compared to the rest of the country. Isn't Missouri's unemployment below the national unemployment, and hasn't it been so for the last five years?

MR. THOMPSON: That could be. The testimony that I read was speaking of trends; and it said that Missouri had leveled, while nationally it's continuing to drop. It didn't actually say what the national figure was.

COMMISSIONER HALL: Oh. I believe that's relevant, don't you?

MR. THOMPSON: I do too.

COMMISSIONER HALL: All right. Thank you.

MR. THOMPSON: Thank you, sir.

JUDGE BUSHMANN: Opening by Office of Public

Counsel.

MR. POSTON: May it please the Commission. I'm Marc Poston, and I'm here on behalf of the Office of the Public Counsel representing the roughly 274,000 customers served by KCP&L. I won't address every issue this morning, but I would like to discuss several issues.

You've heard the Company's perspective, which reflects the perspective of the Company's shareholders, and you've heard from the Staff. Now it's time to hear from the customers that will pay for every dime of any increase that you authorize.

And who are KCPL's customers? It's safe to say that many, if not most, of KCPL's customers are Chiefs fans. And so we can safely say there's thousands, if not tens of thousands, of KCPL customers in this picture.

This slide gives you an idea of who will be impacted by this -- the decisions made in this case. There's 241,947 residential customers. These include large families, small families, retirees on fixed incomes, single mothers, the poor, the wealthy, senior citizens, apartment dwellers, and those living in single-family homes. But there really are many more customers than 241,000, because one home may have a family of two or a family of five or more. The population of the counties where KCPL serves is roughly 1.3 million. So this case impacts a very large number of people.

There's over 25,000 small businesses. These include your mom-and-pop, family-owned businesses. There's over 6,000 medium and large businesses. 81 large power users. And combined, these are the customers that will impact -- will be impacted by this case.

This table comes from Dr. Marke's testimony that OPC sponsored. This table shows the hardships that a large portion of the KCPL's customers are experiencing today. A significant portion of these customers are in poverty; 20 percent in some counties, and close to 20 percent in many counties. That's one out of five living in poverty. And the struggles of KCPL's customers are also reflected in the high number of past due balances, which is also around 20 percent, one in five customers. And these same customers have been told time and time again every year or every other year since 2007 to pay considerably more for their electric service through constant rate increases.

KCPL's customers have endured five major rate increases in the last eight years, and these were not small increases. In 2007, 10.46 percent. The next year, 6.5. In 2009, 16 percent. Two years later, 5.25. And two years after that, 9.6. And now here we are just two years after that latest increase. And the result of these combined increases, as you heard from Mr. Thompson, is the customers are paying 57 percent more than they were paying just eight years ago for the same service. And that's an enormous increase. And now KCPL wants to add another 15 percent. The result, if approved, would be customers paying over 82 percent more than they were paying in 2007.

It's hard to comprehend how someone in poverty or living on a low fixed income can withstand another increase. And if you consider the timing of these issues -- or these increases, which began in 2007, this was when the country fell into a recession. As KCPL's residential and business customers struggled with the impact of recession, they were repeatedly hit year after year with another rate increase. And today, eight years after the start of the recession, the Kansas City region has not recovered.

This is also from Dr. Marke's testimony, and it shows jobs have only recovered 2 out the 13 counties where KCP&L serves, unemployment rates have not recovered in any of the counties, GDP only 2 out of 13, and home prices have only recovered 1 out of the 13 counties.

And with each rate increase forced upon customers, there are a number of customers that just can't keep up, the straw on the camel's back. They're forced to go off the system or forced to go deeper into debt. The public hearing comments and the comments filed in EFIS attest to the struggles of KCPL customers, the struggles they've endured since 2007, and their frustrations with what have essentially been continuous rate increases. And I hope you'll spend the time necessary to read through every one of these comments.

So as the recession hit and people were losing jobs, losing their homes, as businesses were closing their doors, KCPL was increasing revenues year after year.

This slide, also from Dr. Marke's testimony, compares the KCPL increases, the 57 percent they've received since 2007, to increases in average weekly wages, which has only increased 11.4 percent during that same time period. And then the last column on this slide shows the increase that it would be if you approve their increase here, 82 percent.

So despite this Commission granting KCPL a rate increase every time they've asked for one since 2007, or maybe because of it, here they are again. The impacts on the most vulnerable of KCPL's customers -- customer base needs to be considered with every issue brought to you in this case.

Unnecessary risk shifting from the Company to customers, as KCPL seeks with several of its requests in this case, demands thorough scrutiny by this Commission. And one such attempt to shift risk on customers would occur if the Commission approves KCPL's request to increase the residential customer charge by 177 percent from the current $9 customer charge to a $25 monthly rate and, therefore, shift risk to customers that use the lowest amounts of energy. Most low-income customers are low-usage customers and, therefore, raising the customer charge would require low-income customers to pay a disproportionate share of any increase authorized.

The testimony of OPC's witness, Dr. David Dismukes, explains how KCPL's high customer charge proposal is contrary to cost causation principles. In fact, KCPL's own cost study is inconsistent with how it now claims those costs should be recovered from ratepayers. And one major flaw in the KCPL's customer charge proposal is that it wrongly assumes that all residential customers have the same level of demand. This is simply not true. The electricity demand from a widowed senior citizen living alone in an efficient apartment with few appliances is only a small fraction of the electricity demand from a family of five living in a 5,000-square-foot home.

The current rate structure with a $9 customer charge and most revenue recovery through a rate based on energy usage recognize these differences. KCPL's proposal would hit hardest on those trying to cut back on their usage and those low-income customers that are forced to use as little electricity as possible because they simply can't afford it.

KCPL wants you to approve a customer charge unlike any other customer charge in the country. And the evidence presented in this case will show you that KCPL's customer charge is already in line with customers charges of other electric utilities in the region and in the country. And here's a sampling of these. This is also from Dr. Marke's testimony.

And, as you know, the same issue came up in the Ameren rate case, and there the issue was in regard to a much smaller increase, from $8 to 8.50. In response to this 50 cent request, the Commission made it clear that an increase in the customer charge is not in the public interest. And this is a quote from the Commission's order. And that order became effective just one month ago. Nothing has changed to make these findings any less applicable here than to KCPL. And the mere fact that KCPL is seeking a higher charge than Ameren sought should not impact these findings since they're not influenced by how much the utility wants to charge.

As you will see, each factual reason KCPL witness Mr. Tim Rush gives for a $25 customer charge is clearly refuted by the facts as presented in the testimony of the OPC witnesses Dr. Dismukes and Dr. Marke. Maintaining a $9 customer charge will continue allowing customers to have greater control over their bills for economic and conservation purposes, as the Commission found in Ameren, and it's clearly in the public interest.

Another issue that raises public interest concerns is KCPL's electric vehicle charging station proposal, which I don't believe they even raised in their opening. What KCPL asks in this case will set in stone a regulatory approach to the issue from now on. While the Commission doesn't make legal precedent in these opinions, the practical impact will be just as consequential as a court decision. How and whether this Commission regulates electric vehicle charging stations is at issue in this case. And the consequences of that choice, if this Commission decides the issue is ripe, will be substantial, maybe not immediately but in the years and decades to come.

Is it in the best interest of the public to allow a regulated monopoly to extend its monopoly into a new area of service? Is that area of service, that market, competitive already? If so, why allow one market participant the substantial advantages associated with having its captive ratepayers ensure its investments in infrastructure deployment.

We have convenience store operators and others in this state who strongly believe in fuel choice, and I suspect they would object to the State through this Commission sanctioning a competitive advantage like that. If the market is not competitive now, because we defined it not competitive based on fuel but on the type of vehicle, do we want to establish a situation in which that market will never be competitive in KCPL's service territory? Is that the best way to protect customers in the future?

OPC does not believe this issue, with so many substantial policy implications, is best decided in this rate case. This issue should be addressed in a separate case, perhaps a working docket, one not complicated by a pending rate case, wherein these questions and a long list of unanswered questions regarding program design, goals, scope, risk shifting, cost benefit analysis, subsidies, and other policy-related issues can be examined appropriately. None of these issues have been addressed by KCPL's very late and unstudied addition of this issue into the case.

Even if we step down a bit from these substantial questions of public policy and get back into the realm of more familiar -- more familiar to a rate case, the proposal to recover expenses in rates remains horribly ill-advised. Requiring ratepayers, especially the low-income ratepayers, to pay for a service that is available only to the wealthiest of KCPL's customers is plain wrong and would only increase the heavy burden that these ratepayers have -- have had to endure since 2007.

KCPL's proposing this initiative for one reason only, to increase profits for their shareholders while increasing load and growing the rate base upon which it calculates its ROE. Instead of shouldering any of the risk of this very speculative endeavor, KCPL wants its customers to carry all the risk.

And as you know, KCPL's surprising intervenors in this case with this last-minute proposal, offered four months after the Company filed its initial case, and we've all done our best to develop responses to the proposal. The main thing

I'd like you to think about with regard to that is the number of unanswered questions and how this request is very premature in that regard. And so we ask that you keep any costs related to KCPL's electric vehicle charging station out of rates and open a working docket to work through the many substantial policy issues regarding that proposal.

In the end it may be in the customer's best interest for the electric vehicle charging stations to be deployed by regulated utilities with tariffed rates and all the benefits and burdens that come from the Commission process, or it may be in the customers' best interests for Missouri to choose not to expand the scope of the Commission's regulatory regime, which is itself a drastic exception of free market principles. It may be best for customers here to let the free market develop on its own and let the market choose the winners and losers, without ratepayers ensuring one privileged actor over all the others. And we need our policymakers in this building, and perhaps in the capitol, to take the time to make this weighty and consequential determination correctly, and it's not best made in this rate case.

Another request that's not in the public interest is KCPL's request for a fuel adjustment clause. MIEC and OPC filed a motion last week to strike KCPL's pleadings, tariff sheets, and testimony regarding the FAC. It's our position that KCPL's request for an FAC violates the agreement KCPL entered into and that the Commission ordered KCPL to follow where they agreed prior to June 1st, 2015 they would not seek to utilize an FAC. And KCPL's October rate case filing does just that; it seeks to utilize an FAC. And KCPL would rather the Commission ignore the words seek to -- I've got the language here on the slide -- and read the passage as if it says prior to June 1st, 2015, KCPL will not utilize an FAC. And here I've modified the language as KCPL would have you read it.

That's not what it says. The words seek to have meaning. There isn't any other way to interpret this language. I do not think it's ambiguous at all. To interpret it as KCPL proposes would be to remove these two words. The purpose of this language with the seek to included is to keep an FAC proposal out of any rate case filed before June 1st. Yet here we are fighting over an issue we should not be spending resources on.

Because of this agreement, KCPL's testimony, pleadings, and tariff sheets that seek an FAC should be stricken. This would eliminate 21 FAC issues to be decided by the Commission in this case. It would eliminate one-fourth of the overall issues in this case. And since KCPL's pattern of filing rate cases is every year or every other year, it won't be long after this case before they'll file their next rate case, and they can request an FAC at that time and not be in violation of the agreement or the Commission's order. But if the Commission allows this issue to be heard, the FAC request should be denied because KCPL has not met its burden that an FAC is necessary.

Public Counsel witness, Ms. Lena Mantle, will be able to answer your questions over this issue. Her testimony explains the criteria to be considered with an FAC request and how KCPL has not satisfied that criteria. Her testimony explains how KCPL has not provided sufficient descriptions of the costs and revenues it would include in an FAC. These are not minor details that should be left to the Company. Each cost and revenue should be known and approved. This is, after all, single-issue ratemaking, and it deserves the greatest scrutiny possible.

Ms. Mantle's testimony also shows how KCPL's fuel and purchased power costs have been constant recently with little variation. She also shows how the Company's management has substantial control over the contracts it enters into for fuel and purchased power. She also explains how an FAC would shift an unreasonable amount of risk to the customers. The Company essentially wants this Commission to agree that it would be unreasonable for the Company to face any risks associated with changes in fuel and purchased power, and in that same order conclude that it would be reasonable for KCPL's customers to instead bear that risk.

And given what the Company's customers have endured in terms of continuous rate increases, adding another rate to a customer's bill that changes between KCPL's already constant stream of rate increases is too much to ask, especially at this time.

And given the fact that an FAC greatly reduces the Company's incentive to control fuel and purchased power costs, it's simply not in the public interest to grant an FAC to KCP&L. This Commission rejected Ameren's first FAC request, and it should do the same here for KCPL, and for the same reasons; it's not necessary and would, therefore, unnecessarily shift risks to customers.

KCPL also requests a number of trackers. Public Counsel's witness, Ted Robertson's Surrebuttal Testimony provides the Commission with a good overview of trackers and tracker policy. They request multiple trackers for property tax, vegetation management, cybersecurity, and transmission fees. Mr. Addo, Public Counsel witness, explains multiple reasons why a tracker should be rejected. And while the reasons to deny each request vary slightly, they all have a number of reasons in common -- common for denial: The expenses are predictable, and including annualized amounts in base rates allows recovery of a normal ongoing expense; trackers provide a disincentive to the utility to control costs; the claims of increased costs are speculative; trackers violate the matching principle; and they constitute single-issue making -- ratemaking, because they allow cost recovery without considering all relevant factors during the period the costs were incurred.

So denying these tracker requests would also be consistent with the Commission's findings and conclusions in the recent Ameren case where the Commission rejected Ameren's unnecessary tracker requests.

I'd like to move on to rate case expense. Regarding rate case expense, we propose that customers not be required to pay all of KCPL's rate case expenses, for the same reasons explained in Commissioner Hall's concurrence filed last week in the Ameren case. And I've just included bullet points, and I hope I paraphrased -- paraphrased these correctly. And Public Counsel's witness, William Addo, includes a breakdown in his testimony of KCPL's rate case expenses, expenses incurred to date. He proposes prudence disallowances for excessively hour -- excessive hourly rates for the high-priced attorneys retained by KCPL and for consultants that cover topics already covered in testimony by KCPL employees. After removing the imprudent costs, he recommends an equal sharing of the remaining rate case expenses. He explains how a 50/50 sharing is reasonable because shareholders benefit from a rate case by way of an approved -- approved return on their investments, and customers benefit by improvements in service.

The Commission Staff also recommends an equal sharing. They say 50/50 is appropriate, as Staff puts it, because it creates an incentive and eliminates a disincentive on the utility's part to control rate case expenses to reasonable levels. And it's also appropriate because consumers already pay all the rate case expenses incurred by the Commission, all the rate case expenses incurred by the Commission Staff, and all the rate case expenses incurred by Public Counsel. Customers should not have to also pay all the rate case expenses incurred by KCPL, while KCPL's investors, who benefit most from a rate case, pay nothing. A 50/50 split introduces a level of fairness into these expenses.

The last thing I'll say about rate case expenses that -- I believe it was Chairman Kenney in the Ameren case, questioned whether a rule was the best place to consider a 50/50 sharing of rate case expense. But a Commission order requiring a sharing need not be done by rulemaking, as long as the record supports sharing and supports the amount of sharing. The evidence presented in this case by the Public Counsel and the Commission Staff supports a 50/50 sharing, and such sharing can be ordered for KCPL and applied specifically to KCPL.

The last issue I will address is return on equity. This slide shows the four ROE proposals. The three proposals on the left obviously are more consistent with each other, and then there's KCPL's proposal on the right. And if you'll notice, this chart begins at 8 percent and shows only proposed ROE percentage above 8 percent. This is because 8 percent is what the Commission Staff included was the high end of the true cost of equity. And that makes sense, too, because an electric company like KCPL is a safe investment. Electric utilities provide a service that we all need to light our homes, to cool our homes, to power our TVs, computers, phones, washing machines, that is, for those of us that can afford those things.

It's also a safe investment because the Company itself estimates that it's going to continue gaining customers through at least 2019. And this is a graph from Dr. Marke's testimony, and it shows over a ten-year period the Company has been growing. The Company also predicts the average customer usage will also continue to rise. Those numbers are also in Dr. Marke's testimony.

KCPL is a good investment. They provide a service we all use for our homes and businesses, a service we will continue using and using more of, and they have a complete monopoly on the market. So they have no competition, no alternatives for their captive customer base. And unlike any other industry, if things go poorly for the Company, they can and do come here and request a rate increase. And if they get it, and they usually do, there's little a customer can do but pay or try to cut back on their usage, which is difficult to do, or they can drop off the system.

And even if things aren't going poorly for KCPL, they can still come here and ask for more. And given the fact that they have more attorneys and consultants and consultants on top of consultants and attorneys on top of attorneys, KCPL can throw more resources into every rate increase than every other party in the case, and this gives the Company an excellent chance of walking away with some reward for their efforts each and every time.

It's a safe investment, and it makes sense that the 8 percent set by Staff is the high end of what -- the costs. Mr. Gorman, in his testimony on ROE, concludes that, The market continues to embrace the regulated utility industry as a safe haven investment and views utility equity and debt investments as low risk securities.

So we urge the Commission on behalf of KCPL's customers to grant KCPL no more than 9 percent, which is within the range recommended by three different expert witnesses. Mr. Gorman's range was 8.8 percent to 9.4, Staff's range was 9.0 to 9.5, and 9 percent is right at the range recommended by the U.S. Department of Energy.

Mr. Gorman states it best when he says that his ROE recommendation will mitigate the claimed revenue deficiency in this proceeding by providing KCPL fair compensation with the lowest cost to customers. And that's really the goal here, to authorize an ROE that is fair for the Company and lowest cost for customers. A win-win.

And it's important to keep in mind that these recommendations are not based upon KCPL having an FAC or any other risk-shifting tracker mechanism proposed by KCPL that, if approved, would pass on more risk to customers. So if you grant any one of these tracking mechanisms, including the FAC, this shift of risk to KCPL's customers would certainly justify an ROE of 9 percent or even less, because customers will be shouldering more substantially more risk than they do currently.

These are the issues we wanted to raise in this general opening, and we'll provide more comments in the openings before each issue.

Thank you.

CHAIR R. KENNEY: Mr. Poston, thank you. Does the Office of Public Counsel offer or has it ever offered a rate mechanism applicable to low-income customers that would cap the amount that they pay as a percentage of their income or some other type of alternative proposal for low-income customers?

MR. POSTON: I'm not aware of any at the moment. I can try to find -- I can dig and get an answer to that.

CHAIR R. KENNEY: Does Office of Public Counsel have any opinion on whether such a rate would lower the number of customers that have arrearages and/or the amount of bad debt that the Company writes off?

MR. POSTON: I mean, that would be the hope, that any mechanism would do those things. I would encourage you to ask those questions of Dr. Marke or Dr. Dismukes that will be up here tomorrow.

CHAIR R. KENNEY: Thank you. The language from the stipulation, seek to utilize versus utilize, you said it's not ambiguous. Let's -- let's take me at my word that it is ambiguous.

MR. POSTON: Okay.

CHAIR R. KENNEY: What do we look to for evidence of the intent of the parties?

MR. POSTON: Well, i agree with what Mr. Thompson said, you look within the document itself, and then you -- then you look outside the document, if the document itself doesn't provide you with the guidance.

CHAIR R. KENNEY: What things outside of the document do you propose that we look to?

MR. POSTON: I believe there are Staff witnesses or Staff employees that were involved in that process that perhaps be called.

CHAIR R. KENNEY: Any OPC witnesses to whom I should direct questions about it?

MR. POSTON: I don't think there was anyone in our office that was involved in that that are still here. Perhaps

Mr. Robinson, but I don't know to what extent he may have been involved in it.

CHAIR R. KENNEY: Do you have any -- do you intend to put any witnesses on regarding -- that would offer extrinsic evidence to the meaning of the language?

MR. POSTON: We have not intended to do that to this point. We'll certainly be talking about that --

CHAIR R. KENNEY: Think about that.

MR. POSTON: -- when I go back to the office, yes.

CHAIR R. KENNEY: Okay. Thank you.

COMMISSIONER KENNEY: No questions.

COMMISSIONER HALL: Just a few. Thank you. Morning.

MR. POSTON: Morning.

COMMISSIONER HALL: Starting with the clean charge network.

MR. POSTON: Yes.

COMMISSIONER HALL: I understand OPC's position to be that that -- that that issue is not appropriate for determination in this proceeding and we should take that up either in the working docket or some further -- some case down the line where we can accumulate more information and evidence; is that --

MR. POSTON: That's correct.

COMMISSIONER HALL: Well, let me ask you about whether or not OPC has a legal analysis or a legal position on whether or not it would be legal for the Commission to put that item into rates.

MR. POSTON: We have not done analysis of that. We do intend to hit that in our brief. When that issue comes up, if you'd like, I can perhaps do a -- explain a little more at that time. We have not done that analysis at this point in time.

COMMISSIONER HALL: Okay. Turning to the 2005 agreement, I think -- I think you make a fairly persuasive argument that KCP&L's position on this provision reads out a couple words in the provision, but I think you can also take it the other way. Aren't you -- doesn't your interpretation, doesn't your -- and doesn't the interpretation of Staff and some of the other parties to this case take out the words to utilize? So your analysis is it will not seek any mechanism authorized in current legislation?

MR. POSTON: No, I don't -- I don't think so. I think -- well, you can't really remove the words utilize, and there has to be some type of a word there to explain what it is the Company can't seek to do.

COMMISSIONER HALL: Well, it seems to me that your position is that KCP&L agreed not to seek a mechanism, not to seek an FAC prior to June 1.

MR. POSTON: Right.

COMMISSIONER HALL: Well, it seems to me that that interpretation reads out of the provision to utilize.

MR. POSTON: I disagree. I think -- I mean, I disagree. I think that you needed to have something in there explaining what it was that they weren't allowed to seek, and so they can't allowed (sic) to seek to use one of those --

COMMISSIONER HALL: I think --

MR. POSTON: -- mechanisms.

COMMISSIONER HALL: -- you can go right to the noun, but that's okay.

Let me ask you this: The second sentence of that paragraph explains what -- what KCP&L is receiving, what KCP&L's consideration was for making the promise not to seek an FAC. And I'm wondering if OPC has any legal argument as to the lack of parallel language between those two provisions? In the -- in the second sentence it makes it clear that the key is -- the key date -- the key action is filing a rate case before June 1, is what -- is what the second provision allows for. That is not contained in the first sentence. I'm wondering if you have any position as to why that might be?

MR. POSTON: I don't at this -- at this time. I don't have it in front of me, but I will study that and provide you with analysis of that.

COMMISSIONER HALL: Okay. I have no further questions. Thank you.

JUDGE BUSHMANN: Why don't we take a short break. We'll be in recess until 10:30.

(Off the record.)

JUDGE BUSHMANN: Let's go back on the record. Before we get to the next opening statement, Mr. Poston, I think you said you had a brief clarification to state.

MR. POSTON: Yes, thank you, Judge.

When I was asked the question about whether we had a witness we were putting up that was there at the time this was drafted and I said no, I was thinking of Public Counsel employees at the time. But Rita Mantle has testified on FAC. She was there at the time. She is our witness in this case now. And to the extent the Commission thinks there was some ambiguous language there, she can help clarify that.

JUDGE BUSHMANN: Okay. Thank you.

Next opening would be Missouri Division of Energy.

MR. ANTAL: May it please the Commission. My name is Alex Antal, and I will be giving the opening for the Missouri Division of Energy.

Division of Energy has filed testimony on six issues in this case. These issues include the residential customer charge, time-of-use rates, KCPL's clean charge network pilot program proposal, economic development riders, standby tariff rates, and low income weatherization cost recovery.

I'll take this time to state Division of Energy's positions on these issues and briefly explain why these are our positions, and we'll save more detailed comments for the issue openings.

Division of Energy's first issue is the residential customer charge. DE recommends that the residential customer charge not be increased and, to the extent that any revenue increase is approved, that that increase should be applied to the residential energy charges.

Division of Energy contends that the Company's proposal to increase residential customer charges in this rate case should be rejected because the proposal is inconsistent with energy efficiency goals noted by this Commission in its report and order in both the -- both KCPL's last general rate case and in the recent Ameren Missouri rate case, as well as the proposal's inconsistency with the policy goals of the Missouri Energy Efficiency Investment Act. KCPL's proposal also fails to adequately address potential impacts on low-income customers.

Division of Energy's second issue is in regards to time-of-use rates. KCPL has proposed to freeze several of its time-of-use rates so that no new customers can subscribe to these rates going forward. KCPL -- KCPL's rationale for this is that not enough ratepayers currently subscribe to these rates. KCPL -- KCPL has made this proposal without filing new time-of-use rates or a clear timeline for when new time-of-use rates will be filed.

DE recommends that the Commission reject the Company's time-of-use rate proposal and, instead, require that the Company refile modified and improved time-of-use rates in its next rate case. This proposal will maintain the availability of these rate schedules for new customers interested in realizing energy efficiency gains based on detailed energy price signals, while simultaneously giving the Company a path to improving its time-of-use rates.

Division of Energy's next issue is regards to the clean charge network. Division of Energy recommends conditional approval of KCPL's clean charge network in this case because a clean charge network is a public utility service under the Commission's jurisdiction and because it would provide numerous benefits to the Company's service territory in the Kansas City metropolitan area. Commission has jurisdiction of the clean charge network under Section 386.250, Subsection 1, because KCPL is selling and distributing electricity to electric vehicle charging stations at host sites and ultimately to electric vehicles.

The clean charge network also includes significant benefits. These benefits include the potential for spreading the Company's fixed cost recovery across more kilowatt hours sold, increasing economic development in the Kansas City metropolitan area, and reducing total air pollution emissions from the transportation and electric power sectors as end-use customers charge their vehicles with electricity generated from cleaner energy sources.

Additionally, a clean charge network is not covered by the Commission's promotional practice rules since the Company plans to own the individual charging stations and the electricity provided by these charging stations will be paid by parties other than the Company at standard tariffed rates during the pilot phase of this program.

Division of Energy's next issue is in regards to Economic Development and Urban Core Development Riders. Division of Energy recommends the Commission approve its proposal to link MEEIA participation to receipts of EDR or UCD incentives. Economic development riders create incentives that have not yet been aligned with the State and Commission policy to encourage energy efficiency. DE's recommendation provides the Commission with the opportunity to establish disalignments.

KCP&L's MEEIA portfolio includes energy efficiency programs applicable to commercial and industrial customers who are the same customers targeted for the EDR and UCD rates. KCPL's EDR and UCD tariff sheets should be modified to include participation in applicable and cost-effective business energy efficiency programs as an eligibility requirement for taking service under these special rates.

Division of Energy's next issue is standby service tariff review. Division of Energy recommends that KCPL be required to establish a working group to review their standby service tariff to ensure that its rates are cost based and reflect best practices. Properly designed standby rates can allow customers to deploy distributed generation, including combined heat and power technology that can produce 60 percent to 80 percent higher efficiency. Additionally, parties have agreed to review standby rates in the most recent Ameren Missouri and Empire District Electric Company rate cases. Concurrent review of standby rates may result in a better end product and consistency in rate design.

Division of Energy's last issue is in regards to low income weatherization cost recovery. Division of Energy recommends that KCP&L's low income weatherization costs be collected in base rates at the conclusion of the Company's current MEEIA cycle. Having program costs included in KCPL's rate -- or rate base rates assures ongoing funding on an annual basis, regardless of whether KCPL has a Commission-approved MEEIA portfolio.

KCPL should be allowed to recover any outstanding program costs throughput disincentive and incentive components for the period that the program was under MEEIA through its DSIM. Additionally, the Commission should authorize KCP&L to recover customer contributions to annual low income weatherization service program expenses in base rates. This will align with the Commission's funding approval for weatherization services provided by all other Missouri-regulated investor-owned electric and natural gas utilities, with the exception of KCPL and GMO.

And those are all my prepared remarks. If there are any questions?

JUDGE BUSHMANN: Questions?

CHAIR R. KENNEY: No, thank you.

COMMISSIONER KENNEY: Nothing.

COMMISSIONER HALL: No questions. Thank you.

JUDGE BUSHMANN: Thank you.

Missouri Industrial Energy Consumers.

MR. DOWNEY: Good morning. May it please the Commission. My name's Ed Downey. I represent the Missouri Industrial Energy Consumers. The role we have in this case is much smaller than the role we typically have in an Ameren rate case.

And, Judge, I took your order from Thursday seriously, and I've got a pretty short opening statement. And we're going to present more detailed openings when we address the specific issues.

The MIEC did include prefiled testimony on a number of issues, probably the most significant of which is return on equity. Our witness is Mike Gorman, and he is a joint witness with the MECG. He filed Direct, Rebuttal, and

Surrebuttal, and the attorney that will be handling the ROE issue is Carole Iles.

We also presented evidence on class cost of service and rate design. That witness is Maurice Brubaker. Again, we filed his testimony jointly with the MECG. Mr. Brubaker filed Direct, Rebuttal, and Surrebuttal, and I'll be handling that issue and also Mr. Brubaker. And I would note that there was a Nonunanimous Stipulation just filed this morning on this issue.

Fuel adjustment clause, our witness is Jim Dauphinais. You're familiar with him from the Ameren case. He is a joint witness between the MIEC and the OPC. He filed Rebuttal and Surrebuttal Testimony, and I will be the attorney handling that issue.

Again, on the transmission revenues issue, which was an issue you had in the Ameren case, the witness is Jim Dauphinais. He filed Rebuttal, and I'll be the attorney handling that issue. He's also the witness and I am the attorney on the Swissvale/Stillwell and West Gardner issue.

We have one last witness, and that was Greg Meyer. He filed Rebuttal Testimony, and his Rebuttal Testimony is on behalf of only the MIEC. I'm the attorney on that issue with Greg -- handling that issue with Greg. But I think that issue is not likely to be heard by the Commission because of some proposals that have been made to open up a separate docket to deal with the whole decoupling issue.

All the parties have agreed to waive cross of Mr. Meyer, and they've agreed that we can introduce his testimony without his appearance. And so unless the commissioners will have questions for him, it would be our intention to not have him appear.

The MIEC has also taken positions outside of its prefiled testimony. Probably the most significant there is that we do not believe that an FAC should be allowed in this case. And in support of that position, we jointly filed the motion to strike with the OPC. In that motion we did not ask for an immediate ruling; we asked the Judge to take that issue with the case. But we thought it would be good to open that issue up for discussion so that the commissioners know to ask questions of witnesses and the lawyers.

We oppose all trackers as single-issue ratemaking. We support Staff's position on amortizations that ended before the close of the true-up period. We support -- it says accept; should say support. We support Staff's position on spent nuclear fuel fees, on bad debt expense. And we also support the testimony and the position of the MECG and their witness, Mike Brosch, on accumulated deferred income taxes.

And I forget which party proposed this. I think it may have been MECG. We support their position to identify on the customer's bills who the service provider is. We oppose the proposal by one of the parties that in order to obtain an economic development rider -- or in order to receive service under the rider that a customer should be required first to implement all MEEIA programs.

The last issue is one that I don't think there's much disagreement on, but we support Kansas City Power & Light conducting a study to develop a standby rate.

And, in sum, I would say that, based on our review of the evidence in this case and the testimony of our witnesses, we believe that the requested rate increase of Kansas City Power & Light is significantly overstated.

I'd be happy to entertain any questions.

CHAIR R. KENNEY: No questions. Thank you.

COMMISSIONER KENNEY: No questions. Thank you.

COMMISSIONER HALL: Good morning.

MR. DOWNEY: Morning.

COMMISSIONER HALL: What MIEC members do you have in the KCP&L service area?

MR. DOWNEY: Ford Motor Company, Enbridge Pipeline, and Bayer. I'm not quite sure of the full correct name of that corporation.

COMMISSIONER HALL: I'm sorry, Ford?

MR. DOWNEY: Ford Motor Company.

COMMISSIONER HALL: And the second one was?

MR. DOWNEY: Enbridge Pipeline Company, and then

Bayer.

COMMISSIONER HALL: I noticed a moment ago that you indicated that MIEC opposes all trackers as single-issue ratemaking. Do you believe that all trackers are illegal as single-issue ratemaking?

MR. DOWNEY: The Company line on that is yes.

COMMISSIONER HALL: The Company -- okay. Well --

MR. DOWNEY: We've lit -- as you know, Commissioner, we've litigated this issue and haven't had much success in the Court of Appeals. So if you're asking me is the law supporting our position, I'm not sure I can say that.

COMMISSIONER HALL: You're hoping for a further evolution of the law?

MR. DOWNEY: Yes.

COMMISSIONER HALL: Let's -- let's assume for a moment that all -- that some trackers are legal. What -- what standard would you recommend that we employ to determine whether or not it's good public policy to institute a tracker?

MR. DOWNEY: I believe you've artic -- articulated in a number of cases -- and it may have even been the first Ameren rate case where you adopted an FAC -- the standard, you know, are the costs outside the control of the utility, are the costs volatile, are they material?

COMMISSIONER HALL: And so that's the standard that you would recommend that we continue to employ?

MR. DOWNEY: Yeah, I don't think we have an objection to the standard, if -- if they are allowed.

COMMISSIONER HALL: Okay. Thank you.

MR. DOWNEY: We do believe they're single-issue ratemaking, because you don't focus on other expenses that might be going down at the same time these expenses are going up.

COMMISSIONER HALL: I understand your position. Okay.

MR. DOWNEY: Thank you.

JUDGE BUSHMANN: Thank you.

Midwest Energy Consumers Group.

MR. WOODSMALL: Good morning, Your Honor, Commissioners. My name is David Woodsmall. I'm here on behalf of MECG. My opening statement is going to go slightly longer because I rolled my return on equity opening statement into this, so I won't have a mini opening statement later. But this will go a little bit longer because of that.

As the Commission is obviously aware, I was deeply involved in both the recent Ameren and Empire rate cases. As the Commission is also aware, those cases were tried in a civil way. Differences were inevitable. Disagreements unavoidable. That said, in the Ameren and Empire cases those differences were presented to the Commission without any personal attacks.

As I was preparing this weekend, I spent a lot of time reading testimony. What immediately struck me was the lack of civility in the testimony. Civility in the Empire and Ameren cases has been inexplicably replaced by personal attacks in KCP&L's testimony.

Here's a classic example from Mr. Ives' surrebuttal. He says, Staff is burying its head in the sand. He accuses particular Staff members, Featherstone and Hyneman, of, quote, Taking an approach I would refer to as throwing spaghetti at the wall to see what sticks in an effort to muddy the record for the Commission. He then says, Staff is one-sided, misapplied, not relevant. Again, he says, Staff throws things against the wall and takes a number of leaps of faith to inaccurately portray certain information.

I was with the Commission Staff. I know what a difficult job they have. As a single entity expected to provide a completely objective view, they are inevitably in a position of pleasing neither the utility nor the consumer parties. I also understand that because of this unique position, Staff must rise above and maintain its objectivity. Therefore, it is often difficult for Staff to defend itself against these type of attacks.

I, on the other hand, I'm not so constrained. Therefore, I'm going to take this opportunity to defend Staff against these attacks and show that while -- that rational minds can disagree with KCP&L, without being considered to have buried their heads in the sand.

In demonstrating how reasonable parties can disagree with KCP&L, I'm going to address five specific issues. First I will address KCP&L's broad-brush request for implementation of tracker mechanisms. KCP&L seeks trackers in this case for vegetation management, property taxes, cybersecurity costs, and transmission costs.

Second, I will address KCP&L's request for a fuel adjustment clause. Of great importance, I will address the regulatory plan, the provision in it, and its effect on KCP&L's request.

Third, I will address KCP&L's request for an inflated return on equity. Relying upon the same witness used by Ameren, KCP&L now asks for a 10.3 return on equity. As was demonstrated, KCP&L's witness relied upon a flawed methodology in that Ameren case. He relied on a similar flawed methodology in this case.

Fourth, I will address KCP&L's claims that because of the regulatory paradigm in Missouri, it can't possibly earn its authorized return on equity. I will show that KCP&L's return on equity is deflated by a number of factors within its control.

Fifth, I will demonstrate that KCP&L's pessimistic view of Missouri regulation is not shared by objective analysts, specifically debt rating services and other services believe that Missouri is in the mainstream of utility regulation.

Finally, I will address KCP&L's recent rate case history and the impact on customers. Specifically I will show that with this rate increase, KCP&L's rates will have gone up 82 percent since January 1st of 2007.

As mentioned, KCP&L has asked that the Commission implement deferral accounting in the context of four separate trackers. Relying on consultants that have been paid hundreds of thousands of dollars, KCP&L claims that such mechanisms are necessary for it to earn its authorized return. Interestingly, numerous other parties and witnesses, including Staff members assigned to be objective, disagree with KCP&L. Those individuals demonstrate that the implementation of these trackers destroy the incentives inherent in Missouri regulation to minimize costs. No longer faced with these incentives, these witnesses assert that KCP&L's rates will increase. And there's a great example of that.

EEI publishes a book that includes the rates that different utilities are charging. And as you can see, the average Missouri rate is 8.56 cents. Kansas, on the other hand, has a number of trackers; transmission tracker, property tax tracker, energy efficiency tracker, fuel adjustment clause. Kansas average -- average retail rate is almost 17 percent higher. Better example, KCP&L itself has operations in both

Missouri and Kansas. Its average rate in Missouri is 8.89 cents. In Kansas, where it has all these trackers and is no longer subjected to the incentives inherent in regulation, their rates are higher. Again, 17 percent higher in Kansas.

Whether KCP&L wants to admit it or not, trackers will lead to higher rates and higher profits for KCP&L. After all, if they didn't, why would KCP&L be asking for them?

So despite the negative effect on rates, MECG has recognized that there are times when a tracker may be appropriate, getting to your question from earlier. Given that, the question becomes how should you assess a request to implement deferral accounting? It is important to remember that, unlike fuel adjustment clauses, there is no specific statutory authority for trackers. There's statutory authority for a fuel adjustment clause, but nothing for trackers. So where do you turn for guidance on when to implement a tracker? The answer is case law.

In 1992 the Commission considered a request for deferral accounting. There the Commission held the use of deferral accounting, quote, Should be allowed only on a limited basis, end quote. Specifically relying on guidance contained in the instructions in the uniform system of accounts, the Commission held that, quote, This limited basis is when events occur during a period which are extraordinary, unusual and unique and nonrecurring.

That decision by the Commission was appealed, and the Western District agreed with the Commission. There the court held, Because rates are set to recover continuing operating expenses, plus a reasonable return on investment, only an extraordinary event should be permitted to adjust the balance to permit costs to be deferred for consideration in a later period.

So what we have here is we have guidance from the Court of Appeals saying deferral accounting is only allowed where there is extraordinary costs. That doesn't apply to the FAC, because FAC has separate statutory authority.

In the 22 years since that appellate decision, the Commission has consistently relied upon the requirement that deferred costs be extraordinary. Recently, this Commission, these five commissioners, decided KCP&L's request for deferral accounting as it applies to transmission costs. Relying on the decision from the Court of Appeals, the Commission rejected KCP&L's request and found that transmission costs are not extraordinary. Specifically, the Commission found that the transmission costs were not extraordinary, unusual, or infrequent.

In previous cases it appears that the Commission has also sought to utilize other standards for trackers, in addition to the extraordinary standard. Consistent with proper ratemaking, MECG's witness, Brosch, with over 40 years of regulatory experience, including a number of years with the Missouri Commission, has developed five additional criteria that he says should be applied to trackers in addition to the extraordinary standard. And he sets these out here. And the Commission has used these in previous cases, and Mr. Downey talked about them.

The costs should be substantial. After all, while you may want to give deferral accounting for a large ice storm, you don't want to give deferral accounting when a single limb falls off. The cost should be substantial.

The costs should also be outside the control of the utility. Do you really want to use deferral accounting to pick up certain costs if they were caused by the utility's decision to reduce preventative maintenance? So the costs should be beyond the control of the utility.

Third, the costs should be volatile. And the Commission has said volatile is not simply just increasing, volatility means up and down. If costs are simply increasing, those are easy to pick up in a rate case. We can predict those. We can see those. We can -- the Company can time its rate cases to pick those up.

Property taxes is a great example. You know the property tax bill is coming in at the end of the year. File a rate case 11 months before that; you'll get your property taxes. So the Commission has required in the past trackers only where the costs are volatile, swinging up and down.

Four, the deferral accounting mechanism should be straightforward and simple to administer. A great example of this is the Company's request on cybersecurity. The Company wants to include labor costs associated with cybersecurity. Well, the question then becomes how do you separate labor costs from typical IT projects with labor costs for cybersecurity? It's very difficult, if not impossible, to separate those label -- labor costs. So a tracker mechanism in that case would not be straightforward and simple to administer.

Finally, the deferral request should be balanced. That is to say, the attendant benefits should offset any costs. And, again, another great example is vegetation management. The Company wants to have deferral accounting for all the costs associated with vegetation management, but it doesn't recognize the attendant benefits.

You do vegetation management, your maintenance is going to go down, your outages are going to go down, your sales are going to go up. How do you pick up those benefits to apply them against the costs. And that's what Mr. Brosch says, the deferral mechanism must be balanced.

So Mr. Brosch goes through in his testimony, and he's applied these standards to each of KCP&L's tracker requests. First, as you can see here, he looked at property taxes; and he applied the criteria, and he concludes deferral accounting for property taxes is inappropriate. First, these costs are not extraordinary. You've been paying property taxes ever since you've been in business. These costs are not really material or volatile. As you can see, the incremental increase in property taxes is not really significant. The incremental amount imposed would not really affect KCP&L's finances. So the request for a property tax tracker does not meet the Commission's criteria or the Court's criteria for extraordinary.

Vegetation management. Again, he went in and applied the same criteria for vegetation management. You can see this is at pages 23 through 29 of his Direct Testimony. And he concludes vegetation management costs are not extraordinary, nor are they material. As you can see, the costs went up; they're coming back down. They're fairly stable. We don't need deferral accounting for these type of costs. They're easy to pick up in a rate case. Furthermore, the incremental changes in these costs year over year is not material. These costs, in total, represent less than 1 percent of KCP&L's revenues.

Finally, it should be noted that utilities in Missouri have been operating under the Commission's vegetation management rule for six years. They have experience with it. They know what the costs are going to be. In a recent Ameren case, the Commission rejected Ameren's request to continue the vegetation management tracker. Empire, in a stipulation, voluntarily revoked theirs. We don't need another tracker for this for KCP&L.

Finally, Mr. Brosch applied the criteria to KCP&L's cybersecurity tracker costs. Again, these costs are not material in that they are less than 1 percent of KCP&L's revenues. As this chart shows, the costs are not volatile either. You can see, in actuality, the costs -- projected costs are decreasing, 24 million in 2015, decreasing down just slightly below 18 million in 2017. So the costs aren't volatile, they're not material, and they are largely within the control of management.

I should point out that Public Counsel's witness, Marke, says in his testimony he is aware of no commissions that have granted a cybersecurity tracker. In fact, just a couple weeks ago the West Virginia Commission rejected American Electric Power's request for a cybersecurity tracker.

So, the conclusion, contrary to KCP&L's claims that the parties have, quote, buried their heads in the sand, you can see the parties have thoughtfully and rationally applied standards for considering KCP&L's tracker request. Consistent with the Court of Appeals' dictates, none of these costs are considered extraordinary. Furthermore, none of these costs are material. As such, the Commission should reject each of KCP&L's requested trackers.

Let's turn to fuel adjustment clause. This is another example of deferral accounting that the Company wants to implement. As I mentioned earlier, the Commission does not have to apply the extraordinary standard to a fuel adjustment clause. You have separate statutory authority for that. The only standards you have to apply are the ones you create yourself. And you set those out in previous cases, and I'll go through those. Largely, it's some of the same standards as Mr. Brosch wants to apply to trackers; materiality, volatility, beyond the control of the Commission, easy to administer. As such, the extraordinary standard does not apply.

In this case, the Commission is faced with two overarching fuel adjustment clause questions. First, does KCP&L's request for a fuel adjustment clause violate its commitments in its regulatory plan. And as I'll show, we believe it does violate that. Second, does KCP&L's request meet the criteria the Commission has set forth? And we believe they have not met those criteria, and Staff and Public Counsel agree.

If you answer yes to both of these questions, then you have 16 other questions that you have to answer regarding how to implement a fuel adjustment clause. Let me repeat that. You only have to answer those questions if you find KCP&L has not violated its regulatory plan and has met the criteria for a fuel adjustment clause.

So let's talk about the first issue. In 2005 KCP&L and several parties, including the Commission Staff and Public Counsel, executed a stipulation to provide the regulatory support for KCP&L to build Iatan 2. Through the stipulation KCP&L received over $185 million in rates that it was otherwise not entitled to through normal ratemaking to support it and its credit rating while Iatan-2 was being built.

One of the primary benefits that ratepayers received was a commitment from KCP&L not to seek to utilize a fuel adjustment clause prior to June 1st, 2015. And I'll use this opportunity -- here's the language out of the regulatory plan. And the commissioners have been asking questions about this, and I don't believe that this -- I was not around for it. I was an advisor to Commissioner Gaw at the time, so I was not involved in the drafting of this. But I do not believe that this language is ambiguous. I think if you read the first sentence with the second sentence in the same paragraph, you get some clarification.

The second sentence looks at June 1st, 2015 and talks about general rate case filings. If you read this in a manner KCP&L wants you to, you have an overlap. You have an IEC going through June 1st, 2015, but then you have an FAC going back in time before that and continuing. You have an overlap of time. Whereas, if you read it like the other parties, you have one ending, the other one neatly picking up.

So I think the second sentence helps to clarify what is meant by the first sentence, and I believe Staff witnesses will tell you that.

Staff Witness Featherstone was around for the drafting of this document. Staff witness -- well then-Staff Employee Mantle was around for this. And she's now testifying on behalf of OPC. Staff -- he's not a witness in this case, but Staff Employee Shallenberg was instrumental in this whole dialogue. So those people can appear before the Commission and give you guidance on what they thought it meant. So, in our mind, KCP&L cannot even seek a fuel adjustment clause prior to June 1st, 2015.

In the event that the Commission finds that KCP&L is not violating the regulatory plan, the Commission then needs to apply its criteria. Now as I said, most of this criteria comes from a previous Commission order. In this case MECG has retained the services of Michael Brosch. He is widely considered to be an expert in the field of fuel adjustment clauses, with over 40 years of regulatory experiences.

Here's the kicker. In its first case considering a fuel adjustments clause, the Commission found Mr. Brosch to be an expert and expressly adopted the criteria considered by Mr. Brosch. You see this from an Ameren case. Mr. Brosch was the one that developed these criteria. The Commission adopted them. Who's better to tell you whether KCP&L has met these criteria than the man that drafted the criteria himself. So we retained Mr. Brosch, and he'll be testifying that KCP&L has not met these criteria.

Commission has memorialized these criteria in the context of its fuel adjustment clause rule. And one of the key things here, it provides the criteria, but it also states that you apply the criteria -- this is going dead -- on a cost component basis. You don't look at fuel costs in general. You look at each component, and you apply the criteria according to the rule to each separate component. So Mr. Brosch did that.

Oh, I'm sorry, Your Honor, this is highly confidential. The next four slides, I believe, have highly confidential information.

JUDGE BUSHMANN: All right. Then we'll go in-camera for that.

MR. WOODSMALL: Or you just don't show it, and I won't talk about it. I'll just -- if you --

JUDGE BUSHMANN: And you're just going --

MR. WOODSMALL: -- just don't show it. Show me or something.

JUDGE BUSHMANN: And you're not going to talk about it?

MR. WOODSMALL: I will avoid the highly confidential information.

JUDGE BUSHMANN: All right. Okay. Proceed.

MR. WOODSMALL: Oh, okay. So given that you are required, according to the rule, to apply the criteria to each different cost component, Mr. Brosch looked at KCP&L's coal prices. KCP&L uses a lot of coal. According to its SEC statement, about 78 percent of its generation is coal produced. That said, KCP&L has locked in coal supplies through contracts. And as you can see, coal prices are very stable. They're not -- there's no -- not a bit of volatility contained there. Coal prices are stable. And because KCP&L has locked up this coal, it has very little exposure to any volatility.

As they say in their SEC statement and contained in Mr. Brosch's testimony, a 10 percent increase in coal prices only represents a 0.15 percent increase in KCP&L's total expenses. So very little volatility, very little materiality. Mr. Brosch says you shouldn't have coal in a fuel adjustment clause.

Similarly, nuclear. KCP&L nuclear costs are very stable, as you can see here. In fact, KCP&L's nuclear costs over the last couple of years has actually declined. Nuclear costs are not material, they're not volatile. You don't need a fuel adjustment clause for these costs.

Next, he looks at gas costs. As KCP&L points out in its SEC statement, only about 1 percent of its generation is actually fired by gas or fuel oil. So any volatility in the gas market is not very material to KCP&L. They don't use it.

So why is that a consideration here? That said, there is a slight amount of volatility -- whoops, you can see here the prices have ranged over the last couple of years. But since they don't rely upon it, it's not a big concern for KCP&L.

Off-system sales, however. KCP&L has demonstrated some volatility in the off-system sales market. And these off-system sales are material. Mr. Brosch, at pages 36 through 42 of his testimony, states that if you are to implement a fuel adjustment clause, it needs to go no further than one single component, off-system sales. This is the only component that is material, demonstrates volatility, beyond the control of management, and meets the other standards. So if you do a fuel adjustment clause, it should be very limited. And so you could see that here. Here's his conclusion: Limit the application of fuel adjustment clause, if you find that one is necessary and doesn't violate the regulatory plan.

The next issue I wanted to address was KCP&L's request for an inflated return on equity. This should be a fairly easy decision for the Commission to address. I'm done with the confidential. This should be fairly easy for the Commission to address. KCP&L asked for a 10.30 percent return on equity and relies upon the same witness that Ameren just used. In that case Ameren asked for a 10.4 percent return on equity and received a 9.53 percent.

It is important to recognize that KCP&L's witness, Mr. Hevert, considers KCP&L and Ameren to be comparable companies in the proxy group. They're comparable companies. Therefore, if Ameren received a 9.53 ROE, why would its comparable company receive an ROE of 10.3? As such, the Commission's findings in the Ameren case should largely drive the Commission's decision here. As you can see on this case, Mr. Hevert's recommendation is clearly the recommendation that's outside the mainstream.

Commission in the past has criticized Mr. Hevert's return on equity recommendation and rejected his conclusions. 2011 Ameren rate case they found out -- found his recommendation was too high because he overestimates future long-term growth rates. 2012 case Commission said the same thing; his recommendation's too high; his growth rate's too high. Recently in their decision, April 29th, Commission found the same thing; growth rates too high; recommendation too high. So what happens? He files his testimony, same inflated growth rates. He's learned nothing from your criticisms. Same inflated growth rates, an ROE of 10.3, that is well outside the mainstream.

Mr. Hevert, in reaching his recommendation, relies upon inflated growth rates. In fact, as Mr. Gorman points out, his growth rates exceed the projected growth in the GDP. What's interesting, though, is historically, as you can see from the red line, electricity use has always lagged the growth in the GDP. It doesn't make sense to think that electricity will grow faster than the economy. Electricity has always lagged. Given that, how can you use growth rates that exceed the growth in the GDP? It just doesn't make sense.

Missouri's not the only Commission to find that Mr. Hevert's recommendations are, quote, too high. I showed this to you in the Ameren case. Since then there's been a couple of other reported cases. But since January 1st, 2013, there's been 23 reported cases in which Mr. Hevert provided recommendations. In those cases he recommended about a 10.5 ROE. Commission's decision averaged 9.7. Difference was 79 basis points.

So let's look at what the Commission says about Mr. Gorman. The Commission has repeatedly found Mr. Gorman to be credible: The witness for MIEC does the best job of presenting the balanced analysis that the Commission seeks. Again, in an Aquila case from 2007: Michael Gorman, the witness for SIEUA, did the best job of presenting the balanced analysis that the Commission seeks. The Illinois Commission said the same thing: Mr. Gorman's analyses are largely free of any significant errors.

Mr. Gorman's recommendation in this case is below his recommendation in the Ameren case, but there's a reason for that. There's a time difference. Testimony was prepared three months later, and capital costs have continued to decline. So the 9.53 ROE that was applicable to Ameren, this is later; it's not so applicable anymore.

So let's look at the recommendations. Mr. Gorman, 9.10; Staff, 9.25; DOE, 9.00; Ameren, 9.53; and you have Mr. Hevert, 10.30. But take away the 79 basis points of historical inflation that he uses, 9.51. Clearly, Mr. Hevert, you take away his inflater, you get him back to the mainstream.

Next I wanted to address KCP&L's earned -- the return on equity that it actually earns. You heard a lot about this from KCP&L. KCP&L complains that it cannot possibly earn its authorized return in Missouri, that Missouri regulation is just so backwards that it can't possibly do it. I say that's nonsense. There are a lot of reasons KCP&L didn't earn its authorized return. I set these out here. I'll go through them one by one.

First off, KCP&L's return on equity is deflated because it incurs excessive costs. In its testimony Staff started asking data requests about over $140,000 of various officer expense reports. These expense reports included costs for travel, meals, baby showers. Staff started looking into that, and KCP&L didn't want to answer. KCP&L simply punted it and said, we'll take those costs out of the case. But they include them in their calculation for return on equity. If those costs aren't proper for inclusion in rates, why are they in KCP&L's ROE calculation?

In addition to these officer expense reports, KCP&L also incurs inflated A&G costs. A&G costs include officer salaries, benefits, rents, outside consulting services, like four attorneys in the room here today, and other overheads. In an analysis undertaken by Staff, as well as MECG's witnesses, KCP&L has shown to have the highest A&G costs of any regional utility. In fact, as compared to Ameren, KCP&L's A&G costs are 48 percent higher.

KCP&L wants to know how it can earn its authorized return? Get it's A&G costs under control. There's no reason A&G costs need to be 50 percent higher than Ameren's. In fact, if KCP&L just reduces A&G costs to the level of Westar, the next highest, it would save $14 million. They can make their authorized return; get their costs under control.

There's another reason their ROE is deflated. KCP&L uses improper allocations. Now this is important; you'll hear this in Mr. Collins' testimony. KCP&L acts as a service company for all the Great Plains companies. Any services, anything that's needed by the Great Plains companies are provided by KCP&L. Similarly, all the costs that come in go to KCP&L. Costs come in to KCP&L, and the only way they get out is if they're directly assigned or generally allocated. But if they're not, they're retained by KCP&L. Any residual stays at KCP&L. And for that reason, you start seeing these type of differences.

GMO has A&G costs of $225. KCP&L, $309. Why is it that? Because KCP&L isn't properly allocating these costs. KCP&L sees that if we keep these costs here, we can get -- we can deflate our ROE, we can get recovery for those costs. Meanwhile, the unregulated operations show inflated profits.

Biggest concern is the allocation of costs to KCP&L's parent company. Ameren -- Ameren allocates about 6.9 percent of its indirect costs to its parent company. 6.9 percent. Southern Company allocates 3.8 percent of its costs to its parent company. KCP&L, 0.49 percent. KCP&L doesn't allocate costs. They need these costs to stay here so they can get recovery and show you a lower ROE. So one of the recommendations we make in our case is that KCP&L implement a minimum allocation to its parent of 5 percent of costs. Mr. Kollen testify on that issue.

Another reason that KCP&L's return on equity is deflated, they don't normalize for weather. Commission faced this issue in the recent Ameren complaint case. Commission said surveillance reports are useless if you don't normalize costs. And one of the -- a good example of this quote is the weather: Weather is only -- is only one of the many items that must be adjusted or normalized when setting rates. So KCP&L's deflated ROE that they show you, it's not normalized. It's suspect from the very beginning.

Another reason KCP&L's return on equity is deflated is KCP&L has forfeited revenue opportunities to its unregulated affiliates. 2009 KCP&L received a notice to construct two transmission projects from SPP. Those projects, once built, would have brought revenues in to KCP&L. They were in KCP&L's service area. KCP&L didn't build them. KCP&L assigned this opportunity to its unregulated affiliate, Transource. So Transource now has this revenue stream. KCP&L doesn't. Well, it's easy to see, you give away your revenue opportunities, your ROE is going to go down fast. And that's what happened here.

Finally, Staff points out in its Surrebuttal Testimony that KCP&L has manipulated its reported return on equity. In 2014 KCP&L reported its return on equity. But, strangely, KCP&L used a 2013 demand allocator to get there. That 2013 allocator, while dated, provided the opportunity to allocate more costs to the Missouri jurisdiction. So Missouri return on equity was lower. The Kansas return on equity was higher. That's convenient. KCP&L used the wrong allocator, and it provides a lower ROE. So as you can see, tons of reasons that KCP&L's deflated ROE exists. All of these within its control.

Finally, on this issue, KCP&L's single-minded focus on ROE is misleading. They come to you, they talk about return on equity. They go to their shareholders, they talk about something called total shareholder return. That's not focused on return on equity. Total shareholder return focus on -- focuses on dividends and the increase in stock price. When you look at total shareholder return, you see KCP&L is in the top tier of all electric utilities. So KCP&L, when they're talking to their shareholders, things are dandy. No problems. When they come in here, it's a completely different story.

KCP&L gives the Commission a very misleading view of the regulatory environment here, too. You can see numerous quotes here. Staff's just-say-no approach to KCP&L's efforts to rebalance the historical ratemaking model in Missouri. It talks all kinds of problems with the regulatory paradigm in Missouri. But as I'll show, this is very subjective. KCP&L's woe-is-me view of Missouri regulation is not shared by objective analysts. Moody's, responsible for rating KCP&L's debt, says, The stable outlook for each company incorporates our expectation that ongoing regulatory support of cost recovery and environmental capex will continue in Missouri. It doesn't say you have to implement anything more. It just says continue with what you're doing. Moody's says that's enough to get KCP&L an upgrade.

Regulatory Research Associates says something similar. They rate each of the state utility commissions. They rate Missouri an A2, right in the middle. 19 jurisdictions higher. 20 below. The rest even with Missouri. Missouri's average, right in the mainstream. Here's what they say: Missouri's regulation is relatively balanced from an investor perspective. Rate case decisions over the past couple of years have generally been neutral. I don't read that to say there's anything wrong with Missouri regulation.

So let's look at who truly has been hurt over the last ten years, because it hasn't been KCP&L. KCP&L's rates have gone up 57.7 percent. That's compounded. That explains a difference between my calculation and Mr. Thompson's calculation. You compound it 57.69 percent since 2007. You add the rate increase here today, you're up to 82-and-a-half percent increase in rates. I'll tell you who's suffering. It's the ratepayers.

Here's a slide that was provided earlier. You can see how much wages have gone up, 11 percent. Consumer Price Index, 12 percent. KCP&L's rates, 84 percent. Ratepayers are the ones suffering. So how does this show up? National average rates have increased by 30.4 percent over this time period. KCP&L's average rates almost double that amount. And you can see that here, the blue line being KCP&L, with the projected amount if they get their rate increase here. KCP&L's rates are growing much faster than others.

This goes to a question you asked, Commissioner Kenney, about how KCP&L's rates and their increases compare to others. Mr. Featherstone has a table at the back of his Surrebuttal Testimony, and it shows KCP&L's rates, Ameren's rates, other utilities' rates; and KCP&L's rates are growing much faster than everyone's except for L&P. So KCP&L's rate and their rate growth is not typical, it's not average. It's well above.

Finally, those that have been affected are my clients. My clients have seen industrial rates increase 57.3 percent. National average industrial rate over that time, less than half. KCP&L's industrial rate in 2006 before we started these rate cases, 6.4 percent below the regional average. Now it's almost 4 percent above. If you're concerned about industrial activity in Missouri, if you're concerned about economic development, this is where you look. Missouri industrial rates, KCP&L industrial rates aren't competitive. You can see that here. KCP&L's rates in the very dark purple, much higher than the other regional rates that they're in, much, much higher than Texas, Oklahoma, Arkansas and Louisiana. Industrial customers will eventually move. You keep pricing industrial rates as they are now, they'll eventually move. And I hear that constantly from my clients. You know, they bury me with these things. So industrial rates are a concern. KCP&L's rates in general are a big concern.

That's all I have. If you have any questions.

CHAIR R. KENNEY: No questions. Thank you.

MR. WOODSMALL: Thank you.

COMMISSIONER KENNEY: No questions.

COMMISSIONER HALL: No questions.

MR. WOODSMALL: Thanks.

JUDGE BUSHMANN: Thank you.

Opening by Brightergy.

MR. ZELLERS: Thank you, Your Honor. May it please the Commission. We'll be brief. We've taken a position on only one issue in this case, and that's the Kansas City Power & Light's ask for recovery in the clean charge network. We've taken this position because we believe it's an opportunity for the Commission to encourage utilities to be forward thinking and to come up with innovative solutions. Anybody who's attended a MARC conference or a NARUC meeting or keeps up with the trade press knows the types of issues that utilities are facing. Those issues were brought to light by Mr. Fischer, KCPL's counsel, in his opening. Generally increasing costs and flat lining revenues. If this were any other business, the business would do what it could to cut down on those costs, come up with new sources of revenue. Utilities are not traditionally equipped to do that. They are constrained by the regulatory environment.

However, with innovations like the clean charge network, utilities across the country have been and are trying to make these types of innovations to deal with the problems they're facing. The Commission should encourage this by embracing the pilot program concept.

In terms of standards, in terms of what you can look at, is this a good decision for the Commission to make, look at is the program aimed at addressing an aspect of the change in utility industry? If it is, we should take a look at it. Does the program act to stabilize the Company's long-term earnings? This is another positive aspect for all ratepayers. Does the program have a reasonable chance of long-term stability; that is, is it forward thinking? If we can meet these three standards, the Commission should give serious consideration to whether it's justified in a recovery, whether it's in rate base or whether it's through another mechanism.

KCP&L has asked for another docket to look at these issues. We support that. We support a docket not just to look at the clean charge network for KCP&L, but what all utilities can do to deal with the changing environment. However, that doesn't stop the Commission from using this opportunity in this case to allow recovery -- to take a chance and allow the utility to make some innovations.

We'll go into a little more depth in the mini opening on Wednesday morning, but if you have any questions now, I'm happy to take them.

CHAIR R. KENNEY: No questions. Thank you.

COMMISSIONER KENNEY: No questions.

COMMISSIONER HALL: No questions.

MR. ZELLERS: Thank you.

JUDGE BUSHMANN: Thank you.

City of Kansas City.

MR. COMLEY: Your Honor, the City of Fountains, the home of highly-acclaimed award-winning sports teams and the home of record-setting quarterbacks -- I understand that in Oklahoma people often saying that it's up-to-date in Kansas City -- I have no opening statement. We do not anticipate any cross-examination. And with your lead, I'd like to be excused for the remainder of the hearing.

JUDGE BUSHMANN: Request is granted. Thank you.

Consumers Council of Missouri.

MR. COFFMAN: Good morning. May it please the Commission. I'm John Coffman, here today on behalf of the Consumers Council Missouri.

I just want to touch on four issues that are dear to my client and that they have a perspective on. But first I want to address the theme that KCPL started off with this morning, which was concern about their load growth. And I would remind you that maintaining a particular load growth is not part of the Public Service Commission's charge. The Public Service Commission here is to set just and reasonable rates, essentially rates that are balanced, that are fair to both consumers and to shareholders. But it really isn't a concern of the law or the regulation to make sure that load growth is going at a particular level, just that there's a reasonable opportunity to earn a fair return.

And I might also ask you, if you're considering that issue, that a weak load growth might be an indication that things are not necessarily going gangbusters for consumers at the time either. And consumers have, as you've seen in the recent slides this morning, suffered more than a 50 percent rate increase in base rates since 2006. These are dramatic rate increases that most people have had to bear and had to figure into their budgets during a time of recession. And unemployment and wage growth has not quite recovered. And so the fact there's a weak load growth, I think it shouldn't be the responsibility of these customers to somehow boost or to boost earnings or extra earnings.

I guess I'll first address the request for a fuel adjustment clause. As a preliminary matter, I guess I was in that hot and sweaty room on the second floor where the stipulation that was adopted in the 2005 case was drafted. My recollection is that that -- in that particular paragraph the importance was distinguishing between what could be requested before June 2015 and what couldn't and that what could be requested is an interim energy charge, an interim energy mechanism, but not a fuel adjustment clause. And from the perspective of the Office of Public Counsel at that time, this was one of the most important benefits that we got out of the -- out of the deal, and that is no fuel adjustment clause and none of the hassles and problems that those present for the entire length of the -- of the plan.

And, in return, what was given consideration for that was KCP&L was granted the opportunity to charge significant additional amortizations, many of which have been added to the rates over the last few years. The benefit of these additional amortizations were essentially the benefit of construction work in progress, which they would not have the legal right to have.

So that was -- from our perspective -- or from the consumer perspective that I recall, that was the trade-off; no fuel adjustment clause or assurance of no mechanisms that were in that Senate Bill 179, in return for something that had many of the qualities of construction work in progress. Those were the two big things. So it is important to us.

But, beyond that, I think it's important not to focus so much on the interpretation of that paragraph, but on whether a fuel adjustment clause is really justified. And we don't believe that KCP&L needs a fuel adjustment clause to receive a fair return. We don't believe that the evidence in this case supports one. We would be -- you know, if you are interested in providing some mechanism that gives special treatment to fuel and purchased power costs, we would like the Commission to look at something like an interim energy charge.

I think in the limited experience that we had back when with it, it was much more fair, and it provided more of the incentive to control costs, but did allow some assurance to the utility that if things went above the range that they would be compensated. Or if you are looking at something more like a fuel adjustment clause, we would ask that you consider something that was more symmetrical and shared 50/50 between the consumers and not something that is akin to what Ameren Missouri has been using with the 95.5 percent.

And we are not eager to see the same problems that we've seen on the eastern side of the state be adopted for the western side of the state. We think that it does not control costs and does not provide the proper incentives that cost of service ratemaking provides, and does not -- we think that it creates just endless problems with creative methods of trying to slip in other costs that are not fuel and purchased power costs. And we don't like that kind of a piecemeal process; but we do think that there are better ways to do it, if you are interested in that.

Another issue that the Consumers Council really cares about, and that is the fixed customer charge. We like to see the fixed part of the bill kept low. We think the evidence in this case shows that a $9 customer charge is more than sufficient to cover the costs that are customer specific and that the rest of the costs, to the extent that rates are increased, should be applied to the volumetric or energy charges.

As the PSC has noted, high customer charges do negatively impact low users, many of whom are low income or senior citizens, and that keeping the customer charge low is consistent with encouraging conservation and energy efficiency.

We also believe that keeping the customer charge from increasing beyond $9 is also consistent with much of the testimony that was received in the local public hearings in this case. And that goes to customer acceptability, which is an important element of rate design.

The word that the Commission used in its most recent Ameren rate order and that you hear customers use over and again is control. Keeping more of the costs in the volumetric part of the bill lets consumers retain more control over their monthly bill. Raising that customer charge takes away that control.

A couple of comments on the electrical vehicle charging station, because this is kind of a new issue, an issue of first impression. It is not our opinion that this is a utility service. We believe it's a competitive service. We believe that it should not be treated like a monopoly service and should not be funded or subsidized by captive ratepayers. We worry that allowing KCPL as a regulated monopoly to get into this business could have a detrimental impact in discouraging new entrants that might want to get into the charging business.

And we are also concerned that most of the ratepayers who would be funding this would not have the ability to afford a fancy new electric car. So to the extent that there is this service being provided by KCPL, we think it should be treated as unregulated, we think that captive ratepayers should be shielded from having to fund it, and that the charges should be paid for by the users.

And when you do get into these issues, whether it's here or in a separate docket, I would ask that you also look at the question of when the charging is going to occur. In other states that have addressed this issue, the main focus has been does this fit within the load growth? Is it going to be in the middle of the night? Is it going to be during the peak time? And that, I think, is maybe the most important issue for cost and for environmental concerns as well. So be sure to ask about exactly when these -- the charging of these particular stations would be.

We are opposed to all of the trackers in this case, for the reasons I stated earlier, by the Office of Public Counsel and Industrial Intervenors. Trackers, I think, have a very limited use. I think in exceptional cases there can be a use. But we've gotten so far away from the original intent, which is that that such mech -- such piecemeal mechanisms need to be extraordinary and nonrecurring, and that is the cost related should be not necessarily big costs or dramatically increasing costs, but extraordinary, unusual, and nonrecurring. Not just infrequent, but nonrecurring. Once -- a very unusual situation. And we do support 9 percent return on equity.

And we may have other comments as we get into each of the issues.

That's all I have. Questions?

CHAIR R. KENNEY: Mr. Coffman. Thank you.

MR. COFFMAN: Yes.

CHAIR R. KENNEY: And thanks for sharing your insight on the stipulation. Let me just ask a question about the paragraph that contains the language regarding the FAC in Senate Bill 179. The second sentence reads, In exchange for this commitment, the signatory parties agree that if KCP&L proposes an interim energy charge in a general rate case filed before June 1st, 2015, et cetera, et cetera. Was it the intent of the parties that the interim energy charge could be sought instead of an FAC?

MR. COFFMAN: Yes. That is my recollection. And we had had -- at that time we had a comparatively more positive experience with the interim energy charge. We felt like that was a compromise under certain circumstances we could live with. And most of the discussion at the time, as I recall, in that room was about regarding the terms that followed there and what type of an interim energy charge we might, you know, find appropriate --

CHAIR R. KENNEY: And there's like six points under there, and one of them -- or a couple of them talk about an interim energy charge that would include fuel and purchased power costs.

MR. COFFMAN: Correct.

CHAIR R. KENNEY: Which would be the same as what an FAC contemplates.

MR. COFFMAN: Well, with some significant differences. It's for a limited period of time, and there's a band -- sort of a -- you might call it a dead band or a period of costs, you know, that they can go up to; and if they went over it, then there would be some recovery --

CHAIR R. KENNEY: But you wouldn't --

MR. COFFMAN: -- after the fact.

CHAIR R. KENNEY: But if you read this all -- if you read both of these provisions together, it couldn't be that the parties contemplated that you would be able to request both an FAC and an interim energy charge?

MR. COFFMAN: No. No. Our -- and I think that -- that if you -- I don't believe it's ambiguous. But if you believe that it is ambiguous, I think that you can rely on the rules of construction that would ask that you look at that entire paragraph in context, in pari materia, and -- and I think you -- I think you can read that most clearly as you can ask for this before June 15, but you can't ask for this before

June 15 --

CHAIR R. KENNEY: All right.

MR. COFFMAN: -- 2015.

CHAIR R. KENNEY: Thank you.

COMMISSIONER KENNEY: No questions.

COMMISSIONER HALL: No questions. Thank you.

CHAIR R. KENNEY: Thank you, Mr. Coffman.

JUDGE BUSHMANN: Thank you.

That concludes all the general opening statements. Parties have any feeling about starting with the mini openings at this point or go ahead and just break for lunch? I'm tending to want to break for lunch so that the attorney for Department of Energy has more time to get here, since he was going to be providing an opening for that.

MR. FISCHER: We're going to change counsel, too, on the issues. So it would be helpful to take a break.

JUDGE BUSHMANN: Why don't we take a lunch break now. We'll resume at 1:00.

We'll be in recess until 1:00.

MR. STEINER: Could I raise one issue, Your Honor?

JUDGE BUSHMANN: Yes.

MR. STEINER: This deals with the LaCygne Environmental Project issue that's going to be heard on Wednesday. And we've heard from the Sierra Club, which is the party that filed testimony against the Company, and they have no cross-examination questions for Witness Archibald, Witness Bell, and Witness Ling. And so I was wondering if the Commission has questions for those witnesses and, if not, we'd like to excuse them.

CHAIR R. KENNEY: I don't know, but I don't think so.

JUDGE BUSHMANN: There might be other parties also that have questions for them. So...

MR. STEINER: Do any of the other parties have questions?

MR. THOMPSON: We don't have all of Staff's lawyers here, so I can't answer that question.

JUDGE BUSHMANN: All right. Why don't we --

MR. STEINER: How about getting back to me, Kevin?

JUDGE BUSHMANN: Why don't you get back to me before then, and let me know if there's any -- if you have no objections and no parties have an objection, you want to waive cross, then we can excuse the witnesses.

MR. STEINER: Thanks, Your Honor.

JUDGE BUSHMANN: All right.

MR. DOWNEY: Judge, along the same lines, have you heard from the commissioners yet whether they have any questions for Mr. Meyer, because he's due tomorrow?

JUDGE BUSHMANN: I'll check with them over the lunch hour --

MR. DOWNEY: Thank you.

JUDGE BUSHMANN: -- and try and let you know at 1:00.

MR. DOWNEY: Thank you.

JUDGE BUSHMANN: Anything further?

All right. We're in recess.

(Off the record.)

JUDGE BUSHMANN: Let's go back on the record and get start with the next phase.

The topic for this afternoon is cost of capital, and as mention in a previous order, what I'd like to do is to have parties make -- if you would like to, make brief opening statements about just limited to that topic.

So for -- I'm going to use the list of openings and just go down for the parties.

Kansas City Power & Light will be the first one to make an opening statement about cost of capital.

MR. ZOBRIST: Thanks, Judge. May it please the Commission. Karl Zobrist on behalf of Kansas City Power & Light Company. The guiding principles with regard to cost of equity have been set down by the United States Supreme Court for many years in the Hope and the Bluefield cases. They provide that public utilities are entitled to earn a rate of return that is comparable to companies in similar lines of business in similar parts of the country. There is an emphasis on the need for financial integrity and financial security, and there is to be an equitable balance between stakeholders and ratepayers.

Now what should the Commission look to in order to set the proper return on equity in this case? These guiding principles tell us to look at the economy and see what's going on.

I'm going to show you just a couple of headlines here of things that have been going on this spring. Businesses are lending -- or businesses are being lent money by U.S. banks for the first time in quite a while. As a number of the witnesses have advised the Commission, interest rates have been at record lows in order to stimulate the economy, and recently we are now seeing strong gains in hiring that are putting eyes on the fed, and eyes on the fed means that the fed is beginning to think about raising interest rates.

This spring housing starts have surged to a seven-year high, as we finally struggled to get out of the winter. And we're seeing strong job growth which is easing concern about the first quarter where the winter really dealt a blow to the economy. In fact, there were some initial projections that thought the economy was shrinking at that time.

And with the improvement in the economy, we have seen some volatility in the bond markets, which Mr. Hevert discusses I believe in his Rebuttal and I know in his Surrebuttal. And we have seen that the brighter economic news is speeding flight from government bonds, which is causing interest rates to go up.

Let me try to put some details on these particular economic trends. As Mr. Hevert stated, I believe in his Rebuttal, treasury bond yields are hitting new highs. Since the end of the first quarter, the end of March, the 30-year treasury yield has increased over 35 basis points, from 2.74 percent to 3.1 percent. And the ten-year treasury yield has hit an eight-month high, nearing 2.5 percent, almost 2.5 percent the past couple of weeks, the highest since October 2014. What is also happened is that the utility bond index is also increasing. It increased by about 36 points.

And as a number of the other counsel in this case indicated, unemployment rates are coming down. The exact statistics are that the U.S. now is at 5.5 percent as of May of this year, down from 8 percent in January 2013 when the Commission issued its last report and order in a Kansas City Power & Light rate case. For Missouri we weren't hit quite as hard as the nation, and by January 2013 we were at 6.6 percent. In April Missouri was at 5.5 percent. It went up a little bit, ticked up a little bit in May at 5.7 percent because people were actually looking for jobs for a change. And I would expect that that number is probably going to go up.

We have seen strong job growth in May. Nonfarm payroll increased by about 280,000. And housing starts in April increased to the highest rate since 2007. It was an over 20.2 percent increase to 1.14 million in annualized rates as far as housing starts. Building permits have increased, the most since June of 2008. These statistics come from the Census Bureau of the Commerce Department and from the Housing & Urban Development Department. And the trade deficit declined by 10.2 percent, the sharpest in over six years.

So what are the three points that we gain from this? First of all, the economy is growing. We didn't think that was happening even two months ago. The economy is growing. In May twenty -- I'm sorry, in the first quarter of 2015 where we thought it had shrunk by seven-tenths of a percent, it looks like the economy was actually flat, which is good news. It's flat according to the latest revisions. And now in the second quarter it appears that it's growing by about 3 percent. Unemployment rate has fallen, as I indicated. And by May of this year, earnings for this year have increased 2.3 percent, the highest in nearly two years. And so with unemployment falling and with the economy approaching full strength, the Federal Reserve Board has strongly indicated that it will likely raise rates sometime this fall, perhaps as early as September. And as a result, we are seeing long-term bond yields increasing, as I said, to 2.4 percent from just

1.85 percent two months ago in April.

So if you're a Democrat, you get to hum Happy Days Are Here Again, and if you're Republican -- I don't think that Republicans really have a theme song, but I'm going to go back to the Battle Hymn of the Republic. That's probably a safe one.

So what does that mean here? What it means is that the conditions of economic expansion are going to require higher returns on equity. And, interestingly enough, in this case there are only two witnesses that have talked about economic growth, the recent economic growth; and that's Mr. Hevert, and then there are allusions to it by the Staff witness. Mr. Gorman and Ms. Reno did not talk about that. Mr. Hevert in particular talked about these trends in, I believe, the next-to-the-last page of his Surrebuttal.

This is kind of a busy slide, but it -- it is a summary -- let me try to -- I'm going to cut off the first column there, but I'll tell you what those are. This is essentially the cost of equity estimates in this case, and it is based upon the three models that the three experts -- pardon me, the four experts rely upon.

The first are the discounted cash flow. And as you can see, Ms. Reno from the Department of Energy does three studies of the discounted cash flow, Mr. Gorman does three. Mr. Marevangepo does two, and Mr. Hevert does two. They are relatively low for Staff, they are low for DOE and the Industrials. And Mr. Hevert's have been portrayed as high; but as I will explain, given the recent economic conditions that we've seen simply in the last two months, his are more reasonable than the other experts.

Each of these experts does a Capital Asset Pricing Model, which is the middle line there, and then the risk premium again.

And then the bottom line is really the most important, so let me focus in on that. These are the three recommendations that you have from each of the experts in ascending order. Ms. Reno recommends 9.0 percent. We have evidence in this case that the average, the average for this quarter return on equity in this country is 9.83 percent. So Ms. Reno is 85 -- 83 basis points between the average return on equity given by public service utility commissions this year.

Mr. Gorman comes in in a range of 8.8 to 9.4 percent, settling with a recommendation of 9.1 percent. He is 43 basis points below the average ROEs for this quarter, which is 9.83 percent.

Staff comes in at a range of 9.0 to 9.5, with a recommendation of 9.25. That is 33 basis points below the 9.83 average.

And Mr. Hevert comes in at 10.3 percent, his range being 10.0 to 10.6. His lowest range is the closest to the average, which is 9.83 percent. He is at 17 basis points off.

Now, what accounts for these differences? As I think Mr. Woodsmall mentioned, growth rates tend to be the area that we focus on in explaining why someone is low, someone is high where they have come to their recommendation.

These are just the growth rates that the experts used in the DCF approach. And you can see that there are stark differences among these four witnesses. Staff, the Industrials, and Department of Energy tend to be somewhat bunched way toward the bottom. And Mr. Hevert is at 5.65 percent. His estimate is based upon real gross domestic product growth over a long period of time, from 1929 to 2013, 3.27 percent, which is what my footnote says there. Staff's stage 1 is between 5.57 and 5.74 percent, the Industrials' stage 1 at is 4.89 percent, and the Department of Energy's is 4.6 to 4.61 percent. So the question is what is the difference? And it has to do with how you look at economic data, whether you rely purely on historical forecasts or you look at forward-looking forecasts and the exercise of judgment, as well as in the context of what is going on with the economy and what other public utilities are doing throughout the United States.

The evidence in this case is going to be that, given the economic trends that we are seeing and given what utility commissions are doing across the Company -- across the country, that Mr. Hevert's recommendation is the more reasonable of the other three that you are presented with.

Now we have two small cost of capital structure issues that I want to make certain that you're aware of, and then go back once more to the summary of ROEs that I talked about.

The Company has proposed, as it has in a number of its past cases, that the capital structure of its parent, Great Plains Energy, Incorporated, be adopted in this case. Staff agrees and the Industrials do not oppose. This was the capital structure that was used for KCP&L Greater Missouri Operations Company, the sister Company of KCP&L. However, Ms. Reno from the Department of Energy opposes this. She proposes to use KCPL's Company structure. This is at odds with the prior rulings of this Commission, and it's at odds with the capital structure that's been set for both companies by the Kansas -- or by -- for KCP&L by the Kansas Commission.

This slide is a little busy, but the bottom line is that Ms. Reno from Department of Energy is the only expert that recommends that you use short-term debt. Now, the Company has proposed again, as it has for most of its rate cases, to have its capital structure composed of long-term debt, preferred stock, and common stock. Again, Staff concurs. The figures that they presented you were as of December 31st, 2014. The Company's were as projected to May 31st of this year, and they'll be updated when we get to the true-up stage. And the Industrials do not oppose capital structure. What the.

Department of Energy proposes is to insert short-term debt. You see the figures there. It reduces the long-term debt and inserts short term, and it reduces equity. This is also at odds with prior Commission rulings.

Now, Mr. Hevert in his Rebuttal indicated that if the Commission were to use KCP&L's debt structure, there should be certain adjustments. And Ms. Reno in her Rebuttal has agreed that those corrections should be made. So I don't think there's any dispute on that issue.

This is an updated version of Schedule 17 to Mr. Hevert's Rebuttal where he summarized the recent ROEs. And it's the top line that's partially cut off that relates to vertically-integrated electric utilities. And what this shows is that -- let me try to get that focused again. I'll read those top numbers, because the numbers went up and then they came down in 2014.

For the first quarter of 2014, the average authorized returns on equity in the country were 9.86 percent. Then it rose to 10.10. Then it declined to 9.90, and then went up a little to 9.94. And then in the first quarter it took a hit down to 9.64 percent, again likely based upon review of economic data projections as well as historical. And then in the first quarter of 2015 -- pardon me, the second quarter of

2015, this quarter to date, the average has risen to 9.83 percent. And it is at that level, including the Commission's decision in the Ameren case.

And, again, when you look at that average, 9.83 percent, Mr. Hevert's bottom range is only 17 points away from that, Staff is 33 points below from its top range of 9.5, Mr. Gorman is 43 points below, and Ms. Reno at 9.0 is 83 points below.

So what I would say in closing is ask in particular Mr. Hevert about these economic trends and why -- why his recommendations are what they are, because things have changed since the evidence in the Ameren case, things have changed since the Commission had its deliberation two months ago. Changes in the off -- in the economy is different now than it even was a couple months ago, and that is what justifies a return on equity closer to the Company's recommendation in this case.

Thank you very much.

JUDGE BUSHMANN: Questions?

CHAIR R. KENNEY: No questions. Thank you.

COMMISSIONER HALL: No questions.

JUDGE BUSHMANN: Okay. Thank you.

Opening by Staff.

MR. THOMPSON: I have a little visual aid myself. Only one.

May it please the Commission. Return on equity is a troublesome area, often the largest area in terms of money in a given rate case. It's certainly the area where you have the most discretion. It's amazing how scientific it all sounds when you hear a flurry of figures and data from the financial markets and matrices showing what other commissions have done and what the results of various tests are. But don't be fooled. This is very much a subjective exercise. ROE is very much a matter of expert opinion and expert judgment.

If you look at the chart that I've put up there, of the four experts who are going to testify this afternoon, three of them are in close agreement as to what the return on equity should be that is set by this Commission for this Company. Also in close agreement is the return on equity that this Commission authorized for Ameren Missouri not very long ago, 9.53 percent. An outlier is the recommendation made by Mr. Hevert, 10.3 percent. He made a very similar recommendation in the Ameren Missouri case. The Commission was evidently not persuaded by it, and I urge you to not be persuaded today by the recommendation that he has made in this case.

It's interesting in all the talk that we heard from Mr. Zobrist about how things have changed -- and I guess that was the theme of his opening, things have changed, and what you did with Ameren, well, that's not right now, that wouldn't be correct, things have changed -- he didn't say a word about whether investors require a higher return today than they required two months ago. And the only purpose, the only purpose of an ROE expert's analysis is to determine the return that an investor requires. What is the return that is required for that security? We didn't hear about that. We heard that bonds have changed and interest has changed and maybe the feds are getting skittish, but we didn't hear about investors. We didn't hear about the returns they require.

I suggest to you that the evidence in front of you supports a return on equity at 9.53 percent or below, just as you did in the case of Ameren Missouri.

Thank you very much.

JUDGE BUSHMANN: Questions?

CHAIR R. KENNEY: No questions. Thank you, Mr. Thompson.

JUDGE BUSHMANN: OPC.

MR. OPITZ: May it please the Commission. Good afternoon. The Commission's guiding purpose in setting rates is to protect the public against -- to protect the public and the consumers against a natural monopoly of the public utility. And to fulfill this duty, the Commission is charged with setting just and reasonable rates. And here, as in nearly every case, a significant component of just and reasonable is the return -- rate of return on equity.

Once again, return on equity is a large-dollar issue. Based on the reconciliation filed by Staff, the difference between the Company's requested 10.3 percent ROE and the lowest recommendation, the U.S. DOE's recommended 9 percent ROE is approximately $23.2 million. However, I will point out that because of the in-service dates of the LaCygne environmental upgrade, the Company's plant balance is expected to increase, likely making this issue worth significantly more.

Public Counsel has not sponsored a witness on this issue, but the Commission will have before it the expert testimony of four experts. Ms. Reno recommends 9 percent, Mr. Gorman recommends 9.1 percent, Mr. Marevangepo recommends 9.25 percent, and at a cost to ratepayers of more than the lowest recommendation of 23 -- approximately $23.2 million more, Mr. Hevert recommends 10.3 percent. That's a recommendation that is an increase from the Company's current authorized ROE.

You heard briefly in the opening offered by the Company that a reasonable return on equity, as developed by the United States Supreme Court decisions in Bluefield and Hope cases, is, first, that the return on equity be adequate to attract capital at reasonable terms, thereby enabling the utility to provide safe and reliable electric service for the public; two, that it be sufficient to ensure the Company's financial integrity; and, three, that the return on equity be sufficient to ensure the Company's -- ensure that the Company gets returns on investments commensurate with enterprises with corresponding risks.

Bearing all that in mind, a just and reasonable rate is one that is fair to the utility and fair to its ratepayers. Each of these experts has presented in prefiled testimony what they believe to be a range of reasonable ROE recommendations.

Mr. Gorman has offered testimony that there's been a significant decline in capital market costs. He's testified that the industry authorized return on equity has been declining over the last several years. And Staff's expert offered similar testimony. This Commission is aware of that decline, as it recently recognized that the cost of capital has declined when it ordered a 9.53 percent ROE for Ameren Missouri, which was a reduction from the Company's previous rate case. As the utility's capital market changes, ratepayers should share in the benefit of these lower capital market costs.

Notably a part of determining a reasonable rate of return or reasonable rate is to make rates as affordable as possible without causing a detriment to the utility. In determining the return on equity, the Commission has some level of discretion, as mentioned by Mr. Thompson. Public Counsel urges this Commission to authorize a return on equity in a manner that recognizes the economic challenges faced by households in KCPL's service territory.

You've heard the testimony at the local public hearings. You may have read the comments filed in EFIS. Customers have expressed their frustration about the increasing burden of additional rate increases. Even now many customers are struggling to pay their bills. Staff's witness, Michael Stahlman, offered prefiled testimony that the general economic conditions, specifically of the counties that compose the service area of KCPL, continues to experience challenges in the wake of the Great Recession.

Annual unemployment levels are still above prerecession levels in KCPL's service area. Further, Dr. Marke of Public Counsel has prefiled testimony that KCPL's residential ratepayers' wages are not keeping up with the KCPL rate increases. This fact is especially troubling, considering the existing portion of past due balances among residential rate pays for KCPL. As of October 1st, 2014 more than 20 percent of residential KCPL accounts have past due balances.

Customers can't afford the current rates, and any additional increase furthers the financial strain for the ratepayers. Public Counsel asks that the Commission focus on ensuring rate affordability and fairness for customers. There is no question that the lower the ROE, the more affordable rates will be for customers.

Despite a decrease in the capital market costs and a declining trend in authorized ROEs, KCPL's witness presents an ROE recommendation that would significantly and unreasonably increase the authorized ROE. Certainly the Company has a right to an ROE that is sufficient to keep its public utility plants in proper repair for effective public service and an amount that will ensure that investors can receive reasonable return on funds invested; however, if the cost of equity and the cost to attract capital decrease, it is only appropriate that the Commission lower the authorized ROE, not increase it as the Company has requested.

Mr. Gorman has presented a range with an ROE with a range as low as 8.8 percent, made utilizing traditional tools to determine an appropriate return on equity. Ms. Reno has also recommended an ROE, hers being 9 percent, with a range of 8.2 to 9.6 percent. As I mentioned to you earlier, the difference between an ROE of 10.3 percent and 9 percent is approximately $23.2 million, as of Staff's most recent reconciliation. This extra money, to the extent that it is not required to keep the plant in repair or attract capital for the Company, does not benefit the ratepayers in any way.

The Commission is charged with protecting the public and their money, and I would urge that you not transfer any more -- not $1 more than what you believe is necessary and sufficient to attract capital and provide fair compensation at the lowest cost to customers.

Thank you.

CHAIR R. KENNEY: I have no questions. Thank you.

COMMISSIONER HALL: No questions.

JUDGE BUSHMANN: Thank you.

Missouri Division of Energy.

MR. ANTAL: Your Honor, we haven't filed any testimony on this issue and won't make any opening statement.

JUDGE BUSHMANN: That's fine.

U.S. Department of Energy.

And, sir, could you make your entry of appearance on the record?

MR. TSHIKORORO: Yes, I'd like to make an entry of appearance. My name is Sean Tshikoraro, attorney representing the United States Department of Energy and the Federal Executive Agencies.

JUDGE BUSHMANN: Thank you very much.

MR. TSHIKORORO: May it please the Commission. The U.S. Department of Energy and the Federal Executive Agencies adhere to the principle that utilities should have an opportunity to earn a reasonable return for their investors. In this case DOE takes the position that an ROE of 9.0, based on a range of reasonableness of 8.2 to 9.6, will provide the Company with an opportunity to earn a reasonable rate of return. It's important to remember that the range of reasonableness recommended by Ms. Reno, DOE's witness, does have an upper bound of 9.6, a number that does encapsulate this Commission's most recent decision in the Ameren Missouri case where the Commission approved an ROE of 9.53.

And also, as we can see from the chart that's still up there, Ms. Reno is in line with the majority of expert opinion in this case, both that of Staff and the Industrial customers. The only outlier is the Company witness, who recommends an ROE of 10.3, with a range of reasonableness of 10.0 to 10.6.

The return requested by the Company, recommended by their expert, Mr. Hevert, is explained by Mr. Hevert's unwillingness to actually adopt the -- his own DCF calculations, the lower bounds of his own DCF calculations.

The Discounted Cash Flow Model, as you know, Commissioners, is a well-established model that is universally used by experts and commissions around the country in calculating return on equity. Mr. Hevert's own DCF calculations resulted in a lower bound ROE of 8.35. However, Mr. Hevert arbitrarily ignores these lower results. This Commission and others have used the DCF methodology for decades, and the DCF Model should not be discarded in this situation at this point in time just because we're currently experiencing record historically low costs of capital. DCF Models accurately reflect these low costs, and they should not be ignored for that fact alone.

Mr. Hevert emphasizes a need to rely instead on a Capital Asset Pricing Model, as was a model also utilized by DOE Witness Reno, and a Bond Yield Plus Risk Premium Model. It's important to note that, despite Mr. Hevert's substantial criticism of Ms. Reno's use of DCF Models, even Mr. Hevert's Capital Asset Pricing Model utilizes a DCF Model to calculate the return required by the market.

At the center of the DCF debate in this case, as mentioned by other attorneys that have come before you today, is the issue of the appropriate growth rate. Mr. Hevert would have us believe that the sophisticated investors only focus on a single indicator when making their investment decisions. That indicator being projected earnings growth. Ms. Reno, on the other hand, has run a series of different DCF Models to reflect that prudent investors look to a number of factors when making investment decisions, including dividends, book values, earnings, and sustainable growth rates. Ms. Reno's use of the variety of DCF Models reflects the reality that prudent investors base their investment decisions on all available information.

Mr. Hevert's prefiled testimony emphasized the importance of recent economic indicators, as did the Company's opening statement just now. The allegation is that these economic indicators show unsustainable utility stock prices and the potential for increasing interest rates.

In Mr. Hevert's Rebuttal Testimony, he focuses his analysis primarily on a relatively short time period though, a time period during which utility stock prices started to decrease. This is an attempt by Mr. Hevert to establish that investors are perceiving increased risk in the utility industry. However, as the testimony of Ms. Reno, as well as that of Mr. Gorman and Mr. Marevangepo show, this is simply not the case. Utility stocks have seen a slight decrease since the beginning of this year, but that decrease must be viewed in the context of how high they have been; and, as such, this decrease should be seen more as a market correction and not something that is going to cause investors to perceive more risk.

Furthermore, DCF Models account for stock prices and the stock price that investors are willing to pay. And they assume that investors are sophisticated and look at all relevant economic trends when making their investment decisions. And as I mentioned at the beginning of my statement, this Commission's most recent decision in the Ameren case found an ROE of 9.53, which, again, is well within the range of Ms. Reno's reasonable calculations. And for this reason, the DOE takes the position that the Company's proposed ROE of 10.3 is well outside the range of what should be considered a fair and reasonable return on equity.

Thank you.

JUDGE BUSHMANN: Questions?

CHAIR R. KENNEY: No questions. Thank you.

COMMISSIONER HALL: I have just a few. The Department of Energy is a KCP&L customer?

MR. TSHIKORORO: Correct. Not just the Department of Energy, we also represent the other Federal Executive Agencies. So we have a variety of customers within -- or a variety of facilities within the KCP&L --

COMMISSIONER HALL: But you're --

MR. TSHIKORORO: -- service territory.

MR. STEINER: -- intervening as a customer, not with a particular policy agenda?

MR. TSHIKORORO: That's correct, sir.

COMMISSIONER HALL: No -- okay. How common is it for DOE to intervene in state ratemaking proceedings?

MR. TSHIKORORO: It is fairly common. We have a program established for that purpose. We actually get our delegation from the General Services Administration, which has the authority from Congress to represent the federal government's consumer interests before state public utility commissions. GSA delegated that authority to the Department of Energy. They've also delegated it to several other agencies.

And so in those service territories for utilities around the country where DOE has the federal government's largest load, we do intervene on behalf of those facilities and their consumer interests.

COMMISSIONER HALL: And is that -- is that delegation statutory? By rule? By MOU?

MR. TSHIKORORO: It's statutory. So the authority is statutorily given to GSA; and then GSA delegated it to us by order, the administrator of the GSA.

COMMISSIONER HALL: Okay. Thank you.

JUDGE BUSHMANN: Thank you.

Statement by MIEC.

(Off the record.)

MS. ILES: May it please the Commission. My name is Carole Iles. I'm here on behalf of the MIEC.

Is there some reason it's not on that screen?

(Off the record.)

MS. ILES: So MIEC's witness for the ROE issue is Mr. Michael Gorman; and his recommendation in this case, as you've heard from the other attorneys, is an ROE of 9.1 percent, which is the midpoint of his recommended range of 8.8 to 9.4 percent.

Mr. Gorman summarizes -- you've heard a lot about where we are in the economy, where we are in the capital markets. And I think Mr. Gorman provides a nice summary on page 23 of his Rebuttal Testimony when he says that, A fair analysis of utility securities shows that the market generally regards utility securities as low risk investment instruments and supports the finding that utilities' cost of capital is very low in today's marketplace. So we're simply asking that ratepayers get the benefit of today's very low cost of capital.

As you've also heard from the other attorneys, the witnesses in this case use the same market-based analyses as all of the witnesses -- expert witnesses on this issue used the same market-based analyses, but they get different results because of different inputs.

As Mr. Gorman points out in his testimony, if you make some corrections to Mr. Hevert's testimony, all of the return on equity witnesses in this case, including Mr. Hevert's, when corrected, prove that KCPL's current market cost of equity is 9.5 percent or less. Mr. Hevert's analyses and recommendations are simply based on inflated data and artificially-adjusted models. His results are not reliable.

In particular I'd point out that the GDP growth rate that Mr. Hevert relies on in making his analyses, he uses a 5.65 percent. As Mr. Zobrist pointed out, he used a GDP growth rate that's based on historical numbers rather than forward-looking analyst projections, as Mr. Gorman does. Mr. Gorman's GDP growth rate is 4.6 percent. That's a significant difference, and it leads to a significant difference in the outcomes of their analyses.

The only other thing I'd point out that -- about Mr. Hevert's testimony, besides his inflated growth rates and his various adjustments that need to be made to his analyses, is that he also places undue emphasis on average returns on equity authorized by other regulatory commissions around the country. We do agree that average authorized returns provide -- and I'm aware that this Commission often looks to this and that this does provide some measure of reasonableness when setting return on equity in this case. Mr. Gorman's recommendation reflects the continuation of the downward trend awarded -- of awarded returns on equity for utility companies. On the other hand, Mr. Hevert's recommendation would be an increase for KCPL.

As Mr. Gorman notes in his testimony, regulatory commissions authorized returns on equity have declined over time, albeit at a much slower pace than the decline in actual capital market costs. And we think more weight should be given to what's actually going on in the capital markets because there is that lag, because as capital prices go down, you don't see -- commissions do take a more conservative approach, perhaps with the thought that -- the concern that the costs are going to go back up. But they haven't gone back up. Notwithstanding the testimony today, we are in a very low cost of capital market right now.

The other thing I would point out, and this is information that Mr. Gorman also provided in the Ameren case, when he looks at authorized ROEs, he doesn't just look at what's going on with vertically-integrated companies and what the average is, which is the number that Mr. Zobrist mentioned when he was up here a minute ago. That 9.94 percent is the average for 2014 if you look only at vertically-integrated companies, which of course KCP&L is. But there are other electric utility companies that have similar investment risk, notwithstanding the fact that they're distribution companies; and we know that because they have similar bond ratings. The bond ratings tell us what the investment risk is, and we need to be looking at companies with similar investment risk. If you look at all electric utilities for 2014, not just the vertically integrated, the number comes down to 9.76 percent.

The other issue that Mr. Gorman thinks is important to look at is how were the cases decided, how was that issued decided in the cases where an ROE was set by a public utility Commission. If you look at the cases where the issue was actually litigated and you also increase your number of data points to include all the cases involving companies with similar investment risk, that average for 2014 comes down to 9.63 percent. Mr. Gorman updated this information through the first quarter of 2015. And you can see these numbers are very close to what they were for 2014, but they're actually slightly lower. So his testimony reflects that decline. Mr. Hevert's does not.

In this case the clear and persistent trend of very low capital market costs for utility companies justifies a continued decline in the authorized return on equity. That's from Mr. Gorman's testimony. An authorized return of 9.1 percent, in summary, balances the interests of KCP&L and its ratepayers by allowing the rates to reflect today's very low capital costs.

Thank you.

JUDGE BUSHMANN: Questions.

CHAIR R. KENNEY: No, thank you.

MS. ILES: Thank you.

JUDGE BUSHMANN: Any opening by Brightergy?

MR. ZELLERS: No opening on this topic, Your Honor.

JUDGE BUSHMANN: Consumers Council?

MR. HOFFMAN: No opening, Your Honor.

JUDGE BUSHMANN: That concludes all the opening statements for cost of capital.

Our first witness is Mr. Hevert.

MR. ZOBRIST: Company calls Mr. Robert Hevert to the stand.

ROBERT HEVERT, testifies as follows:

DIRECT EXAMINATION BY MR. ZOBRIST:

Q Please state your name.

A My name is Robert Hevert. Last name is spelled H-E-V, as in victor, E-R-T.

Q And by whom are you employed?
A I am managing partner of Sussex, S-U-S-S-E-X, Economic Advisors of Framingham, Massachusetts.
Q And, Mr. Hevert, did you prepare in this case Direct Testimony marked Exhibit 115, Rebuttal Testimony marked 116, and Surrebuttal Testimony marked Exhibit Number 117 with accompanying schedules?
A Yes, I did.
Q Do you have any corrections to any of those three exhibits?
A I have two minor corrections. The first is on my Direct Testimony. And, I apologize, I can't remember what exhibit number that is.
Q Exhibit 115.
A 115. And that is on page 53. There's a table there, Table 9, which says Summary of DCF Results. That is mislabeled. The table title should be Overall Rate of Return.
And then the second is in my Surrebuttal Testimony, which I supposed is 117?
Q Correct.
A And that is on page 41. Line 23 at the left-hand margin where it reads, Objectives of debt in -- or, excuse me, equity investors, it ought to read objectives of debt investors.
Q Any other corrections?

A Not that I'm aware of, no.

MR. ZOBRIST: Judge, I presume that you'll want the witness to undergo cross-examination and redirect prior to my offering the exhibit?

JUDGE BUSHMANN: Is he going to testify at a later time also?

MR. ZOBRIST: No, this will be the only occasion. So I would --

JUDGE BUSHMANN: Why don't you go ahead and offer, and we'll see if there will be any objections.

MR. ZOBRIST: Your Honor, then I offer Exhibits 115, 116, and 117 at this time, and tender the witnesses for cross-examination.

JUDGE BUSHMANN: Any objections to those exhibits?

Hearing none, they'll be received into the record.

(Exhibits 115, 116, and 117 received into evidence.)

JUDGE BUSHMANN: First cross-examination would be Brightergy.

CROSS-EXAMINATION BY MR. ZELLERS:

Q Good afternoon, Mr. Hevert.

A Good afternoon.

Q Mr. Gorman's Surrebuttal, do you have that in front of you?

A One second, please. Yes, I have that.

Q Could you refer to page 4? I was struck that he stated in that testimony that you concocted weights to show how Mr. Gorman arrived at his 9.1 percent recommended ROE. Can you explain a little bit about what you did in your Rebuttal Testimony and whether or not that's an accurate statement?

A I can. I'd be happy to. I think if we were to go to Mr. Gorman's Direct Testimony at page 39 -- I just want to be sure I have that correct -- he discusses how he went ahead and arrived at his estimate. And at page 39 Mr. Gorman says that his recommended return is the midpoint of his range of 8.8 to 9.4 percent; the 9.4 percent being the upper bound, being his risk premium result, and the 9.1 percent being the average of that 8.8. The 8.8 percent is the average of his Capital Asset Pricing Model and Discounted Cash Flow methods. He says the low end is based on the average of those two. So when you take the average of those two and then apply that as an average with another, it's effectively giving each 25 percent weight. And that's what I did on Table 5. In my view what I did was put numbers to what it seemed to me Mr. Gorman said he had done. His recommendation is the midpoint of two numbers. One number is given as 9.4. The other number is given as the average of two. The average of those two then have weights of 25 percent each.

So I have to say I too was a little surprised at Mr. Gorman's choice of words. I didn't think it was contrivance at all on my part or concoction. I thought all I had done was to put in numbers what he said he had done in his testimony.

MR. ZELLERS: Thank you, Mr. Hevert.

No other questions at this time, Your Honor.

JUDGE BUSHMANN: Missouri Division of Energy.

MR. ANTAL: No questions.

JUDGE BUSHMANN: Consumers Council?

MR. HOFFMAN: No questions.

JUDGE BUSHMANN: U.S. Department of Energy?

MR. TSHIKORORO: No questions.

JUDGE BUSHMANN: MIEC?

MS. ILES: No questions.

JUDGE BUSHMANN: MECG.

MR. WOODSMALL: Yes, very briefly, Your Honor.

CROSS-EXAMINATION BY MR. WOODSMALL:

Q Good afternoon, Mr. Hevert.

A Good afternoon.

Q Do you recall answering a data request in this case, 16-11, which you were asked for your ROE recommendations for the past three years?

A Yes, this is the one where you said it would require an update. And we don't always keep those, but I think it's a fair question, so I go ahead and pull the numbers together, as you asked.

Q Thank you. Hand you a document. Can you identify that as the response to Data Request 16-11?

A Yes, I can.

MR. WOODSMALL: And I believe this is my exhibit...

JUDGE BUSHMANN: I see you have exhibits up till 504. So the next number will be 505.

(MIEC Exhibit 505 marked for identification.)

MR. WOODSMALL: Your Honor, I'd move for the admission of Exhibit 504.

THE WITNESS: I thought it was 505.

MR. WOODSMALL: Oh, I'm sorry.

JUDGE BUSHMANN: 505 is the next open.

MR. WOODSMALL: I'm sorry. 505.

MR. ZOBRIST: No objection.

JUDGE BUSHMANN: Any other objections to the receipt of that? Hearing none, Exhibit 505 will be received into the record.

(Exhibit 505 received into evidence.)

BY MR. WOODSMALL:

Q Mr. Hevert, would you agree that this is a list of the cases that you've provided testimony since January 1st of 2013?

A Yes, I would agree with that.

Q And in this data request response you provide your

recommended ROE as well as the ROE that was ordered by the Commission; is that correct?

A Yes. And I also provide the recommended ROE range.

Q Thank you. Would you agree that your recommended ROE in this averaged 10.49 --

A I --

Q -- for the reported cases?

A I've not done that calculation. I couldn't tell you offhand.

Q Would you accept that, or do you want to do the calculation?

A I would accept it, subject to check.

Q Okay. Would you agree that the Commission's ordered ROE in the cases that have decisions was 9.70?

A Just one second, please. I would agree with that. And I would also point out that some of these cases were natural gas cases, some electric cases, some vertically integrated, some distribution only. So there's a wide range of cases in this -- in this summary.

Q Thank you, Your Honor -- or thank you, sir.

A I got a promotion.

Q I'm trying to promote you already.

MR. WOODSMALL: Your Honor, I have a couple of questions that I believe I need to go in-camera for.

JUDGE BUSHMANN: All right.

(REPORTER'S NOTE: At this point, an in-camera was held, Volume 10, pages 160 to 162.)

JUDGE BUSHMANN: Okay. We're back in public session.

CONTINUED CROSS-EXAMINATION BY MR. WOODSMALL:

Q Back to data request 16-1, would you agree that your budgeted amount for this case is $99,660?

A Not for the entirety of the case. I believe that budget excluded costs associated with Surrebuttal Testimony.

Q Okay. So your costs will likely be above that $99,000 figure then?

A It may. I'm not entirely sure what the final number will be.

Q Okay. Would you agree that, turning to data request 16-13, in your last five cases in which ROE was litigated, your total cost was 163 -- one hundred --

MR. ZOBRIST: Let me object before the figure comes out then. I don't understand why what he is charging other public utilities is relevant to the what he is charging the public utility that's before the Commission.

MR. WOODSMALL: Because at this point in time his actual numbers aren't in, his invoices aren't done, he's still providing services. So I want to give the Commission some idea of a ballpark of what ROE services will cost from him for a fully-litigated case, including all services.

MR. ZOBRIST: Well, it lacks foundation. I understand that -- the nature of the question. But unless the foundation is lain for those other rate cases, I again fail to perceive its relevance to what he's going to charge this Company in this case.

JUDGE BUSHMANN: Overruled.

BY MR. WOODSMALL:

Q In the last five cases in which you -- in which return on equity was fully litigated, would you agree that you charged in one $167,000; in another $111,000, case 3, 92,000; case 4, 165,000; and case 5, $176,000?

A Yes. I'd like to -- I think there's a couple pieces of that response that you didn't mention. I think in our response we noted that the cost of every case depends upon the scope of the issues, the number of intervening witness, the level of discovery, the nature of the hearings.

I would also say, going back to our budget in this case, that with respect to what we have budgeted, we've -- our costs have run over, and we have written down about $24,000. So we will stick to our budget in this case. It is costing us to do that. But that's what we're going to do.

Q So you're planning on sticking to the $99,000 budget?

A That $99,000 budget excludes Surrebuttal Testimony. So far we're slightly below that $99,000 budget, but it does include costs that we have written off.

Q Okay. So when you say you're going to be sticking

to the budget, what is the budget that you anticipate sticking to?

A No, I said we have stuck -- excuse me. If I didn't say we have stuck to the budget, that's what we have done. So far up through hearings, I believe, including discovery, Direct Testimony, Rebuttal Testimony, the budget was approximately, as you say, $99,000. I believe we're within now about a thousand dollars of that amount, in terms of what we've billed so far. Those amounts do not include costs associated with Surrebuttal Testimony. I cannot tell you right now what those costs are.

MR. WOODSMALL: Okay. I have no further questions. Thank you.

JUDGE BUSHMANN: OPC?

MR. OPITZ: No questions, Your Honor.

JUDGE BUSHMANN: Staff?

MR. THOMPSON: Thank you, Judge.

CROSS-EXAMINATION BY MR. THOMPSON:

Q Good afternoon, Mr. Hevert.

A Good afternoon, Mr. Thompson.

Q It's nice to see you again. I hope you're gratified that I finally learned how to pronounce your name correctly?

A Hevert is the correct pronunciation.

Q Oh, you're kidding me. I thought you told me it

wasn't the last -- whatever you say.

MR. WOODSMALL: Now I owe you an apology. I'm sorry.

THE WITNESS: It is Hevert. I just...

MR. WOODSMALL: Oh.

THE WITNESS: You're too easy, Kevin.

BY MR. THOMPSON:

Q So often I've been told that.

Mr. Hevert, would you agree with me that the purpose of your engagement is to determine the market-required return for this Company?

A The purpose of my engagement is to determine the market, the investor required return on equity, yes.

Q Okay. And now in this data request response that Mr. Woodsmall thoughtfully provided to us all, in those cases are there any instances where you are representing a consumer organization?

A No, they -- they are not.

Q Would you agree with me that you typically represent utilities?

A I -- what I will say is that my testimony represents my view of the cost of equity, and to the extent that the parties that engage me understand my view and they find my view consistent with theirs that they'll retain me.

I've not been asked by people's counsel, attorneys general to provide cost of equity testimony.

Q Okay. I appreciate that. And you would agree with me that as a result, you have generally represented companies; is that correct?

A Well, I think we need to -- if we're talking about return on equity, that's one thing. If we're talking beyond that, our firm certainty has represented utility commissions and agencies.

Q Thank you. It's true, isn't it, that all of the experts in this case have used more or less similar models in determining their recommendations?

A More or less, I would agree.

Q But the inputs have differed; isn't that true?

A Well, I think there are a couple of things that differ. I think the inputs differ. I think the interpretation of the results differ. And I think looking at results in the context of other observable quantifiable measures, that differs as well.

Q Would you agree with me that this engagement requires professional experience and judgment?

A I would agree with that, yes.

MR. THOMPSON: Thank you. No further questions.

JUDGE BUSHMANN: Questions based -- or, excuse me. Questions from the bench?

Mr. Chairman?

QUESTIONS BY CHAIR R. KENNEY:

Q Mr. Hevert; right?

A For you, that's correct, sir.

Q Thanks. Just a few additional ones to expand upon some of the questions that Mr. Thompson was just asking you.

Attachment A to your Direct Testimony is a list of cases in which you've testified in various jurisdictions; is that correct?

A Yes, sir, that's correct.

Q And I looked at the list pretty carefully. There are no consumer groups that appear on that Attachment A; correct?

A That's right. And, again, it's not to say that I would not represent a consumer group. I --

Q You just never have?

A I've never been asked.

Q And, as a result, you never have?

A Correct.

Q Okay. In a hundred percent of the companies on -- the applicants on there and the entities on which you've test -- on whose behalf you've testified are all power and light companies, gas companies?

A For -- on rate of return issue's, that's correct.

Q There's some other ones on here, Market Power Study, some divestitures, a handful of other types of cases on

this list as well?
A Yes, sir.
Q That's not exclusively ROE testimony?
A That's correct.
Q And just to expand on some of the other questions that were asked about the engagement, what's your hourly rate?
A My hourly rate is $350. If we look at the average hourly rate for our firm under this engagement, I believe our budgeted estimate is about $250.
Q So there are other folks from your firm that have worked on this engagement?
A Oh, yes, sir. We -- we leverage down as best we can to use the lower-cost people as much as we can.
Q Do you charge the same amount to appear here to testify as you do prepare your testimony?
A I do. I do not charge a premium for appearing live.
Q Now let me just ask a couple of other questions not related to the financial terms of your engagement, the substance of it now. There were some comparisons made to Ameren, in your testimony in Ameren; and I believe Mr. Zobrist or somebody else made the note in one of the opening statements that recent market changes justify an ROE that's different from Ameren?
A Yes, sir.

Q Things have changed in the two months subsequent?

A Yes, sir.

Q Has the relative or comparative risk between KCP&L and Ameren changed?

A I would not say that the relative risk between those two companies have changed. What I would say is that if we were to look at the utility sector generally, when you're at a point at which they were priced at historically high levels, that in and of itself engenders risk, and I think that's the risk that we saw happening over the past two months, the sort of coming off of those historically high valuation levels.

Q But the business and financial risk comparatively of the two utilities is the same?

A I would agree with that.

Q What was your cost of capital recommendation in the Ameren case, if you recall? Would you please remind us?

A I believe it was a range of 10.2 to 10.6 percent with a point estimate of 10.4 percent.

Q 10.2 to 10.6?

A Yes, I believe that's correct.

Q And what's your cost of capital estimate in this case?

A 10.0 to 10.6 with a point estimate of 10.3.

Q So they're virtually the same. But you're saying that there are market differences that would justify difference

in the ROE recommendations, but we don't see a difference in your ROE recommendations; is that correct?

A It's a -- it's a really good question. That's right. And the -- the --

Q Your Counsel probably ask you more questions to follow up. But my statement's correct?

A Your statement is correct.

CHAIR R. KENNEY: Okay. That's all the questions I have. Thank you.

THE WITNESS: Always a pleasure.

CHAIR R. KENNEY: Thanks for your time. Thanks.

JUDGE BUSHMANN: Commissioner Kenney.

COMMISSIONER KENNEY: I would make a comment that the chairman is leaving us and asking about all these rates, I'm wondering if he's going into the business, but I don't know that.

CHAIR R. KENNEY: Not this. I'm not qualified to render cost of capital.

COMMISSIONER KENNEY: There's always college, Counsel. I have no questions.

QUESTIONS BY COMMISSIONER HALL:

Q Good afternoon.

A Good afternoon.

Q So you provided testimony in the Ameren rate case, which we resolved in late April; correct?

A That's right.

Q And your -- your recommendation in that case was 10.2 to 10.6?

A Correct.

Q So sitting here today do you believe that the Commission's determination on that issue was reasonable or unreasonable? And I will not take offense.

A I -- well, I appreciate that. I feel that the Commission's determination, quite frankly, was low. I think if we look at the capital market conditions at the time and I think if we look at the change in capital market conditions over time, and especially now when we look at the way the debt markets are reacting, the equity market are reacting to the end of federal intervention, there's lot more uncertainty in the market.

So in my view, if you were to have an average authorized return -- and there are lots of numbers floating around -- but let's call it between 9.8 and 9.9 percent. You know, in my view the 9.53 was a bit low.

Q But 9.8 would be reasonable?

A I think -- 9.8 is 20 basis points below the lower end of my range. But 9.8 also is, depending upon how calculated, within the range of average authorized returns that we're seeing elsewhere. And I think some people would look at that as a -- as a reasonable benchmark.

Q You test -- did you testify in the 2012 Ameren case?

A I did.

Q I don't see that on here.

A Oh, I'm -- I think that -- are you talking about Mr. Woodsmall's --

Q Yes, I am.

A I think it's just a matter of timing on that one. I think it's the -- his request was as of January 1st, 2013.

Q You provided testimony in the 2012 case after 2013?

A No, I thought you said it was -- I'm sorry, you said it was not in here?

Q Yeah, I don't -- well, I mean -- I mean, I'm reading Staff's Rebuttal Testimony on this issue, and there's -- and there's reference to your estimate in Ameren Missouri's 2012 rate case, and then I'm looking at this response to the data request where you don't mention 2012 Ameren rate case. So I'm confused.

A And I think the reason we didn't is the way we interpret the question, because it asked for testimony offered or filed since January 1st, 2013.

Q Oh, I understand. Okay. Fair enough. All right. So in the 2012 rate case, the Ameren rate case, your recommendation was 10.5; is that correct?

A Yes, that's correct.
Q And in the -- in the Ameren rate case recently completed, it was 10.4. And you in this case are recommending 10.3; is that correct?
A That's right.
Q I see a trend there. I see a trend of your recommendations going down over time. Is there -- is that a false interpretation of the positions you've taken in those three cases?
A No, I think -- I think that's -- that's correct. If you look at the point estimates, there has been a 10 basis point change each time. I think if we were to look at the testimony in this case, I believe early on I referred to 10.3 as a conservative estimate.
Because the data itself, in this case in particular, I think is very noisy, it's very variable. And I think in this case, because of the way the markets have reacted, it's -- there's a larger breadth of model results. I recognized that the lower end of those results had expanded, and I just thought it reasonable to reflect that. And that's why I thought 10.3 was the proper number, although I did think it was a conservative estimate.
But that said, I think my ranges, at least to some extent, overlapped each other among the three cases.
Q Well, it still looks to me like there's a downward

trend in the recommendation that you -- that you're making. And it appears to me, based on what I've seen in this case and elsewhere, that that downward trend is -- is indicative of what's happening -- what's happening nationally --

A Well --

Q -- is that true?

A I think I have a disagreement with some people about this national trend. I think if you were to look at the trend, if you were to look at each rate case decision on the date it was rendered and you were to look at that over time, there's literally not a statistically-significant trend. If you aggregate data into quarters, sometimes you may be able to discern a trend. But if you look at the actual returns over time and you stick a trend line through it, that trend line is essentially flat.

COMMISSIONER HALL: Okay. Well, that's not my understanding of the -- of the data, but I'll leave it to experts to hash that out and present -- and present arguments to us.

Thank you.

THE WITNESS: Thank you.

JUDGE BUSHMANN: Recross based on commissioner questions?

Brightergy?

MR. ZELLERS: Nothing further, Your Honor.

JUDGE BUSHMANN: Missouri Division of Energy?

MR. ANTAL: No questions.

JUDGE BUSHMANN: Consumers Council?

MR. HOFFMAN: No questions.

JUDGE BUSHMANN: U.S. Department of Energy?

MR. TSHIKORORO: No questions.

JUDGE BUSHMANN: MIEC?

MS. ILES: No questions.

JUDGE BUSHMANN: MECG?

MR. WOODSMALL: None. Thank you.

JUDGE BUSHMANN: Office of Public Counsel.

MR. OPITZ: Just a few, Your Honor.

RECROSS-EXAMINATION BY MR. OPITZ:

Q Good afternoon, Mr. Hevert.

A Good afternoon.

Q In response to a question from the chairman, you mentioned that others in your office have billed hours for this case. How many other people in your office have worked on this case?

A I would say -- well, we -- we like to use interns as best we can, because they are, of course, a fairly low-cost resource for us. Interns come and go. And so over time, with all of the people involved -- and I think there was a discovery request to this effect -- there were probably 10 or 12 individuals.

Q And what functions did those individuals perform?

A It ranges. A lot of it is research. As you can imagine, this is a data-intensive exercise. So gathering the data, putting the data in a format that's needed are things that we try to have people who are sort of the lower-cost people do that type of work. We then have people in the firm that are a bit more experienced and will help draft the testimony, help establish positions with respect to Rebuttal and Surrebuttal Testimony and, to some extent, work on analyses. I'll tell you that I myself spent a fair amount of time working on the analyses. But to get back to one of the Mr. Woodsmall's questions, I rarely bill for much of that time.

Q And can you tell me what the hourly rate for those other people who have worked on the case are -- is?

A Well, I can tell you that it ranges from $50 an hour to, I believe, $295 an hour. But I think, in aggregate, again, we're probably in the 240 to $250 per hour range, when you sort of take the weighted average of all the people working on it.

MR. OPITZ: That's all I have. Thank you.

THE WITNESS: Thank you.

JUDGE BUSHMANN: Questions by Staff?

MR. THOMPSON: Thank you, Judge.

RECROSS-EXAMINATION BY MR. THOMPSON:

Q I thought I heard you say earlier that in

developing your budget for this engagement that you estimated 250 hours; is that correct?

A No. I think what I said was that the weighted average billing rate would be about $250 per hour.

Q Well, I heard that too. But did you not give a figure for the number of hours you anticipated?

A Not sitting here, I don't believe I did.

Q Okay. Well, are you able to give such an estimate?

A I think our proposal had an estimate in there.

Q And what do you think it was?

A Well, I couldn't tell you offhand, but I'm pretty sure it's in there.

MR. THOMPSON: Okay. No further questions. Thank you.

JUDGE BUSHMANN: Redirect?

MR. ZOBRIST: Thank you, Judge.

REDIRECT EXAMINATION BY MR. ZOBRIST:

Q Mr. Hevert, Chairman Kenney asked you a question about market differences that have occurred, and you said they were there. But would you go ahead and explain what the market difference are -- market differences are that you have seen in the capital markets in the past couple of months?

A Yes, I would.

And I didn't mean to speak over you. I apologize for that.

CHAIR R. KENNEY: No, don't apologize. No worries.

THE WITNESS: What we've seen over the past couple of months really is a couple of things. If we start on the debt side and, in particular, on the treasury side of the market, we've seen, of course, a run-up in interest rates that was talked about in the testimony; but we've also seen a historically high level of volatility in interest rates. You'll see fairly large movements from day to day in treasury yields. And what that tells you is that for what is perceived to be among the most risky -- excuse me, among the most safe of assets, that itself has become somewhat risky, that itself has exhibited a degree of variation that is highly unusual.

We've also seen, for example, increases in the yields on Company bonds. I know that there's a bond issue that Staff referred to in their Rebuttal Testimony. And if you were to look at the yield on that bond now, it's a couple basis points above where it was in 2012, but it has increased by about 40 basis points only over the past couple of months. So we have seen interest rates move up. We have seen interest rates become more volatile.

We've also seen companies that are in somewhat defensive sectors like utilities lose a lot of value. There was a great article in the Wall Street Journal a week or so ago about sectors that were considered safe are now risky because they had become priced at such a high level. So just within the past couple of months we've seen interest rates move around, interest rates come up, interest rates sect -- excuse me, sensitive sectors lose a fair amount of value. Much of this I think is in connection with the Federal Reserve statement that they intend to begin normalizing interest rate policy somewhere between now and the end of the year. And we've seen that, of course, in the probabilities of a rate increase suggested by the federal funds futures.

So a lot of market-based data is telling us that interest rates have gone up, yet the market has become more volatile, and the market perceives that there's a high likelihood of increases in interest rates over the coming months.

BY MR. ZOBRIST:

Q Now, what is the effect of those changes in the capital markets upon a utility like Kansas City Power & Light and its investors?

A Well, for -- for companies that are capital intensive, they tend to be very sensitive to changes in interest rates in terms of their valuation in the cost of equity. So as interest rates go up, the cost of equity goes up. It does not necessarily move in lockstep. It's not a basis-point-for-basis-point change, but they are directionally related.

Q Now, with respect to the questions that Commissioner Hall asked with regard to trends, did you update Schedule 17 to your Surrebuttal to reflect trends in returns on equity authorized by commissions through -- or, I should say, through the second quarter to date?

A Well, we -- we have in Schedule 23 -- excuse me. Yes, we've -- I've updated -- excuse me, no, Schedule 17, you're correct. Schedule 17 is updated through April 29th, 2015.

Q And my question is today have you prepared a graph that updates it through the second quarter? Which I'll mark as Exhibit 139.

A Yes. Thank you.

(Company Exhibit 139 marked for identification.)

BY MR. ZOBRIST:

Q Do you have before you what I've marked as Exhibit 139?

A Yes, I do.

Q Okay. And does that reflect the summary of authorized returns on equity from the first quarter of 2014 through the second quarter to date of 2015?

A Yes, it does.

MR. ZOBRIST: Your Honor, I offer this into evidence, Exhibit 139.

JUDGE BUSHMANN: Any objections? Hearing none Exhibit 139 received into the record.

(Company Exhibit 139 received into evidence.)

BY MR. ZOBRIST:

Q Now let me hand you one other exhibit -- well, let me as you this: What was the source of the documents -- of the numbers that appear in 139?

A Noted at the bottom it is Regulatory Research Associates, which is the same source that people typically use when they're reviewing authorized returns in jurisdictions.

(Company Exhibit 140 marked for identification.)

MR. THOMPSON: What number is this one, Karl?

MR. ZOBRIST: 140.

MR. THOMPSON: Thank you.

BY MR. ZOBRIST:

Q Mr. Hevert, can you identify Exhibit 140?

A Yes. This is the fundamental data from which Exhibit 139 was developed.

MR. ZOBRIST: Okay. Judge, I move the admission of Exhibit 140.

JUDGE BUSHMANN: Any objections?

Hearing none, it will be received into the record.

(Company Exhibit 140 received into evidence.)

BY MR. ZOBRIST:

Q Okay. Now, Mr. Hevert now in response to

Commissioner Hall's question about trends, what is your response to the Commissioner's question about the downward trend that he observed and that you did not -- let's just say you didn't entirely agree with him?

A Well, I think if you were to look on a quarterly basis here, you see beginning at 9.86 in the first quarter of 2014, ending at 9.83 in the second quarter of 2015 -- and it certainty bumped around a bit between there -- but I think, again, when looked at on a quarterly basis during this period, you see movement around, but the beginning and the endpoint are fairly consistent with each other.

Q Okay. And what is the average to date for the second quarter of 2015?

A 9.83 percent for vertically-integrated companies.

Q And let me just ask you one more explanatory question. With regard to distribution companies and transmission companies in the electric sector, why do those ROEs tend to be lower than those for vertically-integrated utilities?

A They tend to be lower, and I think they're consistently lower because transmission distribution companies do not have the operating, the regulatory, the financial risks associated with the ownership and operation of electric generation assets.

MR. ZOBRIST: Okay. Thank you. Nothing further.

JUDGE BUSHMANN: Thank you, sir. You may step --

COMMISSIONER HALL: I have a follow-up question.

JUDGE BUSHMANN: Go ahead.

COMMISSIONER HALL: I apologize.

FURTHER QUESTIONS BY COMMISSIONER HALL:

Q So 10.37 for all electric in the first quarter of 2015, which includes the Virginia decisions; correct?

A Yes, that would include the Virginia riders.

Q Okay. Well, and my understanding from looking at the regulatory focus of the Regulatory Research Associates is they thought there was some reason to exclude the Virginia decisions from -- from their overall analysis of any possible trend; would you agree with that?

A I agree with that, and that's why we're I focused on that top line, vertically integrated, which does not include the Virginia rate -- excuse me, the Virginia rate riders.

Q So the -- so the trend -- so characterize again for me what your -- what your view is of a trend, if there is a trend.

A I think that the trend, if there is one, has been -- has been negligible. In my testimony and -- I tell you, I can't recall if it's in my Rebuttal or Surrebuttal Testimony, but what we did was actually looked at all of the authorized returns between 2013 and 2015 and put that trend line through it and found that statistically it was essentially a flat line. Perhaps it was a little bit downward sloping. But if you were to go ahead and use that relationship and apply it to June 2015, I believe the number would have been 9.88 percent, as opposed to the overall average of 9.92 percent at the time.

COMMISSIONER HALL: Okay. Thank you.

JUDGE BUSHMANN: I'll offer another opportunity for recross based on Commissioner Hall's questions.

Brightergy?

MR. ZELLERS: None, Your Honor.

JUDGE BUSHMANN: Missouri Division of Energy?

MR. ANTAL: No questions.

JUDGE BUSHMANN: Consumers Council?

MR. HOFFMAN: No, thank you.

JUDGE BUSHMANN: U.S. Department of Energy?

MR. TSHIKORORO: None, Your Honor.

JUDGE BUSHMANN: MIEC?

MS. ILES: Sorry, I have one question about Exhibit 140. Or is that responsive here, following up on Commissioner Hall --

JUDGE BUSHMANN: Yes.

MS. ILES: -- and the trend?

RECROSS-EXAMINATION BY MS. ILES:

Q Could you tell us, do you know anything about the -- oh, the Wisconsin Electric Power, the 10.2 that's on

this Exhibit 140?

A What's -- what's your question?

Q What kind of case was that one?

A These were -- I know the Wisconsin cases. I believe this may have been one of the cases where the Commission essentially adopted the preexisting -- excuse me, the existing rate of run of 10.2 percent.

Q Were any rates changed in that case?

A I could not tell you offhand. One of the points, of course, of using multiple cases is that, while each case has its own aspects to it, when you look at multiple cases over time, you're able to essentially average them out, mitigate the effect of the -- of any particular aspect of any particular case.

Q But isn't it true that there were only three after the first quarter, so that one would have a pretty big impact when we're looking at this -- this number that we're looking for for the second quarter of 2015?

A Sure. And that's why I mentioned a minute ago, if you were to look at this data over time on a case-by-case basis, you find that the trend is insignificant; and if you were to assume a June date, you would probably be a little bit higher than 9.83 percent.

Q And wouldn't you get a more accurate picture of what's going on if you had more data points?

A That's what I just said.

Q Okay.

A We just had more data points --

Q Then we -- you would agree --

A -- announced. Those --

Q -- with me on that?

A Excuse me, let me finish, please. Those more data points, that greater number of data points tell us that there is no significant trend over that time.

MS. ILES: Okay. Thank you.

JUDGE BUSHMANN: Questions by MECG?

MR. WOODSMALL: No questions. Thank you.

JUDGE BUSHMANN: Office of Public Counsel?

MR. OPITZ: No questions. Thank you.

JUDGE BUSHMANN: Commission Staff?

MR. THOMPSON: No, thank you, Judge.

JUDGE BUSHMANN: Redirect again?

MR. ZOBRIST: No further questions.

JUDGE BUSHMANN: Thank you, Mr. Hevert.

THE WITNESS: Thank you.

JUDGE BUSHMANN: You may step down now.

(Witness excused.)

JUDGE BUSHMANN: Thinking it might be a good time for a break. Why don't we take about a 15-minute break.

We'll be in recess until about 10 till 3:00.

(Off the record.)

JUDGE BUSHMANN: Let's go back on the record. I think we're ready for Staff witness.

MR. THOMPSON: Thank you, Judge. Staff calls Zephania Marevangepo.

ZEPHANIA MAREVANGEPO, testifies as follows:

DIRECT EXAMINATION BY MR. THOMPSON:

Q State your name, please.

A Zephania Marevangepo.

Q I wonder if you could spell it for the court reporter.

A Z-E-P-H-A-N-I-A. My last name, M-A-R-E-V-A-N-G-E-P-O.

Q Thank you. And how are you employed?

A Utility regulatory auditor with the Public Service Commission.

Q Okay. And did you prepare or cause to be prepared a contribution to the Staff Revenue Requirement Report, Exhibit 200 HC and NP having to do with the cost of capital?

A Yes, I did.

Q And also Appendix Number 2 to that report?

A Yes, I did.

Q Which contains the schedules; is that correct?

A That's correct.

Q And Rebuttal Testimony that's been marked

Exhibit 227?
A Yes, I did.
Q And Surrebuttal Testimony marked Exhibit 228?
A Yes, I did.
Q And do you have any changes or corrections to those pieces of testimony?
A No, I do not.
MR. THOMPSON: Okay. It's our practice not to offer the report until after the last contributor has testified. I will go ahead and offer the Rebuttal and Surrebuttal, Staff Exhibits 227 and 228.
JUDGE BUSHMANN: Any objections to those exhibits? Hearing none, those two exhibits, 227 and 228, will be received into the record.
(Staff Exhibits 227 and 228 received into evidence.)
MR. THOMPSON: I will tender the witness for cross-examination. Thank you, Judge.
JUDGE BUSHMANN: Cross-examination by Office of Public Counsel.
MR. OPITZ: Thank you, Your Honor.
CROSS-EXAMINATION BY MR. OPITZ:
Q Good afternoon, Mr. Marevangepo.
A Afternoon.
Q On page 10 of your Surrebuttal you state that your

recommended ROE is 9.25 percent and that's based on Staff's conservative estimate of an approximate 25 to 75 basis points decline in the cost of equity since 2012; is that correct?

A That is correct.

Q When you say conservative estimate, do you mean that your analysis shows that the cost of equity has declined more than your recommendation?

A Yes. It could have been higher, up to 1,900 basis points.

Q And that would have reduced the return on equity?

A Yes.

Q Would a return on equity of 9 percent allow the Company to attract capital?

A Yes.

Q Do you agree that the industry authorized return on equity has been steadily declining over the last several years?

A Yes, I agree.

MR. OPITZ: Thank you. No further questions.

JUDGE BUSHMANN: MIEC?

MS. ILES: No questions.

JUDGE BUSHMANN: MECG?

MR. WOODSMALL: No questions. Thank you.

JUDGE BUSHMANN: U.S. Department of Energy?

MR. TSHIKORORO: No questions, Your Honor. Thank you.

JUDGE BUSHMANN: Brightergy?

Missouri Division of Energy?

MR. ANTAL: No questions.

JUDGE BUSHMANN: Consumers Council?

Kansas City Power & Light?

CROSS-EXAMINATION BY MR. ZOBRIST:

Q Good afternoon.

A Afternoon.

Q You began your portion of the Staff report by quoting the Supreme Court cases in Bluefield and Hope; isn't that correct?

A That's correct.

Q Okay. And on page 20 you stated that a public utility is entitled to such rates that produce return on the value of property employed for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments and other businesses with corresponding risks and uncertainties; is that correct?

A That's correct.

Q Okay. And the Supreme Court used the word entitled, meaning that this is an entitlement that a public utility deserves from a utility Commission that is determining what ROE should be set; is that a fair statement?

A I guess I don't have an opinion as to the legal language. But I guess I'll leave that up to the attorneys.

Q Okay. But the Supreme Court -- and you quoted it by saying the word entitlement; correct?

A Yes.

Q And apart from a legal definition, this is something that a public utility is entitled to from the Commission when it sets a return on equity; correct?

A That's correct.

Q And is it fair to say that financial soundness is an essential element of fixing the return on equity?

A Yeah, that's the Company -- yes, that's part of it.

Q Okay. Okay. Now, on page 20 you also quoted the Supreme Court in the Hope case, and you state there that financial integrity is a legitimate concern of the investor; correct?

A That's correct.

Q Okay. And you state that it's not -- or you quoted the Supreme Court of saying it's not simply sufficient to have revenue for operating expenses; correct?

A That's correct.

Q Okay. So that's one factor. You -- you -- it's not simply sufficient to just have revenue to pay for operating expenses; correct?

A That's correct.
Q Okay. And then the Supreme Court says that there must be revenue for the capital costs of the utility, including service on the debt and the dividends on the stock; correct?
A That's correct.
Q Okay. So we have capital costs that must be reflected in a return on equity, as well as the service on the debt, the debt cost; correct?
A Yes, that's correct.
Q Okay. Okay. And then the third factor that you site there -- or there a third part of the opinion that you site says that the return should be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain its credit and to attract capital; correct?
A That's correct.
Q Okay. So those three factors, having more revenue -- more than just the bare amount of revenue for operating expense, revenue for the capital costs, and sufficient to ensure confidence in the Company's financial integrity, those are three factors that the Commission has to consider in setting ROE in this case --
A That's correct.
Q -- do you agree?
A Yes, I do.
Q Okay. Okay. Now, on page 57 of the Staff

report -- if you could turn there, please. Are you there, sir?
A Yes, I am.
Q Okay. Toward the bottom of page 57, you say that fairness to ratepayers means rates that are not one penny more than necessary to be fair to the shareholders. That's what you state there; correct?
A What line is that?
Q It's line 25.
A Okay. Yes.
Q Okay. And those are your words; those aren't the words from the Supreme Court, correct?
A That's correct.
Q Okay. And they're not the words of any state court or of any state utility Commission, are they?
A No, they are not.
Q Okay. Now, given the balance that Hope and Bluefield required, would you agree that fairness to shareholders would mean rates charged to customers must not be one penny less than what would be fair to shareholders?
A According to the statement, yes.
Q Okay. Now, the second sentence on page 57 begins with the word fairness. You state, Fairness to shareholders means rates that will produce revenue sufficient to cover KCPL's prudent costs of service, which includes an allowed ROR, which means rate of return; correct?

A That's correct.

Q Okay. And the rate of return has to be consistent with all these factors that we've talked about in the Hope case and in the Bluefield case; correct?

A Yes.

Q Okay. And to achieve those revenues, we look to what revenues are being produced and what returns on equities have been granted to other companies in this business in this general part of the country that are having these corresponding risks; correct?

A That's correct.

Q Okay. Now, to achieve the consistency with these other companies, would you agree that regulatory mechanisms that have been granted to other public utility commissions in Missouri and in this general part of the country should be seriously considered by the Commission?

A I would say they should be considered based on the merits presented before the Commission.

Q Okay. Okay. And are you aware of any authority that says that if this Commission grants Kansas City Power & Light certain regulatory mechanisms, such as a fuel adjustment clause, that it is required to lower the return on equity that it would otherwise grant to the Company, based upon the financial standards that we've talked about?

A I guess let me get the question straight. Are you asking me if that's my opinion?

Q No, I'm asking you if you're aware of any authority that requires the ROE to be decreased by virtue of having those regulatory mechanisms that other public utilities have that bear similar risks and uncertainties?

A No, I'm not aware of any decisions.

Q Okay. And would that also be true through the use of an accounting mechanism known as trackers, that simply because a tracker or a group of trackers are authorized, that doesn't necessarily require the return on equity to be decreased; isn't that true?

A That wouldn't be my opinion.

Q Okay.

A Maybe some other people's opinions, but that wouldn't be my opinion.

Q Well, in -- in the case of this Company, when trackers were granted for -- and when trackers were granted for other post-retirement benefits, did the Commission lower the Company's return on equity?

A I don't recall the Commission lowering the ROE.

Q Okay. Now, I believe that you've presented reports in your Rebuttal that indicate your recognition that the investment community favors what we call generically regulatory mechanisms; is that true?

A I guess -- I guess I have to go back to my

Rebuttal Testimony. Maybe take me to the page.

Q Why don't you start with your Rebuttal Testimony around page 15, sir.

A Yes, I'm there.

Q Okay. Now, you quote a report from Wolfe, W-O-L-F-E, Research that states that Great Plains Energy has historically under earned its allowed ROE by over 150 basis points, primarily due to the structural regulatory lag in Missouri; correct?

A Yes, that's what they reported.

Q Okay. And the report noted that while the lag has been reduced, it, quote, is expected to widen, closed quote, for several reasons, including, and I'm quoting again here, rising transmission costs and property taxes; correct?

A That is correct.

Q Okay. And, again, this is a report that you quote in the Rebuttal that you have presented as Staff's expert witness; correct?

A Yes.

Q Okay. Now, in your Rebuttal on page 14, line 14, you state, The investment community recognizes that the lack of cost recovery options, combined with modest load growth, will create a continued drag on their earnings trajectory over time; correct?

A That is correct.

Q Okay. And when you used the phrase their earnings, you were referring to KCP&L?

A The Company, yes.

Q Okay. And then on page 16, beginning on line 21, you state, Staff acknowledges that the investment community does cite to the lack of various regulatory mechanisms in Missouri when assessing the quality of an investment in GPE's stock; correct?

A Yes.

Q And so all things being equal, sir, if you're an equity investor, you'd prefer to own stock in a public utility with an FAC in trackers then a public utility that was not authorized to use those regulatory mechanisms; correct?

A I don't think I would make a decision just based on that one criteria. I would look at the cash flows and -- I guess most of those mechanisms that are not present today, I guess orders -- I guess are companies that are affecting the stock price. So it depends on what I'm paying for the Company.

Q Well, all things being equal, if there's an equity investor out there who wants to invest in the public utility sector, he or she would be more likely to want to invest in a public utility that has these regulatory mechanisms, a fuel adjustment clause and trackers, than one that does not have them; isn't that true?

A It depends.

Q Well, but isn't that what the investment reports that you cite essentially say --

A Yes --

Q -- that all things being equal, if we've got a Company that's got a fuel adjustments clause and trackers and we have one over here does not, I'd rather put my money over there; isn't that true?

A In this case not everything is equal. In this case those analysts they cited that the GPE stock price is selling at a discounted price --

Q Well, that --

A -- because of those issues.

Q Pardon me. But one of the GPE companies has a fuel adjustment clause; right?

A Yes.

Q And one of them does not; correct?

A That's correct.

Q And the one in this rate case does not have one; correct?

A That is correct.

Q Okay. Okay. Now, you talked -- you talked on page 14 of your Rebuttal about the regulatory mechanisms that KCPL did have during what we call the comprehensive energy plan; correct?

A What -- what line are we?

Q It's sort of generally on page 14. You talked about the temporary credit support mechanisms that ended in 2011. This is on page 7. And then you talked about that again on line 13. Do you see that, sir?

A Page 14?

Q Page 14 of your Rebuttal.

A Yes, I see that.

Q Okay. So the regulatory mechanisms that came out of the stipulation and agreement entered into back in I think it's 2005, all those ended in 2011; correct?

A That's not my position. That's what Mr. Ives said. I was just citing what Mr. Ives stated in his testimony. But as to the benefits of what it was agreed upon at the time, that's something that will be addressed by other expert witnesses. But --

Q I understand that. I'm just trying to get the timeline down. Those regulatory mechanisms ended in 2011, correct, or don't you know?

A I guess that's something that is subject to verification. I was just citing what Mr. Ives said.

Q Okay. But do you have any basis to disagree with what Mr. Ives said, that they all stopped in 2011?

A No. No, I don't.

Q You don't. Okay. Okay. And then you went on later in your Rebuttal, around pages 23 and 25, to -- pardon

me, I think I've got the wrong page here. Well, do you remember speaking with (sic) management's ability to manage its costs and that there were some in the investment community that stated that KCPL might have done a better job in managing its costs? Do you recall that?

A No, I guess maybe you have to take me to the page.

Q Okay. Let me -- this may be in your Surrebuttal. Well, let me just ask this general question: Do you have any opinion that leads to your conclusion that KCPL has not managed its costs properly?

A No, I don't have an opinion.

Q Okay. Okay. And are you aware of the fact that as the regulatory plan was concluding, that the Commission, when it reviewed the costs with regard to Iatan 2 and the improvements to Iatan 1, that there were very few disallowances that occurred in that rate case?

A I remember there were disallowances. I don't know if there were a few or not. But I know --

Q Well, there were no major disallowances in that case; correct?

A I guess I will take your word for it.

Q Okay. Well, do you remember -- have you read that report and order recently that came out in -- it was case number ER-2010-0355?

A For the Ameren?

Q No, no, for Kansas City Power & Light at the end of the -- at the end of the regulatory plan.

A I don't recall the details, but --

Q Well, the Commission was relatively complimentary of the cost containment and the cost management job that the KCP&L did with the Iatan 2 and the Iatan 1 projects; isn't that true?

A I don't recall.

Q Well, do you recall that the -- the disallowances that were recommended by Staff and by the Missouri Retailers Association were denied?

A I don't recall that.

Q Okay. And do you remember that Commissioner Jarrett when he was a member of the Commission, indicated that the job that the Company did with regard to putting on Iatan 1 and Iatan 2 into operation was, quote, an achievement worth noting, closed quote? Do you recall that?

A I don't remember that quote.

Q Okay. Now, in the Staff report on pages 34 and 36, you cite Moody's and the Standard & Poor's ratings; is that correct?

A Yes.

Q Okay. And you state there -- I believe it begins on line 9 on page 35 -- While Staff is estimating cost of equity for KCPL, it is important to understand current credit

profiles for KCPL, Great Plains, and GMO, as their ratings collectively influence the investors' views of the risks associated with investing in KCPL; correct?

A That's correct.

Q Okay. Are you familiar with a report -- do you follow the Moody's reports as they come out on the utility sector and on the companies doing business in Missouri?

A I follow some of them.

Q Okay.

(Company Exhibit 141 marked for identification.)

BY MR. ZOBRIST:

Q Sir, I've handed you what I've marked -- pardon me.

MR. THOMPSON: Thank you. Is this 141?

MR. ZOBRIST: 141.

BY MR. ZOBRIST:

Q Are you familiar with Exhibit 141, which is a Moody's Investor Service Report, prepared March 10, 2015, called A Sector In-Depth Analysis of U.S. Regulated Utilities?

A Yes, I remember reading this report.

Q Okay. Okay. And is it fair to say that you read that report, along with many others, in the course of preparing your testimony in this case?

A Yes.

MR. ZOBRIST: Okay. Judge, I move the admission of Exhibit 141.

JUDGE BUSHMANN: Any objections?

Hearing none, 141 will be received into the record.

(Company Exhibit 141 received into evidence.)

BY MR. ZOBRIST:

Q Now, this report has a headline that says Lower Authorized Equity Returns Will Not Hurt Near-Term Credit Profiles; is that correct?

A That is correct.

Q Okay. And is it fair to say that the opinions in this report are based on what the authors talk about as persistently low interest rates and a comprehensive suite of cost recovery mechanisms?

A Yes, that was pretty much the summary of the report.

Q Okay. And in those two factors, the persistently low interest rates and the comprehensive suite of cost recovery mechanisms, was what Moody's was stating should be reasons why the public -- the investing public, particularly, or the people that are investing in the debt should not be concerned about as far as low ROEs; is that true?

A That is correct.

Q Okay. So if the trends show that interest rates are rising, would that indicate to you, sir, that lower

authorized equity returns might hurt near-term credit profiles?

A I guess it depends. When you say rising, they are rising from what point or -- I guess you have to focus on the, I guess, basis points they say they are rising by, how many basis points; and you have to have a benchmark to see, you know, they are rising from which point.

I guess in our case like we're talking about a relative change from 2012, even though the interest rates are rising, they are not -- they're not as high as they were like in 2012, and we are talking about the interest rates that actually -- I guess the yields that actually are borne by the ratepayers, and we're talking about the debt -- utility debt costs, not just interest rates in general. But we are talking about interest rates on utility bonds. Those ones, they have gone up; but the question is by how much. And --

Q So --

A -- they haven't exceeded the 2012 levels.

Q So it's a matter of degree; the greater the rise in interest rates, the more problematic low ROEs become, as a general proposition; correct?

A That is correct.

Q Okay. And, similarly, if a utility does not have this comprehensive suite of cost recovery mechanisms, again by degrees, that can be make lower ROEs a problem that needs to be addressed; correct?

A To some extent.

Q Now, the report, if you turn to page 2, in the second paragraph, Moody's says across the U.S. we continue to see regulators approving reg -- pardon me, let me start again. Paragraph 2 states, Across the U.S. we continue to see regulators approving mechanisms that allow for more timely recovery of costs, a material credit positive. Did I read that correctly?

A Yes, you did.

Q Okay. And so these mechanisms that are discussed in that second paragraph deal with a variety of structures that can be granted to a utility that, in the opinion of Moody's, make low ROEs relatively acceptable; is that correct?

A Yes.

Q Okay. Now, let's go through those in the second sentence. It says, These mechanisms, which keep utility's business risk profile low compared to most industrial sectors, include -- and the first one is formulaic rate structures. Did you see that?

A Yes.

Q Okay. Now, KCPL does not have a formulaic rate structure; is that correct?

A That is correct.

Q And as far as I know in Missouri, formulaic rate structures have not been authorized; true?

A That's correct.

Q Okay. And the second member of the robust suite here is called special purpose trackers or riders; correct?

A That's correct.

Q Okay. And currently Kansas City Power & Light only has trackers for pension costs and for other post-retirement benefits; is that correct?

A I believe so.

Q Okay. And they're seeking some additional trackers here, but they only have the pension tracker and the OPED tracker; correct?

A That should be correct.

Q Okay. Now, the third mechanism that Moody's talks about is a decoupling program which -- it says which delink volumes from revenues. KCPL doesn't have one of those, does it?

A They do not.

Q Okay. Then the second one says the use of future test years or other preapproval arrangements. And those are either prohibited by law or have not been granted to any public utility in this state by this Commission; true?

A I guess I wouldn't be able to speak to that. I'm not sure about the preaarranged -- preapproved arrangements. I'm not sure about that. For future test years I know for sure that, I guess so --

Q Well, are you familiar with the preapproval process that Kansas entertained with regard to the retrofits at LaCygne.

A Yes, I do (sic).

Q Okay. Okay. And we don't have a -- I mean, I know you're not a lawyer, but we don't have a statute or regulation or even a practice that permits that type of preapproval arrangement; correct?

A I don't believe we do.

Q Okay. Okay. Okay. And Moody's then goes on to say in the next paragraph, A supportive regulatory environment translates into a more transparent and stable financial profile, which in turn results in reasonably unfettered access to capital markets for both debt and equity; correct?

A That's correct.

Q Okay. And so is it fair to say that the opposite is true, that without the robust suite of regulatory mechanisms and without those -- any of those five structures that we talked about, Moody's views a utility's financial profile as being less stable, less secure?

A I guess according to this, I guess, report, that's correct.

Q Okay. And this is report that was issued just a couple of months ago on March 10, 2015; correct?

A Yes, that's correct.

Q Okay. Okay. Now, if you would please turn to page 3.

MR. THOMPSON: Page 3 of what?

THE WITNESS: Page 3 of the --

MR. ZOBRIST: Page 3 of 141. Sorry.

BY MR. ZOBRIST:

Q Now, the final paragraph before the bar chart there that begins, Despite the reduction, Moody's is saying here, Despite ROE reduction in authorized ROEs, U.S. utilities are thankful to their regulators for the robust suite of timely cost recovery mechanisms which allow them to recoup prudently-incurred operating costs; is that correct?

A That's correct.

Q And that would be such costs as for fuel; correct?

A That's correct.

Q And, again, KCPL doesn't have a fuel adjustment clause; true?

A True.

Q Okay. And then it says it would also be good to have regulatory mechanisms that allow them to recoup prudently-incurred operating costs such as some investment expenses; correct?

A Yes.

Q Okay. And KCPL in this case has asked for regulatory mechanisms with regard to Critical Infrastructure

Protection Systems that are mandated by the North American Electric Reliability Corporation; isn't that true?

A That's true.

Q Okay. And at the present time it does not have either a tracker or the ability through a fuel adjustment clause to recover any of those expenses; correct?

A That's my understanding.

Q Okay. Now, if you would turn again on page -- Exhibit 141 -- I'm sorry -- yeah, Exhibit 141 to page 5, below the bar chart, the paragraph begins, Earned ROEs have been relatively flat over the past few years. Do you see that, sir?

A Below the graph? Yes.

Q Yeah. The whole sentence says, Earned ROEs, as reported by utilities and adjusted by Moody's, have been relatively flat over the past few years, despite the decline in authorized ROEs; correct?

A Yes.

Q Okay. And you're aware that the position of KCPL in this case is that its earned ROEs are substantially below its authorized ROEs; correct?

A I'm not sure about the word substantially, because that's an issue that is still subject to debate, and I think we have our expert witnesses to address that. But --

Q Right. But it's the position of the Company that it is substantially under earning its authorized return on

equity; correct?

A Yes, that's the position of the Company.

Q Okay. And you're not sponsoring any evidence that disputes that; other -- other Staff witnesses are addressing that, correct?

A That's correct.

Q Okay. Now Moody's, in the second sentence of that paragraph that I was quoting, says that this means -- and I think what they're saying is, you know, if the earned -- the earned ROEs having been relatively flat, despite the decline in authorized ROEs -- this means utilities are earning closer to their authorized equity returns, which is positive from an equity market valuation perspective; correct?

A Yes.

Q Okay. And so if -- if the evidence in this case -- the substantial -- the competent evidence in this case shows that it is not able to substantially earn close to its authorized ROEs, that would be a negative from an equity market valuation perspective, wouldn't it?

A If the Company can present that case, then that would be correct.

Q Okay. Now, on the final page of this exhibit -- pardon me, not the final page, but it's page 7, and it's actually entitled Appendix Exhibit 7, regarding utilities with the highest earned ROEs ranked by a seven-year average. Do you

see that, sir?

A Yes.

Q Okay. Now, am I correct that Great Plains Energy, Incorporated is not among the companies that is listed on that page?

A That's correct.

Q Okay. Now, sir, if you would turn, please, to your Surrebuttal at page 5, looking at lines 3 and 4, you acknowledge there that there have been recent P/E, price to earnings contractions since January 2015; correct?

A Yes.

Q Okay. So you acknowledge that there have been capital losses in the utility sector; is that true? That's what --

A I guess I wouldn't just say they are capital losses based on this. But I guess it's the contraction in the other P/E valuations.

Q Okay. What do you mean when you say contraction, recent P/E contraction?

A I'm talking about the relative valua -- I guess whenever investors look at companies, these valuation based on the DCF Models and KPM Models. And then there's another simple valuation based on the P/E ratios, and that's a relative valuation of the utilities. So that's -- so they just look at the price of the Company divided by the earnings. So whenever that number is contracting -- I guess in this case, this number was contracting because the price of the stock was coming down.

Q Right, the price is declining. Correct. And as the price of the stock is declined, we are beginning to see just in the last six to four weeks increases in the bond yields for both treasury bonds as well as corporate bonds; correct?

A Yes.

Q Okay. And we are seeing a degree of bond market volatility that we hadn't seen three, four, five months ago; correct?

A Yes.

Q Okay. In reading the financial news, it seems that predictions are relatively unanimous that the Federal Reserve Board is going to raise interest rates in September. Is that your opinion?

A I don't think that's my opinion.

Q Okay. When do you think they're going to raise rates?

A Nobody knows.

Q I understand that. But, you know, we have indices that project, you know, what is going to happen with interest rates, you know, with the stock market, with other things. I mean, isn't is it a fair statement to say that all the projections are -- in fact, Janet Yellen herself, the chair the Federal Reserve Board, has said we're going to -- we're going

to seriously consider raising rates in the -- in the fall?

A I don't remember seeing that specific statement. What I remember hearing from Janet Yellen was that, I guess, the future at this point is unknown. But I guess the key point, I guess, is using whatever tools they can to contain the situation.

Q Okay. Have you read Mr. Hevert's Surrebuttal in this case?

A Yes, I did.

Q Okay. Do you have a copy in front of you?

A No, I do not.

Q Okay. I'm just going to hand you, and I think all counsel have this page, 46 of his Surrebuttal where he has about six or seven bullet points about macroeconomic changes. And I just want to ask you if you agree or disagree with these.

MR. THOMPSON: What page did you say?

MR. ZOBRIST: 47.

MR. THOMPSON: Thank you.

BY MR. ZOBRIST:

Q Now, sir, the first bullet point on line 3 of Mr. Hevert's page 47 of his Surrebuttal states that the 30-year treasury yield increased by 35 basis points, from 2.74 percent to approximately 3.10 percent. Do you agree with that?

A What time frame are we talking about here?

Q Footnote 93 says as of June 3rd, 2015, and the

source is Yahoo Finance that was accessed on that same date.

A As of June the 3th, yes.

Q Pardon me?

A As of June the 3rd, yes, I guess I would accept that.

Q Okay. And that the Moody's BAA utility index increased by 36 basis points, again based on the source of Bloomberg, dated June 2, 2015. Do you agree with that?

A As of June 2nd, yes, I do agree.

Q And on the third bullet point, line 6, it states, Federal Reserve Chair Janet Yellen stated that, quote, It will be appropriate at some point this year to take the initial step to raise the federal funds rate target and begin the process of normalizing monetary policy. And the source apparently is the CME Group, which I think is the Chicago Mercantile Exchange Group out of Chicago. Do you agree with that quote, that that's what you've been reading or you've heard that said or do you disagree with that?

A That is consistent with some of the statements she has been making, yes.

Q Okay. And then on line 9, it states, The implied probability of at least a 25 basis point increase in the federal funds rate by October 2015 was over 85 percent. And the citation there -- whoops, I think I got it wrong. That was the -- that's the CME Group that was accessed on June 3rd. Do

you agree with that statement on line 9 regarding the implied prob --

A Whether it's over 85 percent, I don't agree, because so many sources are saying different things. So I guess you decide to rely on one thing, I guess I would say that's what they said. But other sources are saying something different.

Q Okay. And on line 11 he stated, The reported U.S. trade deficit decreased by 19.20 percent, the sharpest decline in over six years. And that quotes a Wall Street Journal article. Do you have any basis to disagree with that?

A No, I do not.

Q Okay. And the bullet point at line 13, The reported seasonally adjusted annual rate of privately-owned housing starts increased by 20.40 percent over the prior month, quoting a release from the U.S. Census Bureau. Do you have any basis to disagree with that?

A I do not have any basis to disagree with the number. But I guess that's the same message that I've been reading.

Q Okay. And on line 15 he states, The Institute of to Supply Management noted that manufacturing activity continued to expand for May for the 29th consecutive month. Do you have any basis to disagree with that?

A No, I do not.

Q Okay. And, finally, on line 17 he states, The XLU -- in all caps -- a utility exchange traded fund, decreased by over 3 percent, quoting a source at -- the source of Yahoo Finance accessed on June 4. Do you have any basis to disagree with that?

A Again, as of June 4th I agree.

Q Okay. Okay. So all of those trends that Mr. Hevert cited, and I believe that you agreed these are accurate statements, indicate that the economy is improving and that growth in the economy is occurring; is that a fair statement?

A I don't agree that the economy is improving, because if you read -- look at the news today, it will tell you the reason why the ten-year treasuries have came down is because of the weak economy. So these numbers are just moving up and down everyday. So based on what I read today, the economy is not improving.

Q The economy is not improving?

A It's not improving.

Q Really? Where did you read that?

A I guess Yahoo Finance.

Q Yahoo Finance?

A Yea. The reason why it gives, the ten-year treasuries dropped from 2.37 to 2.3. They are focusing on the improved -- to say, I guess, they keep on revising the -- I guess the growth expectations.

Q But the overall trend in treasury yields has undoubtedly been up over the last few months; correct?

A Up and down.

Q Well, and last -- last week it hit 2.47; correct?

A Yes, that's correct.

Q Okay. Okay. Let me move on to your constant growth DCF, if I might. If you look at your Staff report on page 44, you have recommended a growth range of 3.5 percent to 4.5 percent, which led to your ROE recommendation in the constant growth DCF of 7 to 8 percent; is that -- is that correct?

A I did not make a recommendation based on constant stage DCF.

Q Well, I'm looking at line 15 where you say using the growth range -- pardon me, Using the growth rate range Staff established for the constant growth DCF results in a cost of equity estimate of 7 to 8 percent; correct?

A Yes, that's correct.

Q Now, I understand that's not your recommendation, but that's what your -- your model produced?

A Yes, that's correct.

Q And you're presenting this to the Commission, I assume, for them to consider, at least to some extent?

A Not to consider, but to provide the information.

Q All right. All right. So essentially you did this calculation, and you rejected it because you found it to be too low?

A No, I did not reject it because it's too low. It's because, if you look back at our testimony, for all electric utility companies our recommendations are based on multistage DCF. But we have been providing information from constant DCF.

Q Okay. But the 7 to 8 percent is too low; correct? You wouldn't have relied upon this if this was the only model that you would have prepared?

MR. THOMPSON: I'm going to object. That's asked and answered. He earlier said he did not reject it because it was too low.

BY MR. ZOBRIST:

Q So you think it's appropriate?

A 7 to 8 is appropriate.

MR. POSTON: Judge, I'm going to object as well. He's actually asked two questions -- there's been three questions in there. I'm not sure which one he's answering.

MR. ZOBRIST: I'd be glad to start again, Judge.

JUDGE BUSHMANN: Why don't you back up and ask the question again.

BY MR. ZOBRIST:

Q Okay. You've stated that you used a growth rate

range of 3.5 to 4.5 percent, which produced a cost of equity estimate, an ROE of 7 to 8 percent; correct?

A Yes.

Q Okay. But you're not recommending that to the Commission; correct?

A That's correct.

Q Okay. Okay. And I guess you and I have a disagreement. You say it's just provided for information, and I'm saying you wouldn't have recommended because it's too low. Is that our disagreement?

A That's part of the disagreement, yes.

Q Now, are you aware that in KCPL's 2013 rate case the Staff recommendation was based on a growth rate of 5.0 to 5.5 percent growth rate?

A I believe that's correct.

Q Okay. And isn't it true that that was rejected by the Commission in its report and order that it issued in January 2013?

A I believe that's correct.

Q Okay. Okay. Now, on page 44, line 2, you speak a little bit about the growth rate of 5.74 percent to 5.57. I would have reversed it, but do you see where I'm talking about?

A Page 44?

Q It's page 44, line 2.

MR. THOMPSON: No, that can't be right.

THE WITNESS: No.

BY MR. ZOBRIST:

Q Well, let me ask you this: You -- you made some observations with regard to growth rates estimated by analysts of being too high; correct?

A In what context? I don't remember what you're --

Q Well --

A -- talking about.

Q There was an estimate of analyst growth rates of 5.57 to 5.74 percent that -- I believe it's on page 43 at the top, around line 4, that you rejected; is that a fair statement? And you rejected those at the top of page 44 because you said they were highly suspect. So you have to look two places, at the top of page 43 and the top of page 44.

A Okay. Oh, for purposes of using a perpetual growth rate, yes, they were higher than the economy. I --

Q And so -- I'm sorry, did I interrupt you?

A I was saying for purposes of the -- I guess calculating constant DCF results based on here, when a perpetual growth rate of 5.78 it wasn't reasonable because that would mean you'd expect the companies to grow at a rate higher than the economy.

Q Well, essentially you rejected that growth rate, and you said that Staff is relying upon its common sense judgment to come up with what eventually was its range of 9.0

to 9.5 percent; is that a fair statement there? You talk in line 5 about common sense restraints, which Staff has applied in this case.

A Yes, common sense restraints, I guess meaning the fundamentals of the Company against what is actually real.

Q Okay. So you moved on to the multistage DCF; is that a fair statement?

A At which point now? Right now we're still talking about constant --

Q Right. Right. And you are not presenting that except for information purposes --

A Yes.

Q -- because you say I'm going to provide the Commission with my multistage DCF analysis; is that correct?

A That's correct.

Q Okay. And so for that you developed a long-term perpetual growth rate based on the years 1968 to 1999; is that correct?

A That is correct.

Q Okay. And you completely ignore, however, the last 15 years. You stop at 1999, and you don't consider anything from the year 2000 up to the present; correct?

A That is correct.

Q Okay. And so you ignore everything before 1968, and then you ignore everything after 1999; is that true?

A I guess for that first part, yes, that's true.

Q Now, when Mr. Hevert was developing his long-term growth percentage, he used the period from 1929 to 2013; is that correct?

A That is correct.

Q Okay. And you found that not to be adequate, not to be proper, in your opinion; is that a fair statement?

A If you are talking about perpetual growth rate, Mr. Hevert wasn't relying on that time period. He was going backwards --

Q Right.

A -- to --

Q He went backwards and he went forwards; correct?

A For your -- for your GDP he just went backwards.

Q Well, but he went from 1929 to 2013; isn't that true?

A Well, that is -- I think -- I believe that is true.

Q Okay. Okay. Now, if you were to calculate the average ten-year annual growth rates from 1929 to 2014, isn't it true that the growth rate that you came up with, which was 4.40 percent, we would have only -- we would have seen growth rates exceeding that in 68 of the 76 ten-year periods; isn't that true?

A No, I guess if I decide to update my study to

2013, the growth rates would be lower. If we are basing them on the fundamentals of the Company, the actual growth rates that are being experienced by companies, they will be lower. I think I do have work papers that proceed that information for. I guess up to 1990 and up to 2013, I have work papers that show a lower growth rate.

Q Well, essentially all of the models that you ran in this case, the DCFs, the Capital Asset Pricing Model, you were not satisfied with the results that you got, and so you applied a rule of thumb and then a risk premium to come up with Staff's recommendations in this case; isn't that true?

A That is not true. That's not the process.

Q Well, you didn't -- your recommendation of 9.0 to 9.50 with a midpoint of 9.25 does not reflect any of your DCF studies, does it?

A That's -- that's correct.

Q Okay. And so you made a judgment to come before the Commission and say my models are either not reliable or I just don't think that they're appropriate, so you need to follow my rule of thumb, based upon all these other factors that I'm considering, and that's where I come up with my recommendation of 9.25; isn't that a fair statement?

A No, that's not correct.

Q Okay. Let me just ask you a couple of final questions. In your Surrebuttal there is a chart at the

beginning of the testimony, which is on page 3, where you summarize the ROE recommendations by the witnesses in the case. Do you see that, sir, page 3 of your Surrebuttal?

A Yes.

Q Now, you include the ROE recommendation by a witness who is not testifying in this case, Dr. Randall Woolridge; is that correct?

A That's correct.

Q Okay. And his recommendation is 8.55 percent; correct?

A That's correct.

Q Were you aware that he testified in front of this Commission in KCP&L's 2006 rate case?

A No, I'm not.

Q Okay. In that case the Commission set a zone of reasonableness of 200 points, from to 9.37 to 11.37 percent. Dr. Woolridge, who represented the Department of Energy, recommended a 9.0 percent. Were you aware of that?

A No.

Q Were you aware that the Commission said that it will discard it, meaning his recommendation, and find it merits no further discussion because it fell outside the zone of reasonableness?

A No.

MR. ZOBRIST: Okay. That's all I have. Thank you.

JUDGE BUSHMANN: Questions from commissioners? Mr. Chairman.

CHAIR R. KENNEY: Mr. Marevangepo, thank you for being here. I have no questions.

COMMISSIONER KENNEY: No questions.

COMMISSIONER HALL: I have just a few.

QUESTIONS BY COMMISSIONER HALL:

Q Good afternoon.

A Good afternoon.

Q In response to questions from Mr. Zobrist, I believe you said that there was nothing that required or mandated a lower ROE if we were to institute trackers and FAC in this case. And I think the keyword was there was nothing that required it. Is that correct? Did I understand that?

A The question is correct, but I just don't recall that decision being made or that requirement. I guess I don't even know if we have that requirement.

Q Okay. Well, then let me -- let me ask it this way: Do you believe that if the Commission were to institute an FAC and some of the additional trackers sought by KCP&L in this case that it would be appropriate for the Commission to establish a lower ROE?

A If we look at Moody's report that the Company just presented today, it would be appropriate.

Q Can you explain why it would be appropriate?

A According to this report, the way they present it is that if the Company do not have these mechanisms, then they carry more risk and that risk should be compensated somehow. And in this case it would be giving higher ROE. So now if these mechanisms are in place, then the opposition take place; ROE should be reduced whatever basis points that party might agree on.

Q Well, I guess I understand Moody's report, and I'm trying to understand what Staff's position is. Are you saying that Staff agrees with the Moody's analysis as contained in that report on the issue?

A On that issue it was Staff's position that we were not recommending any reduction in ROE if these mechanisms are granted.

COMMISSIONER HALL: Okay. Thank you.

JUDGE BUSHMANN: Questions based on commissioner questions?

OPC?

MR. OPITZ: None, Your Honor.

JUDGE BUSHMANN: MIEC?

MS. ILES: No questions.

JUDGE BUSHMANN: MECG?

Department of Energy?

MR. TSHIKORORO: No questions, Your Honor.

JUDGE BUSHMANN: Brightergy?
Division of Energy?
Consumers Council?
Kansas City Power & Light?
MR. ZOBRIST: No questions.
JUDGE BUSHMANN: Redirect?
MR. THOMPSON: Thank you, Judge.

REDIRECT EXAMINATION BY MR. THOMPSON:

Q I'd like -- I'd like to go back to the question -- the conversation you just had with Commissioner Hall.
A Yes.
Q Okay. And that had to do with whether an ROE adjustment would be appropriate if cost recovery mechanisms were granted. I think -- I think the report talked about a robust suite of cost recovery mechanisms. And KCP&L is, in fact, seeking a robust suite of cost recovery mechanisms in this case; you would agree?
A I would agree.
Q Okay. If you know, is KCP&L seeking a fuel adjustment clause?
A Yes, they are seeking.
Q And is KCP&L seeking several different trackers?
A Yes.
Q Now, would you agree with me that the return required by an investor is a reflection of the risk of the

investment?

A Yes.

Q And would you agree with me that a robust suite of cost recovery mechanisms would reduce the risk of KCP&L as an investment?

A Yes, it would reduce the risk.

Q So wouldn't it follow that the required return would also be reduced?

A It would be reduced in the cost of equity methodologies -- it will be reflected in the cost of -- cost of equity methodologies that we use. So if it's reduced, then I guess at this point -- I mentioned earlier that they do not have these mechanisms they're asking for. And that's the main -- that's the reason for the stock, I guess the reason why it's trading at a discount, as noted by other analysts. So their assumption is that if they get these mechanisms, would be reflected in the stock price of the Company, and then the ultimate result would be it would be reflected in the cost of equity methodologies. So that's the reason why we did not make a specific adjustment.

Q Let me see if I understand you. The stock price is low because they lack a robust suite of cost recovery mechanisms, but if they get such a suite, the stock price would go up; is that what you're saying?

A It wouldn't trade at a discount.

Q When you say trade at a discount --
A That's lower --
Q -- you mean low, don't you?
A Yes.
Q Okay. And so if they get these cost recovery mechanisms, if I understand you correctly, you would expect the stock price to go up --
A Yes.
Q -- that is, to no longer trade at a discount?
A That's correct.
Q And that would be reflected in your cost of equity calculations because they are market based?
A Yes.
Q And so they would capture the change in stock price?
A That is correct.
Q Okay. But are you going to get an opportunity to submit another analysis to the Commission before it makes its decision in this case?
A No.
Q So there would not be an opportunity, would there, for you to redo your analysis using new stock prices, would there?
A We wouldn't have that opportunity.
Q So in the absence of that opportunity, would it be

reasonable or not -- what's your opinion, would it be reasonable to suggest to the Commission that if it were to grant a robust suite of cost recovery mechanisms to KCP&L that it should then adjust the ROE downward?

A Yes. Sitting today, given the situation you presented to me, yes, it would make it -- it would make sense to make the downward adjustment today.

MR. THOMPSON: Thank you very much. No further questions.

JUDGE BUSHMANN: You see may step down.

THE WITNESS: Thank you.

(Witness excused.)

JUDGE BUSHMANN: Next witness is from the Department of Energy.

Can you call your witness, please.

MR. TSHIKORORO: Department of Energy calls to the stand Maureen Reno.

MAUREEN RENO, testifies as follows:

JUDGE BUSHMANN: You may be seated.

You may proceed.

DIRECT EXAMINATION BY MR. TSHIKORORO:

Q Ms. Reno, can you please state your name for the record?

A Maureen Lynn Reno.

Q And what is your business address?

A 19 Hope Hill Road, Derry, New Hampshire.

Q Ms. Reno, did you prepare or did someone under your supervision prepare DOE Exhibits 7000 and 701, the Direct Testimony and Rebuttal Test -- Surrebuttal Testimony of Maureen Reno?

A Yes, I did.

Q Ms. Reno, do you have any corrections to DOE Exhibits 700 or 701?

A No, I do not.

Q If I were to ask you the same questions today that are found in DOE Exhibits 700 and 701, would you answer those questions the same?

A Actually, before we continue with this line of questioning, I would like to make a note to the Commission that, as a result of some corrections or adjustments offered by the utility, I made some alterations to my Rebuttal Testimony.

Q So, Ms. Reno, you're not correcting your testimony at all, but you're just highlighting for the Commission that your Surrebuttal Testimony does have adjustments to the figures that were contained in your Direct Testimony; is that correct?

A That's correct.

Q Okay. Thank you.

MR. TSHIKORORO: Your Honor, we would like to move for admission of DOE Exhibits 700 and 701.

JUDGE BUSHMANN: Any objections?

MR. THOMPSON: Well, Judge, I wonder if I could -- I don't understand the note she gave about changes to her Surrebuttal Testimony. Was she going to go through those changes and present them to us or is --

JUDGE BUSHMANN: My under -- correct me if I'm wrong, Counselor, but my understanding was there were no corrections to be made to the testimonies; is that correct?

MR. TSHIKORORO: That's correct, Your Honor. She was just clarifying that the figures that are in her Direct Testimony were updated by her Surrebuttal Testimony.

JUDGE BUSHMANN: Okay.

MR. THOMPSON: I apologize.

MR. TSHIKORORO: Sorry for the confusion.

JUDGE BUSHMANN: That's okay. I want to make sure everybody's clear.

And I hear no other objections, so I'll receive 700 and 701 into the record.

(U.S. DOE Exhibits 700 and 701 received into evidence.)

MR. TSHIKORORO: Thank you, Your Honor. I now tender Ms. Reno for cross-examination.

JUDGE BUSHMANN: First cross would be Staff.

MR. THOMPSON: Welcome to Missouri, Ms. Reno. I have no questions.

THE WITNESS: Thank you.

JUDGE BUSHMANN: Public Counsel.

CROSS-EXAMINATION BY MR. OPITZ:

Q Good afternoon, Ms. Reno. Do you agree that the industry authorized return on equity has declined over the last several years?

A Yes, I do.

Q Do you agree that capital market costs are lower now than they were in 2012?

A Yes, I do.

MR. OPITZ: That's all I have. Thank you.

JUDGE BUSHMANN: MIEC?

MS. ILES: No questions.

JUDGE BUSHMANN: MECG?

Brightergy?

Division of Energy?

Consumers Council?

Kansas City Power & Light?

MR. ZOBRIST: Just a moment, Judge. I think I disabled my notebook here. There we go.

CROSS-EXAMINATION BY MR. ZOBRIST:

Q Good afternoon. Sorry for the pause there. This is the first time that you've testified before the Commission; is that correct?

A Yes.

Q Okay. And your biography that was presented to

the Commission is accurate and contemporaneous; is that correct?

A Yes.

Q Now, as I understand it, you have not been awarded a Ph.D. in economics from the University of New Hampshire; is that true?

A That's true.

Q You've completed your coursework and your examinations, but not the dissertation?

A That's correct.

Q Okay. So Staff was in error in Mr. Marevangepo's Surrebuttal at page 3 where he listed you as Maureen Reno, Ph.D.; correct?

A Yes. That's unfortunate, though.

Q All right. All right. Well, it's a great honor. My father was a Ph.D. But I just wanted to clarify. And so you haven't completed your dissertation?

A Correct.

Q All right. Now let's deal with the capital structure issues before we get into return on equity. You opposed the use of the capital structure of KCP&L's parent Company; is that correct?

A Yes.

Q Okay. And all the other witnesses in this case propose to use the parent capital structure, including

Mr. Gorman, Staff, and Mr. Hevert; right?

A That's correct.

Q And we've been using Great Plains Energy's capital structure for both Kansas City Power & Light and for its sister utility, who we call GMO, for at least since the acquisition of GMO's predecessor, which is known as Aquila. You're aware of that, are you not?

A Yes, I'm aware of commissioner precedent.

Q Okay. And in 2013, in the case with this Company, it adopted the parent Company's structure for use for the public utility; correct?

A That's correct.

Q Okay. And you're also aware that the Kansas Corporation Commission has utilized the parent Company's structure for KCPL in past rate cases; is that correct?

A That's correct.

Q Okay. Now, let's turn just briefly to the short-term debt point at all. You propose to include short-term debt in the Company's capital structure again; is that true?

A That's true.

Q And, again, you're the only witness that proposes that; is that correct?

A That's correct.

Q Okay. And all the others simply want to include

long-term debt and the two classes of equity, common stock and preferred stock; correct?

A That's correct.

Q And, in fact, short-term debt has not been included in the capital structure of this Company for many years; isn't that true?

A That's correct.

Q Okay. And it is true that if the Commission were inclined to use short-term debt in the capital structure as well as long-term debt, you have agreed to the corrections that Mr. Hevert proposed in his Rebuttal at pages 65 and 66; correct?

A Yes, and I incorporated those results in my Surrebuttal.

Q Okay. And so just to clarify to the record, as Judge Bushmann was saying when you were introduced to the Commission, it's those corrections and adjustments that are in your Surrebuttal that reflect your recommendation, not the recommendations in your Direct Testimony?

A That's correct.

Q Okay. All right. Now, in your Direct Testimony you emphasize the importance of macroeconomic trends; is that a fair statement?

A Yes.

Q Okay. And this was -- this was in your

introduction to your Direct Testimony?

A Yes.

Q Okay. Do you have Mr. Hevert's Surrebuttal Testimony before you, by any chance?

A Yes, I do.

Q Okay. If you would turn to, I think it's page 44 -- and I'm going to ask the court reporter to retrieve for me that page that I gave Staff's witness, and I want to go through those economic trends. Staff's witness is a gentleman. So -- do you see page 47 of Mr. Hevert's Surrebuttal?

A Yes, I do.

Q Okay. Do you agree that the 30-year treasury yield has increased over 35 basis points, from 2.74 to approximately 3.10 percent, in the last couple of months?

A Yes, I do.

Q Okay. Now, I don't need to repeat these for the commissioners. They heard me go through this in detail with Staff. Are there any of the bullet points here that you disagree with, that you think that they are either miscited or this is a trend that is not occurring?

A No, I do not disagree.

Q Okay. Well, isn't it fair to say that, contrary to your testimony just a few minutes ago where you said that capital costs are not increasing, at least in the past few months aren't we seeing indications that capital costs are

increasing; that they're not declining, they're increasing?

A Well, what -- what we see here are corrections in the market and corrections from very low interest rates, corrections from an unstable economy. And so we still haven't moved from that low interest rate environment where there are low costs of capital.

Q Well, this Commission has got to set the return on equity for this Company sometime in September. And isn't it correct to say that all the trends are that capital costs are beginning to increase?

A Well, there are -- there are some short-term movements, but we really haven't seen significant movements in that long-term costs.

Q Well, that's right, because we just came out of a bad winter quarter --

A Right.

Q -- that luckily the economic indications are, it wasn't real good but it wasn't as bad as people thought it was, and things are beginning to pick up in the second quarter; correct?

A That's true.

Q And Janet Yellen is telling the world that in September, you know, it will be appropriate at some point to take the initial step to raise the federal funds rate target; correct?

A That's correct.

Q Okay.

A But what we're seeing here is the Federal Reserve is stepping away from expansionary policy. These are -- these are changes to short-term rates. And investors also consider -- in addition to what's going on in the short-term rates, they're also looking at what's going on in long-term rates, and they're making their assessments. And so the short-term variations are different than what investors expect in the long run. As you see in our results, that is my results in the CAP-M and the DCF results, which are also in line with other witnesses before you today.

Q Well, one of the criticism -- criticisms that you have had of Mr. Hevert is that he relies too heavily on analyst growth rates; correct?

A That's correct.

Q Okay. And analyst growth rates are trying to look into the future based upon, you know, contemporary data and recent historical data to say where things are going; correct?

A Well, let me make a clarification. My critique is he relies on one specific analyst growth rates. That is projected earnings growth. And my critique is that investors incorporate other bits of information as well.

Q But what I'm trying to say is that the analyst growth rates that being presented to this Commission, the

projections show that the economy is beginning to take off; and you don't dispute that?

A No, I do not.

Q Okay. And right now you're not prepared to share a particular statement as to what the growth rate is going to be, say, in September or December; but all the indications are, as Mr. Hevert stated in page 47 of his Surrebuttal, that growth is here and that interest rates are very likely to go up?

A Yes, that's true. But what we're looking at is we're looking at short-term changes. And what's key here and as shown in mine and other witnesses' results, particularly the multistage DCF and the Cap-M results, the risk premium results, is that investors are also looking over what's happening or they expect to be happening in the long term.

Q Okay. Well, let me ask you a couple of questions about that. If you can turn to page 27 of your Direct Testimony, you summarize at the bottom of the page 27 the estimated returns on equity for three single-stage DCF analyses and four three-stage DCF analyses; correct?

A Yes.

Q Okay. So if we look at the single stage, you've got an EPS growth rate of 9.0; you have a dividend per share, earning per share, book value per share of 8.31 percent; correct?

A That's correct.

Q And a sustainable growth of 8.20 percent; right?
A Yes.
Q Okay. Now, not one public utility Commission in the whole United States of America has ever granted an ROE to a public utility anywhere near that in recent years; correct?
A That's correct.
Q Even in the depths of the recession, nothing near that; correct?
A That's correct.
Q Okay. Now, let's move to the three-stage DCF. Again, we have the EPS and the DPS/EPS/DVPS, those are in the mid 8s; right? The earnings per share is 8.62 percent; the one with the other three per share variations is 8.45 percent, correct?
A That is correct.
Q Okay. And, again, well below any ROE ever authorized by a Commission in this country; correct?
A Yes, that's true.
Q Okay.
A But may I clarify something?
Q Well, we'll let your lawyer do that. So --
A Okay.
Q -- I'm just trying to set the -- you know, the ballpark here. So the highest one that you have is your earnings per share with 5.5 percent GDP growth rate, and that's

9.18 percent; correct?

A Yes, that's correct.

Q Okay. And then if you use the 5.5 growth rate with your dividend per share/earnings per share/book value per share, we go back down to 9.01 percent; correct?

A Yes. And those numbers, the three-stage DCF with dividends per share, book value per share, and also incorporating earnings per share, you see a lower result because those other alternative growth rate methods are based on consistent projections of growth where you have --

Q Go ahead.

A -- where you have dividends and book value being based on management decisions. And here, you know, I started my analysis look -- first incorporating earnings per share growth, as Mr. Hevert does. And so as a result of those optimistic earnings growth projections, you see the higher returns.

Q Well, to sort of tie this up in a package, you know, you don't like Mr. Hevert's growth projections; but when we use yours, we end up with ROEs that are entirely out of the mainstream of returns on equity that have been authorized by utility commissions in this country, correct?

A Yes, that is correct.

Q Okay. Now, let's talk about the analysts' forecasts. You presented testimony in your Surrebuttal at 8

and 9 where you say, These analysts' forecasts and the growth rates are too high, they're too optimistic; is that correct?

A Yes, that's correct.

Q Okay.

A I'm just trying to find where in my Surrebuttal.

Q It's Surrebuttal pages 8 and 9.

A Okay.

Q And, in fact, you've advised the Commission that they should be -- they should be -- they should be cautious about looking at these kinds of growth rates because the analysts could face potential conflicts of interest. You state that at page 9, lines 11 through 13; correct?

A Well, I summarize a report issued by the Securities & Exchange Commission, which is a warning to analysts that they need to look beyond just earnings per share growth rates; they need to their own due diligence, look at other financial information.

Q Okay. Well, and in that context, you produced as a work paper an article by the folks at McKinsey, the consulting firm; correct?

A That's true as well, yeah.

Q Okay.

A And that report demonstrated that --

MR. ZOBRIST: No pending question, Judge.

JUDGE BUSHMANN: You just need to wait until he asks you a question.

THE WITNESS: Oh, I'm sorry.

(Company Exhibit 142 marked for identification.)

BY MR. ZOBRIST:

Q Now, Ms. Reno, I've handed you what the court reporter has marked as Exhibit 142. Is that the article that you relied upon with regard to cautioning the Commission with regard to analyst growth rates?

A Yes.

Q Now, are you generally familiar with what was known as the Global Settlement of 2003?

A You'll have to elaborate.

Q Well, there's a footnote in the article that you cite here that talks about the Global Settlement of 2003. It's on Footnote 2. It's the last page of the exhibit, which is marked page 17, in the -- from the magazine that this is cited from. Do you see that? It's about two-thirds of the way down, footnote 2, it says, quote, The Global Settlement of 2003 between regulators and ten of the largest U.S. investment firms aim to present conflicts -- prevent conflicts of interest between their analysts and investment businesses. Do you see where I read that?

A Yes, I see that.

Q Okay. So, you know, in the wake of WorldCom and Enron and all that, the SEC started cracking down on the

securities industry, and they had this global settlement that came out in 2003 that began to regulate potential conflicts of interest; correct?

A That's correct.

Q Okay. And are you familiar with SEC's Regulation AC?

A Yes, I am.

Q Okay. And what is Regulation AC?

A To what part are you pertaining?

Q In terms of how it -- well, what does AC stand for?

A I can't recall.

Q Okay. Analyst Certification; does that sound correct?

A Yes, it does.

Q Okay. I'm going to show you not a full copy of an SEC release, because it goes into some other things. I can provide that later on, if anybody wants it. But let me ask you ask you about that.

And this will be Exhibit 142?

COURT REPORTER: 143.

(Company Exhibit 143 marked for identification.)

BY MR. ZOBRIST:

Q Now, Ms. Reno, I've handed you Exhibit 143, which is the Introduction and Summary of Regulation Analyst

Certification that was released by the SEC, effective around April 14th of 2003. Does this generally look familiar to you as relating to that Regulation AC?

A Yes, it does.

Q Okay. And without going into a whole lot of detail, the Regulation AC that the SEC promulgated tells research analysts that they have to certify that the views that they express in their research part are their own views; correct?

A That's correct.

Q And that if they're receiving any compensation that relates to something that might influence their report, they have to disclose it; right?

A That's correct.

Q And then there are also regulations with regard to public appearances, that they have to state will these views are theirs or whether they're being paid by somebody to give a particular opinion; correct?

A That's correct.

Q And as with all the Securities & Exchange regulations, there are consequences if you violate Regulation AC; correct?

A That's correct.

Q And that could mean you'd lose your license; might even mean if you engage in fraud, you could go to jail, right?

A Right.

Q Now, you didn't find in any of the analyst surveys that Mr. Hevert cited, did you, any evidence of conflict of interest?

A I -- I don't recall.

Q Okay. It's not in your testimony; is that fair to say?

A No, it's not.

Q Okay. Now let's turn back to the McKinsey report and the discussion of analyst projections. In Mr. Hevert's schedule he used growth rates provided by Zacks and by First Call and by Value Line; is that correct?

A That's correct.

Q Okay. And the average range that he used, based upon those analysts' growth rates was 5.64 percent; is that correct?

A Is that regard to his GDP growth rate?

Q Right.

A I believe he -- yeah, that number rings a bell.

Q Okay. Now, the -- and, again, you think that's too high; correct?

A Well, to be conservative, I did use a range of GDP growth rates ranging from 4.8 to 5.5. So, yes, his 5.64 would be a little high.

Q Okay. Well, and in truth, although you had one

high point, the majority -- the vast majority, I mean two-thirds, three-quarters of the growth rates that you used had the ROE either in the 8s or at like 9.01 or 9.18, correct, when we get down to the bottom line of what your ROE recommendations were?

A Yeah, but that also includes an upper bound of 9.6.

Q Right. But you had one figure at 9.6, and then all the others were huddled down as --

A And 9.3, my other Cap-M result.

Q Yeah. And then all the others were 9.18, 9.01, and the rest were in the 8s; correct?

A That's correct.

Q Okay. Okay. Now, let me ask you a question about the McKinsey article. I mean, generally speaking, do you -- this was produced to you as a work paper -- produced to us as a work paper; correct?

A That's correct.

Q And you relied upon this in preparing your testimony in this case?

A My Surrebuttal.

Q In your Surrebuttal? And so you consider it authoritative, as far as the subjects that it discusses?

A Yes, it's a report.

Q Well, I mean, did you find anything in it that was

inaccurate?

A No, I did not.

Q Did you find anything in it that you disagreed with?

A No.

Q Okay. Let me turn your attention, if you would, to the last page of Exhibit --

MR. THOMPSON: 142.

BY MR. ZOBRIST:

Q -- 142. Thank you. Do you see Footnote 9 there?

A Yes.

Q Okay. And Footnote 9 relates to some statements that begin on the previous page as far as earnings growth rates; is that generally correct?

A Yes.

Q Okay. And, actually, going back to that previous page of Exhibit 142, it's marked 16 at the top, the article says, you know, analysts have been persistently over optimistic, with estimates ranging from 10 to 12 percent, compared with actual earnings growth of 6 percent. Do you see that at the bottom of the first column?

A I'm not seeing the 6 percent. I'm seeing 5 percent.

Q It's the first column.

A Oh, okay. I was looking at the second column.

Q Right. Yeah, first column. And then in the second column they talk about capital markets being less giddy. And then at the bottom it says, What's more, an actual forward P/E ratio of the S & P 500 as of November 11, 2009 to '14 is consistent with long-term earnings growth of 5 percent; is that correct?

A Yes.

Q Okay. And then it says, This assessment is more reasonable, considering that long-term earnings growth for the market as a whole is unlikely to differ significantly -- significantly from growth in GDP, and then there's Footnote 9; correct?

A That's correct.

Q Okay. And Footnote 9 states, Real GDP averaged 3 to 4 percent over the past seven or eight decades, which would indeed be consistent with nominal growth of 5 to 7 percent, given current inflation of 2 to 3 percent; correct?

A That's correct.

Q Okay. And that is consistent with Mr. Hevert's figures, which were 3.27 percent of real GDP growth and inflation of 2.31 percent; correct?

A That's correct.

MR. ZOBRIST: Okay. Nothing further, Judge.

JUDGE BUSHMANN: Do you intend to offer 142 and 143 into the record.

MR. ZOBRIST: I do, Your Honor. I apologize. Yeah, I offer 142 and 143.

JUDGE BUSHMANN: Any objections?

Hearing none, those will be received into the record.

(Company Exhibits 142 and 143 received into evidence.)

JUDGE BUSHMANN: Any questions from commissioners?

Mr. Chairman?

CHAIR R. KENNEY: No, thanks.

Ms. Reno, thank you for being here.

THE WITNESS: You're welcome.

COMMISSIONER KENNEY: Welcome to Jefferson City. Not an easy place to get here, is it?

THE WITNESS: It was a nice drive from the airport.

COMMISSIONER KENNEY: Thank you. No questions.

QUESTIONS BY COMMISSIONER HALL:

Q Good afternoon. It's my understanding that you are recommending an ROE of 9.0 in this case?

A That's correct.

Q Has any Commission in this country ever granted an ROE at that number that you're aware of?

A Not to my knowledge.

Q Is it safe to say that utilities must compete with

each other for capital?

A Yes.

Q Isn't it relevant that there's no other utility out there with that ROE? Shouldn't -- shouldn't we take that into account?

A Yes, we should. Can I elaborate, though?

Q Sure.

A Oh, okay. I recommend a 9.0, true. But it's also within a range of reasonableness, which is as high as 9.6. And I -- and that also includes, within that range, a recent ruling from this Commission of 9.5. So it's up to the Commission to decide what's best in terms of balancing the interests of the ratepayers and investors in this case.

Q But you're recommending an ROE that's 53 points lower than our recent decision?

A That's correct.

COMMISSIONER HALL: All right. Thank you.

JUDGE BUSHMANN: Recross based on bench questions? Staff?

MR. THOMPSON: Thank you, Judge.

RECROSS-EXAMINATION BY MR. THOMPSON:

Q Following up on what Commissioner Hall was asking you, does it matter what other commissions have been granting to other companies in other cases?

A It does to an extent. It sets up expectations for investors. But what the Commission really needs to keep in mind is what is best for the Company in this case, in the -- in this era of low interest rates, low costs of capital.

Q Would you agree with me that the authorized returns on equity, ROEs, granted by commissions trend upward or downward more slowly than the cost of equity?

A Yes, I would agree.

Q And is there -- in your opinion, is there any danger if commissions look to what other commissions are doing in granting ROEs? Is there a danger of circularity, for example?

A Yes.

Q Now, with respect to the range that you recommended, would an award anywhere within that range be acceptable, in your opinion?

A Yes.

Q So 8.8 would be just as good as 9.6, in your professional opinion?

A Yes, it would.

MR. THOMPSON: No further questions. Thank you.

JUDGE BUSHMANN: Questions by Public Counsel?

MR. OPITZ: No cross, Judge.

JUDGE BUSHMANN: MIEC?

MS. ILES: No questions.

JUDGE BUSHMANN: Consumers Council?

MR. HOFFMAN: No questions.

JUDGE BUSHMANN: Kansas City Power & Light?

MR. ZOBRIST: No questions.

JUDGE BUSHMANN: Redirect?

MR. TSHIKORORO: Thank you, Your Honor.

REDIRECT EXAMINATION BY MR. TSHIKORORO:

Q Ms. Reno, can I direct you back to page 27 of your Direct Testimony?

A Yes, you can.

Q There's a chart there on the bottom of the page that counsel for the Company was asking you about. Are these reasonable results based on current data using reasonable models?

A Yes, they are in that what I did here is, to be reasonable, I did start with looking at and applying Mr. Hevert's methodology of applying earnings growth forecasts. And as a result, for example, with the single-stage DCF, you have 9.0. That is using just the earnings growth forecast. And then, for example, with the single-stage DCF, as I incorporate alternative growth rates, which I'm aware that the Commission has approved in past orders, those numbers fall, reflecting the low cost of capital environment we have today.

And the same holds with my three-stage DCF. I introduce -- again, I start with just using Mr. Hevert's earnings per share forecast, and then I do some more sensitivity runs based on alternative growth rates and find numbers fall.

MR. TSHIKORORO: Thank you, Your Honor. That's all I have.

JUDGE BUSHMANN: All right. That concludes your testimony, Ms. Reno. You may step. Thank you.

THE WITNESS: You're welcome.

(Witness excused.)

JUDGE BUSHMANN: We have one more witness today, and it may -- I anticipate it might take a little while. Why don't we take a short break before we do Mr. Gorman.

We'll be in recess for about ten minutes.

(Off the record.)

JUDGE BUSHMANN: Let's go back on the record.

MICHAEL GORMAN, testifies as follows:

JUDGE BUSHMANN: Please be seated.

You may proceed.

DIRECT EXAMINATION BY MS. ILES:

Q Please state your name for the record.

A Michael Gorman.

Q What is your business address, Mr. Gorman?

A 16630 Swingley Ridge Road, Chesterfield, Missouri.

Q Mr. Gorman, did you prepare Direct, Rebuttal, and Surrebuttal Testimony for this case that's been marked as Exhibits 550, 551, and 552?

A Yes.

Q And I would note for the record that there is an HC and an NP version of your Rebuttal Testimony; is that correct?

A Yes.

Q That's Exhibit 551; correct?

A Yes.

Q Do you have any changes or corrections to your testimony?

A To my Direct Testimony? I have a change to my Rebuttal Testimony.

Q And did you prepare an errata sheet that describes your corrections to that?

A I did, yes.

MS. ILES: Could I please have this marked as an exhibit?

JUDGE BUSHMANN: I think your next -- do you need a number?

MS. ILES: Yes.

JUDGE BUSHMANN: I think your next number is 560.

(MIEC Exhibit 560 marked for identification.)

BY MS. ILES:

Q I've handed you what's been marked as Exhibit 560. Is this the errata sheet you prepared for your Rebuttal Testimony?

A It is.

Q Could you explain to us what the correction is?

A The correction was, to accurately describe Mr. Hevert's testimony in this proceeding, I inadvertent the described part of his multigrowth stage DCF Model from the Ameren Missouri proceeding. So these -- these redlined revisions are errata, correct that testimony.

Q Did you have any other corrections to your testimony?

A I do not.

MS. ILES: Your Honor, I'd like to offer for admission at this time Exhibits 550, 551, 552, and 560.

JUDGE BUSHMANN: Any objections?

Hearing none, they will be received into the record.

(MIEC Exhibits 550, 551, 552, and 560 received into evidence.)

MS. ILES: And also tender the witness for cross.

JUDGE BUSHMANN: And just for my clarification, on 560 it corrects page 15 of which testimony?

MS. ILES: Rebuttal.

JUDGE BUSHMANN: Thank you.

MS. ILES: Both HC and NP.

JUDGE BUSHMANN: First cross would be Public Counsel.

CROSS-EXAMINATION BY MR. OPITZ:

Q Mr. Gorman, you recommend a range of 8.8 percent to 9.4 percent for ROE; correct?

A Yes.

Q Now, even though you recommend a return on equity of 9.1 percent, any number within that range would be a fair and reasonable estimate for the current market cost of capital for KCPL; correct?

A Yes.

Q Would any number in that range allow the Company to attract capital?

A In this marketplace, I believe it would, yes.

Q Do you agree that capital market costs are lower now than in KCPL's last rate case?

A Yes, I believe there's strong evidence of that, yes. It's my belief it is.

Q And turning to your Surrebuttal, you offered testimony about regulatory mechanisms that reduce cost recovery risk; correct?

A Yes.

Q Do you believe that a fuel adjustment clause reduces risk to a Company?

A Well, it certainly shifts risk. The implementation of fuel adjustment clause in terms of whether or not it can lower the risk to the utility, requires a detailed assessment of whether or not the utility could control or manage fuel risk without a fuel adjustment clause in a manner that's consistent with its abilities to fully recover its cost of fuel with a fuel adjustment clause.

So, in other words, fuel risk can be managed without a fuel adjustment clause. But what is significant about a fuel adjustment mechanism is that it reduces the utility's incentive to manage fuel risk because it no longer takes fuel risk; it simply passes its few costs on to retail customers, and they in turn assume most of the fuel risk at that point.

So I think it's -- it's a little more complicated question to me. But it certainly does shift the risk of recovering fuel costs from investors to customers by implementing a fuel adjustment clause.

Q If the Commission authorized a fuel adjustment clause, would your ROE recommendation remain the same?

A In this case I believe a shift in -- or implement -- implementing fuel adjust -- pardon me. Implementing regulatory mechanisms in this case that reduce the Company's risk going forward will result in a different assessment of the Company's risk than what I used in my study. So my return on equity recommendation reflects the Company's risk -- investment risk as it exists right now.

If regulatory mechanisms reduce that risk going forward, then an adjustment to my recommended rate of return would be appropriate, because my recommended rate of return reflects the risk that exists today. If the regulatory mechanisms, again, lower those risks, then a reduced return on equity would be appropriate to recognize the risk reduction created by the implementation of new regulatory mechanisms.

Q If the Commission does not authorize the use of any alternative regulatory mechanisms, would that change your recommendation for the return on equity for the Company?

A If the existing regulatory mechanisms remain in place, then my recommended return on equity and range would be appropriate and provide fair compensation for that level of investment risk.

MR. OPITZ: That's all I have. Thank you.

JUDGE BUSHMANN: Questions by Staff?

MR. THOMPSON: Thank you.

CROSS-EXAMINATION BY MR. THOMPSON:

Q I was listening carefully to the questions and answers between you and Mr. Opitz. If a fuel adjustment clause is granted in this case as the Company has requested, in your opinion would that change the parameters of the analysis that you conducted?

A It wouldn't change my analysis, because my analysis was based on publicly-available indicators of investment risk for KCP&L and the proxy group that reasonably -- is reasonably comparable to KCP&L's investment risk. So my return on equity, again, is based on current observable risk indicators and market cost of capital for that level of risk.

But to the extent the Commission approves new regulatory mechanisms which change risk going forward, then an external adjustment to my recommended return on equity would be appropriate, because KCP&L's risk would be reduced going forward relative to the time I did my study.

Q Well, would a fuel adjustment clause be a regulatory mechanism that would change risk going forward?

A If it's designed to shift fuel cost recovery risks from the Company to customers, then I think it would reduce operating risk, yes.

Q In that case would you have to do a new analysis to determine what an appropriate ROE would be?

A I don't think you could reasonably and accurately capture the change in risk created by implementing new regulatory mechanisms until those regulatory mechanisms are in effect for some period of time that allows market participants to understand the regulatory mechanisms and the impact on the utility.

So within this rate case I think the best the Commission can do is to use its independent discretion to recognize that risk reduction that will take place and, in effect, with the regulatory mechanism, it likely will shift the risk to customers from the Company and, therefore, require a judgmental determination of where within my recommended range a fair return on equity would be.

Q Let me ask you a hypothetical question. Let's say the Commission decided to implement an FAC for KCP&L that is identical in all respects to the FAC that Ameren Missouri has. Now, you have testified, have you not, in the last several Ameren Missouri rate cases?

A I have, yes.

Q And with respect to Ameren Missouri, the change in cost recovery before and after the implementation of the FAC is observable; it's historical, correct?

A It's part of the risk metrics of the Company, yes, after it's implemented and then the market can see how it actually works, yes.

Q So would -- if the Commission implemented an identical FAC for KCP&L, could the historical case of Ameren Missouri provide guidance as to how KCPL's risk of not recovering all of its costs would thereby be changed?

MR. ZOBRIST: Objection, I believe it's an incomplete and inaccurate hypothetical question.

JUDGE BUSHMANN: In what respect?

MR. ZOBRIST: Well, to the extent that you're basing it on a different Company, holding Company that has got different subsidiaries, different operations, different service territory, different load growth than this Company does. I don't believe you can compare apples and oranges, and so I object that it's an incomplete and inaccurate hypothetical and lacks foundation.

JUDGE BUSHMANN: I'll overrule since the question was whether or not the witness believes he can do that. So I'll overrule the question -- the objection.

You want to ask your question again, if you can.

MR. THOMPSON: Could you read it back? Or do you remember?

THE WITNESS: I think I understand the question.

JUDGE BUSHMANN: All right.

THE WITNESS: Essentially can you use Ameren Missouri as a benchmark to determine what their impact on KCP&L's investment risk would be if you implemented a fuel adjustment clause similar -- similar to Ameren Missouri.

BY MR. THOMPSON:

Q That's correct.

A And I think that's one piece of the puzzle that you can look at. But another important piece is the actual fuel risk difference between Ameren Missouri and KCP&L, whether or not they're nuclear, coal, gas, fuel, how much is the relative weights of each of those fuels, where a contractual obliga -- or contractual procurement for those fuel types, all of that, I think, is necessary to get a sense of just how much fuel risk the utility has and whether or not they can manage that risk without a fuel adjustment mechanism, compared to how much risk they are shedding by implementing a fuel adjustment mechanism.

So I think it would be a little more complicated than just implementing regulatory mechanisms that's similar to Ameren Missouri, because that would only be part of the analysis that you would need to in order to get a true understanding what the level of risk is and what the reduction of risk is.

Q Well, then, if the Commission were to implement an FAC for KCP&L and in the absence of the sort of complex study that you're talking about, would it be appropriate for the Commission to move towards the lower end of your proposed range?

A I would recommend the Commission stay within my recommended range to ensure that the return on equity is within -- is a reasonable estimate of the current market cost of equity is for KCP&L. So, yes, I think it should be below the midpoint, but the Commission should exercise its discretion on how close to the low end of the range would be appropriate.

Q So that would be a matter of judgment for the Commission?

A Yes.

MR. THOMPSON: Thank you. No further questions.

JUDGE BUSHMANN: U.S. Department of Energy?

MR. TSHIKORORO: No questions, Your Honor.

JUDGE BUSHMANN: Brightergy?

Division of Energy?

MR. ANTAL: No questions.

JUDGE BUSHMANN: Consumers Council?

MR. HOFFMAN: No questions.

JUDGE BUSHMANN: Kansas City Power & Light?

CROSS-EXAMINATION BY MR. ZOBRIST:

Q Good afternoon, Mr. Gorman.

A Good afternoon.

Q I think you stated in response to some of the questions on -- from other counsel here in the room that the -- that the capital costs are about the same today as they were at the time of KCP&L's last rate case?

A No, I think I stated I think capital costs are lower today.

Q Are lower today?

A Yeah.

Q Okay. Now, would you agree that we're beginning to see changes in capital markets in the United States that have begun over the last just four to six, eight weeks?

A I think there has been movement in volatility in capital market costs over the last four to six weeks that has been comparable to movements in volatility in capital market costs over the last five years.

Q Well, the Federal Reserve Board was not talking about raising interest rates over the last five years; isn't that a fair statement?

A They have hinted at changing interest rates as the economy improves for several years now. There has been positive indications that have -- that the Federal Reserve has relied on to suggest that they're hoping that that will occur this year.

Q Okay. And you just filed testimony last week before the Illinois Commerce Commission in an Ameren Illinois gas case; is that correct?

A Yes.

Q And what was your recommendation for ROE in that gas case?

A I'm embarrassed to say I'd have to double-check, but I think --

Q You know, I've got a copy here, and I'll lead you through it --

A Thank you.

Q -- to see if you disagree with me. Your ROE recommendation in the Ameren Illinois gas case, which is Docket Number 15-0412, was 9.25 percent. Does that sound right?

A It does, yes.

Q Okay. And the recommended range in that case was 9.0 percent from your DCF analysis to 9.5 percent in your CAP-M analysis?

A That sounds correct, yes.

Q And you were presenting Direct Testimony on behalf of the Illinois Industrial Energy Consumers and the Citizens Utility Board?

A Yes.

Q Okay. And I believe that was filed on June 9th, 2015, last Tuesday?

A That sounds correct.

Q Now, does the fact that your ROE recommendation in that case is a little bit higher than in this case and your range is a little bit higher in this case reflect the fact that the economy is beginning to improve and we're seeing growth in the economy?

A Well, no, more specifically I think it reflects the fact that utility bond yields have dropped a little bit. The yields have gone up, and the DCF estimates have gone up a little bit since the time I did my analysis in this case.

Q And is it generally true that returns on equity for gas distribution utilities average below those of vertically-integrated electric utilities like KCP&L?

A For an industry I think that's true. But for Ameren Illinois, the bond rating and investment risk is not that different than the Ameren Missouri's bond rating.

Q Well, as -- as an overall matter with regard to gas distribution companies, is it fair to say that they are viewed as less risky and more stable than vertically-integrated electric utilities?

A Generally speaking, vertically-integrated electric utility companies have more operating risk than do gas companies, particularly those with gas -- purchased gas adjustment clauses.

Q Okay.

A May I correct that? I think I said in my prior Ameren Missouri. What I meant to say was Kansas City Power & Light. So I wanted to get that correction in.

Q Okay. Now, do you have a copy of Mr. Hevert's Surrebuttal Testimony?

A I do.

Q Okay. Would you turn to page 47? That's the list of about eight bullet points with regard to changes in the economy that I've gone through with the Staff expert and with the DOE expert. Have you had a chance to review those, sir?

A I have, yes.

Q Do you generally agree that those are accurate statements in terms of some of the economic developments that we're seeing at this time?

A I agree that over the referenced time period, which has been up to through January to April of this year, that treasury bond yields did increase in line with what he represented.

I'm not confident that his representation of an increase in BAA utility bond yields have increased by 36 basis points. I would have to check that.

Federal Reserve Chairman Yellen has stated that and continues to state, as did the previous fed chairman, Bernanke, that they will increase interest rates once the economy gets stronger, that that is Federal Reserve policy, and that the action taken by the fed likely will be reflected in a change in the federal funds rate.

Q How about October 2015, on line 10, the 85 percent probability?

A I am not familiar -- I did not verify that --

Q Okay.

A -- that statement.

Q Why don't I go through this. It might be easier for the court reporter. The next bullet point is that the U.S. trade deficit decreased by 19.20 percent, the sharpest decline in over six years?

A I can't confirm the numbers, but it is my understanding that the U.S. trade deficit has decreased.

Q Then the next point, reported seasonally-adjusted annual rate of privately-owned housing starts increased by

20.4 percent over the prior month?

A Yeah, that -- I can't verify the number, but it is my understanding that housing starts have improved.

Q And the next point, that the Institute to Supply Management noted that manufacturing activity continued to expand in May for the 29th consecutive month?

A I'm not familiar with is that quote, but it is my understanding that industrial production is up.

Q Okay. And then the utility exchange traded fund XLU, that it decreased by 3 percent?

A Well, utility prices have come down more recently. I'm not sure what time period he's referencing there.

Q Okay. But they have decreased; correct?

A They have.

Q And that's consistent, for example, with Staff's observation that we -- we've seen that price-to-earnings ratios in the utility segment are decreasing?

A Well, specifically in the Ameren Illinois testimony we just went over, the reason my recommended return was a little bit higher is largely because of the decline in stock prices, which cause the DCF estimates to be a little higher in that case than they were in this case. Consequently, the low end of my recommended range was a little higher there than it is here.

Q Okay. Let me ask you to turn, if you would,

please, sir, to your Surrebuttal, and Schedule MPG-SR-1.

A I'm there.

Q Now, you have quoted a series of cases, either all cases or litigated cases, with regard to vertically-integrated utilities and all electric utilities, as far as rate cases in either 2014 or the first quarter of 2015; is that true?

A Yes.

Q Okay. And you haven't provided any statistics on the second quarter of 2015, but we have them from the first quarter of 2015 and then all the 2014; is that correct?

A Well, the second quarter of 2015 isn't complete yet, so that document's not yet available. But what I -- I presented here was the RRA quarterly reports based on the quarters that have been completed.

Q Okay. Now, let's start with last year's rates, which I believe are pages 3 and 4. You indicated that the average return on equity for litigated electric utility rate cases was 9.63; is that correct?

A Yes.

Q And if we go to vertically-integrated electric utility rate cases, the next page, it's higher; is that correct?

A It's 9.85 percent, yes. But that's largely because of a Wisconsin decision.

Q Okay. And if we include settled cases from the

first column, it goes up to 9.94 percent; correct?

A For vertically-integrated utilities, yes.

Q Okay. And those two numbers are both indicated on page 4 of Schedule MPG-SR-1; is that correct?

A It is.

Q Okay. Now let me ask you a question about page 4 of your Surrebuttal. You were -- Mr. Hevert, in his Rebuttal, described how you arrived at your 9.1 percent recommended rate. And you stated at line 10 of page 4, your Surrebuttal, that he simply concocted the weights. I mean, isn't it simply the fact that he took what you did in terms of averaging two numbers to come up with one of the final two numbers and then taking the other number and simply making a math -- mathematical calculation; that there was no really concoction involved?

A Well, first let me apologize to Mr. Hevert and this Commission for not using more professional language there. But what I intended to say was he did not rely on my testimony in identifying weights I applied to each of my results to produce my 9.1 percent return on equity.

I do not apply specific weights to return on equity findings. Mr. Hevert does not provide specific weights in return on equity. In looking at his entire analysis and me looking at my entire analysis and developing what I believe to be a supportive rate of return finding that the Commission can have confidence in that reasonably represents the current market cost of equity to the utility in that case and that will also support the financial integrity of the utility in that case, it is not a simple mathematical formulation of specific return on equity findings to arrive at what I find to be an appropriate return on equity range in my point estimate. I rely on all my studies, I rely on all the market information considered in my study, I look at all the market information provided in credit reports in the utility's filing, and all of that is used to offer an informed recommendation on where the current market cost of equity is that meets the standards outlined in Hope and Bluefield. It is not a simple determination of applying weights to specific return on equity estimates.

Well, I should have used more professional language, though. I do apologize.

Q Let me ask you this: If you would turn, Mr. Gorman, to your Direct Testimony, on page 33, line 3 -- and this is with regard to your risk premium recommendation -- you state, I propose to provide 75 percent weight to the high end of my risk premium estimates and 25 percent to the low end of my risk premium estimates. So isn't it true that you do apply a weighting process as you go through your analysis?

A As part of the specific information in this risk premium study, it was necessary to take all the risk premium estimates and offer what is a reasonable interpretation of all that data to what the current market cost of equity would be based on a risk premium study.

Risk premiums vary with the changes in perceptions of investment risk between equity and debt securities. I went through a detailed review of factors that help me understand what the market believes the relative risk differential is in this market; and based on that assessment and based on some judgment, I gave more weight to the higher -- the risk premium estimate because of the level of market interest rates. The uncertainty about the level of risk to investors that market interest rates will increase, sooner rather than later, informing what I believe to be a balanced interpretation of all that data.

Q Well, when I look at your low end at 9.21 percent and your high end of 9.56 percent, what I hear you saying is that you applied your judgment, said that 9.21 percent is too low; I can only give that 25 percent weight; and my 9.56, I'm going to give that 75 percent weight, in order to come up with a recommendation that I believe is reasonable?

A That was the end of my analysis, yes.

Q Okay. And, actually, if you took the midpoint of the 25 and the 75, what was 9.385 percent, and you rounded that up to the get to the 9.40; correct?

A Because these numbers are not precise enough to round them off to the one-hundredth decimal point.

Q And a few pages later in your direct, on page 38, is it fair to say that you did a similar pro -- that you went through a similar process where you gave the lower end of your CAP-M a 25 percent weight, that was an 8.27; and the higher end, which was 9.30, you gave that a 75 percent weight; is that correct?

A Well, it is correct. But, again, that's because of all the information considered as part of this analysis, including a lot of these macroeconomic factors that you've been talking about today, all of those were used to apply weights to my risk premium study to try to gauge what a reasonable outlook would be for capital costs when rates determined in this proceeding are in effect.

Q Okay. So when you've come before the Commission in prior cases, you've done the same sort of thing of weighting and even disregarding a model result that you think is too low or too high; correct?

A I wouldn't -- I disagree that I disregarded it. I have found that it is not appropriate for including within my recommended range, based on the information I examined in preparing my testimony.

Q Well, in Kansas City Power & Light Company's last rate case, you told the Commission at page 39 of your Direct Testimony -- and I've got excerpts of that, if you need to have them -- that your recommended range was based on your DCF and

your risk premium analyses, and you disregarded your CAP-M; isn't that correct?

A In that case that is true. But that's when risk-free rates were -- even forecasted risk-free rates were so low that I just wasn't comfortable including that return within my recommended range.

Q Okay. And so in that case, where your DCF showed 9.5 percent and your risk premium was 9.0 percent, you based your recommendation on those parameters; correct?

A That's true. And that's not different than what I've done here on certain return on equity estimates. There are return on equity estimates that are outside of my recommended range.

Q And in the last rate case for KCP&L you disregarded the CAP-M rate because that came in at 8.40 percent; correct?

A I routinely do that in every study and every testimony I file.

Q Now, you and I've been having a discussion about the inverse relationship between interest rates and equity risk premium for at least the last three rate cases. So why is this a problem for you to accept that? Because when we look at Mr. Hevert's -- sorry. I'll rephrase. I'll rephrase. It's getting late in the day here.

Look at Mr. Hevert's graph, if you would. It's

page 83, I think, of his Rebuttal. It's chart 13. And my question is is why -- why do you not accept the argument, the proposition that he and other Company ROE witnesses have said that when -- when equity risk premiums -- when interest rates go down, equity risk premiums go up?

A Because it's more complicated than that. The academic literature is very clear that the equity risk premium will go up when the investment risk of an equity security increases more than the investment risk of a bond investment. Changes in nominal interest rates are one factor that can help describe that difference in investment risk, but it's not the only factor. Consequently, assuming one factor that describes that relationship can produce an accurate estimate or risk premium estimate is -- is an inadequate and incomplete analysis.

Q So is it fair to say you don't dispute the trend; you just -- you have a more complicated analysis and say there are more things at work; but you don't dispute the observations that Mr. Hevert and other experts have made with regard to the relationship of interest rates and equity risk premiums?

A Well, I am disputing that it is always found to be a negative relationship. There are academic studies that found that periods in the '70s where the relationship between interest rates and equity risk premiums were positive, but that was based on the market conditions that existed at that time.

But changes in interest rates certainly are a factor that help describe investment risk of equity securities and debt securities. But the complete assessment of gauging an appropriate equity risk premium is based on an assessment of the differences in the total investment risk, not just the changes in interest rates.

Q Okay. Mr. Gorman, I'm going to show you a chart with regard to your recommendations on return on equity in the last couple of cases and ask you a couple of questions about them.

(Company Exhibit 144 marked for identification.)

BY MR. ZOBRIST:

Q Mr. Gorman, let me show you what the court reporter has marked as Exhibit 144. Let's go through these and just make sure that you and I agree on what's -- what's depicted here. As far as this case at the bottom, is it your recommendation to the Commission, your midpoint 9.1 percent and Staff's 9.25?

A That's my understanding, yes.

Q Okay. And in the recent Ameren case, am I correct that your recommendation was 9.3 percent and Staff was at 9.25 percent?

A I believe that's correct, yes.

Q And in the last KCP&L rate case consolidated with the GMO rate case, you were at 9.3 percent and Staff was at

9.0 percent?

A Subject to check, yes.

Q And then going back to Ameren's 2012 rate case, you were also at 9.3 percent and Staff was at 9.0 percent; is that correct?

A I would have to check, but...

Q Okay. It sounds reasonable?

A I believe I was higher than Staff in those cases, yes.

Q And then in the 2011 Kansas City Power & Light Case, you were at 9.65 percent and Staff was at 9.0. Does that sound correct?

A I would have to check the numbers, but I believe I was higher than Staff in --

Q Now --

A -- that case.

Q -- Commissioner Hall has asked a number of witnesses about trends in here. And we see that Staff has been generally consistent going up a little bit in recent cases, and you have been declining. What is the reason for the decline that we have seen in your ROE testimony in Missouri utility cases, at least as depicted here, over the last four years?

A Changes in capital market costs. Bond yields have gone down. Utility stock prices have gone up. Utility dividend yields have come way down with the increase in stock price. Based on that observable market evidence, market cost of equity for Missouri electric utilities is significantly lower today than it was in 2011.

Q Okay. And do you have an explanation why Staff's recommendations have increased over the last couple of cases?

A I think Staff is capable of answering that question, but I -- I -- as I sit here, I cannot give you an answer.

Q Okay. Okay.

MR. ZOBRIST: Judge I move the admission of Exhibit 144.

JUDGE BUSHMANN: Any objections?

Hearing none, 144 is received.

(Company Exhibit 144 received into evidence.)

BY MR. ZOBRIST:

Q Now, I just have a couple of questions to ask you about fuel adjustment clause in regulatory mechanisms. You cited in your Rebuttal, I believe around pages 3 and 4, the Standard & Poor's report of May 2nd, 2014; is that correct?

A In my Rebuttal? I'm sorry, what page?

Q 3 and 4 of your Rebuttal.

A Yes.

Q Okay. Okay. Do you happen to have a copy of that with you or do you need one?

A I need one, please.

(Company Exhibit 145 marked for identification.)

BY MR. ZOBRIST:

Q Mr. Gorman, does that appear to be the report that you cited in your Rebuttal Testimony?

A Yes.

MR. ZOBRIST: Okay. Judge, I move the admission of Exhibit 145.

JUDGE BUSHMANN: Objections?

Hearing none, it will be received.

(Company Exhibit 145 received into evidence.)

BY MR. ZOBRIST:

Q Okay. Now, is it fair to say that this report recognizes that capital spending will require timely recovery of costs through various rate mechanisms, including base rates and rate surcharges that should strengthen cash flow?

A That's a pretty specific description.

Q Yeah.

A Do you --

Q I'm sorry --

A -- have a reference?

Q -- Mr. Gorman, it's page 4 at the bottom. Sorry. It's under the section entitled Business Risk, and it's the last sentence.

A Yes.

Q Okay. And so it would be true that if the

Commission were to grant Kansas City Power & Light the fuel adjustment clause that would allow for the recovery of fuel purchased power and other expenses, that would be consistent with the views of Standard & Poor's in this report?

A Well, it could result in an upgrade in utility's bond rating, as noted on page 3; that they could raise the ratings if the Company's business profile strengthens, the economic growth in the Company's service territory could strengthen, boost operating cash flows from utility and, thereby, boost business risk profile. It could also raise the ratings if the financial measures strengthen and consistently exceed our base rate fore -- base case forecast, including adjusted FFO to debt, consistent with high-end significant financial risk profile category, and improved financial measures could occur through stronger operating cash flow or greater equity funding in capital investments.

So it is recognized by S & P, as I understand it, what regulatory mechanisms are in effect and what the effect could be on the rating if regulatory mechanisms are modified in a way that strengthens cash flows and makes recovery of costs more predictable.

Q Okay. And if we go to the next section of that report that says Financial Risk Significant, S & P says, Based on our medial volatility financial ratio benchmarks, our assessments of -- our assessment of KCP&L's financial risk

profile is, quote, significant, closed quote; correct?
A Yes.
Q Okay. And the last sentence that begins there and goes over to the next page says, Steady cost recovery through the regulatory process will be required to maintain cash flow measures, including FFO to debt greater than 16 percent on average and CFO to debt in excess of 14 percent, which are both within range for the significant category; is that correct?
A Yes.
Q And CFO means cash from operations -- cash flow from operations?
A Correct.
Q Okay. And FFO is funds from operations; correct?
A It is.
Q Okay. Now, we've been talking about fuel adjustment clauses and trackers. In the fuel adjustment clause there is an after-the-fact prudence review, is there not, of the costs that flow through the fuel adjustment clause?
A In the Ameren fuel adjustment clause or the proposed fuel clause here?
Q Proposed fuel clause here.
A You know, I'm not the witness on the proposed fuel clause here, but it's my understanding there is a prudent review in Ameron's --
Q Okay. Well --

A -- fuel clause.

Q -- without asking you a legal question, I mean, doesn't the statute and the regulations of the Commission contemplate a prudence stage after costs flow through the fuel adjustment clause?

A I would expect it to, because it's my understanding just about all fuel adjustment clauses for utilities include a prudency review.

Q All right. All right. So when a cost flows through, it just isn't ever examined again, in your -- in your experience; it is reexamined to determine if it was prudently incurred by the utility?

A It can be subject to a prudency test, that's correct. But I guess the question within a fuel adjustment clause is the breadth the Commission and the parties have to make that prudency determination, whether or not all the factors that would normally be looked at in determining the fuel cost to the utility that is done in a rate case would be done within a fuel adjustment proceeding such as production costing, ensuring that the plants are operating consistent with the least-cost generation opportunities for the utility, and an adequate review of the fuel contracting --

Q Well, are you --

A -- obligations.

Q Pardon me. Are you aware of anything that limits

this Commission in conducting the kind of prudence review that you just articulated here, investigating all of those facts?

A Well, for nonutility parties, there can be budgetary constraints that don't allow for the same kind of review of it. But I'm not aware of any legal constraint, but there are practical constraints to it.

Q Well, sir, my question was not about the intervenors. My question was about these commissioners and the people that work for them. There is no legal or regulatory or other impediment that you're aware of that limits their ability to conduct an investigation along the lines that you just suggested would be prudent; isn't that true?

A Well, there would be a limit, to the extent they rely on intervenors to provide informed opinions on the prudence of the fuel costs and fuel adjustment proceedings. If intervenors are not capable of funding the detailed review in the fuel adjustment clause proceedings like they would normally do in a base rate case, then the Commission would not have the benefit of that informed testimony.

Q Well, how many Fortunate 500 companies are within the industrial groups here in Missouri?

A They are all relatively large, successful companies. But that doesn't mean that they are willing to fund investigations into fuel adjustment clause proceedings without some limited -- limitations in what they're willing to spend.

Q Okay. Now, Mr. Thompson I think was asking you some questions about whether the Commission, if it were to grant a fuel adjustment clause and perhaps some of the other regulatory mechanisms, if it should trend -- tend to award an ROE toward the lower end of your recommended range. Do you recall that?

A I'm not sure you characterized it correctly, but I -- but as I understood Mr. Thompson's question is, if the Commission were to award the fuel adjustment clause proceeding in -- fuel -- fuel adjustment clause in this proceeding and that fuel adjustment clause would not be reflected in the risk assessment of the Company in this proceeding, would it be appropriate to reward -- adjust a return on equity to reflect that risk reduction. I'm not sure --

Q Right. And what you said is we can't see what effect it's going to have in the future, so it's really better to way and see what kind of effect it has; correct?

A Well, we know it's going to have an effect of changing rates on customers before the next base rate case. So we know there is going to be impacts on customers, immediately upon implementation of that fuel adjustment mechanism. So the question is whether or not an adjustment to the return on equity is balanced, recognizing the benefits to the utility of not assuming the fuel cost recovery risk they otherwise would without the fuel adjustment clause and the burdens of customers by assuming greater price volatility because a fuel adjustment clause is implemented.

Q Now, in the last KCP&L rate case, it was coupled with KCP&L Greater Missouri Operations Company; correct?

A Yes.

Q Okay. And you're aware that KCPL does not have a fuel adjustment clause, but GMO does; correct?

A Correct.

Q Okay. And you didn't recommend a lower ROE for GMO than you did for KCP&L in that case, did you?

A That's because GMO's risk factors, I felt, were adequately reflected what its operating risks are.

Q And you, frankly, didn't even discuss whether GMO should have a lower ROE because it has an FAC; isn't that true?

A And that's consistent with my testimony --

Q No, my question --

A -- here.

Q -- is did you even discuss that issue, whether you should lower the ROE because GMO has an FAC and KCPL didn't? That's my question.

A And my answer is consistent with this testimony. If it's already in effect, then it's already included in the observable risk factors, so there's no need to give it special attention.

Q And you didn't discuss that in your testimony in the last rate case, did you?

A It was not at issue in the last case.

Q But you did not make any comparison between the two utilities because GMO had an FAC and KCPL didn't, did you?

A I don't believe I did at that time. KCP&L wasn't seeking a fuel adjustment clause at that time, and GMO already had one in effect.

MR. ZOBRIST: Okay. Thank you. No further questions, Judge.

JUDGE BUSHMANN: Questions from commissioners?

Mr. Chairman?

CHAIR R. KENNEY: Just a couple.

QUESTIONS BY CHAIR R. KENNEY:

Q Mr. Gorman, how are you?

A Fine. And you?

Q Doing well. Thanks. Good to see you. Just a couple of questions. Have you -- do you typically testify on behalf of industrial consumers?

A Generally, yes.

Q Go ahead.

A I mean, I'm testifying on behalf of Citizen Utility Board in Illinois, and the Office of Public Counsel has retained me at times.

MR. ZOBRIST: Mr. Chairman, I'm sorry, I can't hear you because you're not --

CHAIR R. KENNEY: Sorry.

MR. ZOBRIST: Thank you.

CHAIR R. KENNEY: Sorry about that. My question was if he typically testifies on behalf of industrial consumers?

THE WITNESS: They are generally the client group I will represent. But I have represented smaller consumer groups and federal executive agencies in various proceedings around the country.

BY CHAIR R. KENNEY:

Q Have you represented any utilities on rate of return issues?

A I have represented one utility in a rate of return proceeding in Wyoming, return on equity in another small water -- wastewater utility on a capital structure issue here in Missouri.

Q So 99 percent, though, is on behalf of industrial consumers and --

A Or more.

Q -- ratepayer advocates? Or more?

A Or more, yes.

Q What's your hourly rate?

A $235.

Q And do you charge a different rate to appear here

at the hearing?

A I do not.

CHAIR R. KENNEY: All right. I don't have any other questions. Thank you.

THE WITNESS: Thank you.

QUESTIONS BY COMMISSIONER KENNEY:

Q Hello, Mr. Gorman. How are you?

A Good. And you?

Q Good. I just have a couple minor questions. I know -- I believe last -- on the Ameren case your range was 9.0 to 9.6 with a midpoint of 9.3; is that correct?

A I believe that's correct, yes.

Q Because I was trying to seek a -- I felt Ameren deserved a higher ROE, and I actually quoted you because you had made a statement that -- talking about investors, that they would have -- something about 9.8 percent that an investor would have felt deserved -- felt they deserved an ROE or return on investment about approximately in that rate. But the Commission used a very scientific formula in coming up with a 9.53 ROE, so that really doesn't matter anymore.

But on this case, I had just a couple of questions. Going back to that fuel adjustment charge, now Ameren and KCP&L -- and I'm just using Ameren because you were -- that's fresh in my mind, they are -- they differ -- their fuel costs differ, they have different operations. I

know they both have -- you know, Ameren -- KCP&L has some more wind. Ameren has hydro, and they have their gas. And I know KCP&L's about 78 percent coal. I know Ameren is pretty high. In your ROA -- ROE on that was about -- you know, from -- about two -- 20 basis points higher on both ends; right?

A Yes, but that was almost entirely because of the difference in the market at the time I did the studies.

Q And that's -- when would the study have been done? 10 to 12 weeks difference in time?

A That was -- I think it was late fall of 2014 when I did the Ameren study. And it was, you know, early 2015, probably March time frame, when I did the study for this case.

Q So it might have been four months difference or something. But you -- whatever. So four to six months, three to six months, whatever.

A It was. But, importantly -- and we talked about this in the Ameren case -- is the buildup in utility stock prices was pretty significant at the beginning of 2015 relative to 2014 time period. It has since come back down to -- to levels that we saw in 2014.

Q Getting back to those fuel costs, because that's really how you determine -- that's part of your determination. And like with the FAC, where if Ameren did not have an FAC, would that have affected your ROE range?

A If they didn't have an FAC, then the risk factors

I observed would have reflected the risk of Ameren without an FAC.

Q So -- so most -- could I surmise that the range of your ROE would have been higher for Ameren?

A Potentially.

Q Potentially?

A Yeah. I can't answer that definitively, because a utility can manage fuel costs without an FAC. And to the extent they can manage it, then it may not change their risk to get an FAC.

Q Okay. So if -- so if KCP&L were granted an FAC identical to Ameren's, you can't determine that risk factor on how it would affect their -- them right now and how would affect your -- how you came up with your ROE range?

A It can only be measured with reasonable judgment. In the rate case that Ameren implemented the fuel adjustment mechanism, Ameren's own witness, Dr. Roger Moren, stated that implementing a fuel adjustment mechanism at that time would have justified a 25-basis-point reduction to the return on equity. I agreed with him on that, because that was approximately the difference in a bond rating. And the bond rating gives an indication of greater cost recovery assurance.

Q So I might assume that if -- if KCP&L were granted an FAC identical to Ameren's, we might -- I might say, well, I should look at a quarter -- 25 basis points lower and look

at maybe -- yours is now at 9.1, it might be 9.85 -- or 8.85?

A As long as you stay within my recommended range, I think that would be appropriate.

Q Okay. And then one last question. Mr. Marevangepo and I know Staff counsel when they opened, they said -- I think Mr. Marevangepo said -- I hope I'm not butchering his name too bad -- he said that the Commission would be more than justified in authoring -- authorizing an ROE of 9.53. And Mrs. Reno mentioned that also. But you don't feel that would be appropriate because it's outside of your range?

A It's outside of my range, yes. My --

Q So it wouldn't be an appropriate ROE?

A Based on -- if you want to award a return on equity based on a reasonable estimate of the current market cost of equity for KCP&L in this -- at the time I did my analysis, anything higher than 9.4 would be too -- would be unreasonably high. But 9.53 I think was a reasonable result for Ameren Missouri based on its investment risk. And I -- it's above my recommended range, but I think it was a balanced finding in that case.

COMMISSIONER KENNEY: All right. Thank you.

QUESTIONS BY COMMISSIONER HALL:

Q Good afternoon.

A Good afternoon.

Q On page 5 of your Rebuttal Testimony you make some comments about the benefits of regulatory lag. I was wondering if you could elaborate on that? You say that it creates certain efficiencies and incentives. I'm wondering what those certain efficiencies and incentives are.

A You know, a utility is like every other business. They have to have strong management to come in and oversee operations to ensure that costs are as low as they possibly can, service quality is as high as it -- and reliable as it possibly can. So creating economic incentives for utility management to make sure that they're finding every opportunity to manage costs creates the best environment where utility is managed -- managing costs more aggressively and effic -- and as efficiently as they possibly can.

By eliminating regulatory lag, the management has less incentive to manage costs because they can more quickly adjust prices for changes in costs. That allows the costs not to impact their bottom line, because they simply pass it on to customers.

But with regulatory lag, the utility management will have to find a way to mitigate that increase in cost until they are allowed to change prices, because they want to earn their allowed rate of return. So it creates incentives for management to manage costs as aggressively as possible within the limits of how they're able to adjust prices to reflect cost changes.

Q So would you say that -- that regulatory lag is less appropriate in situations where there are costs that cannot be -- that cannot be contained or managed?

A Yes.

Q They're outside --

A I think that's part of the regulatory balance, and in many instances fuel adjustment mechanisms were awarded because fuel costs are outside of the utility management's control.

Q So if -- so for items that are outside the control of management, you -- you would not be opposed to eliminating or at least reducing regulatory lag as to -- as to those costs?

A If the regulatory mechanism is shown to benefit both investors and customers, I think it's a balanced mechanism.

Q That wasn't really my question. My question was about those costs that are outside of management's control. Does it -- does it make sense in those situations to reduce or eliminate regulatory lag?

A Yes, but let me offer one restriction. If the cost is significant and can significantly limit or impair the utility's ability to earn its authorized return on equity, then a regulatory mechanism which provides the utility a real opportunity to earn its approved rate of return or authorized return on equity generally, I believe, would be a balanced regulatory mechanism.

Q To what extent should the Commission take into account ROEs that have been established by other commissions in other states when -- when establishing an ROE in a -- in a particular case?

A I think it is a point of information that the commissioners should consider.

Q Why is that?

A Because it does give some information as to what the market generally expects in terms of a balanced regulatory decision. I don't think it can guide the ultimate determination of what is a fair and reasonable return on equity, and I say that because the regulatory policies and procedures have to be symmetrical. The market wants to have assurance that if capital market costs increase that the utility's going to be able to adjust its rates to reflect that increase in capital market costs.

If -- if they get the benefit of increasing prices to capture increasing capital market costs, then customers should have the benefit of reduced prices to reflect declines to capital market costs because that's a balanced regulatory proceeding --

Q And then --

A -- mechanism.

Q -- last line of questioning, do you believe that ROE's nationally are trending down?

A I think the evidence is indisputable, from my --

Q Is that --

A -- standpoint.

Q -- over the last year, last five years, last ten years, or all the above?

A You know, if you look at my Schedule MPG-11, you see a very clear decline since at least 2009. In the 2008, 2009 time period, frankly, we're a little precarious because of the finance -- we were in the height of the financial fallout caused by the Lehman Brother and others default. But there is a clear decline in capital market costs over the last ten years, in my judgment, going all the way down to an industry authorized return of 9.76, excluding Virginia utilities, for 2014; and that number comes down, you know, to under 9.7, 9.66 in the first quarter of 2015. So there is a clear and obvious declining trend in authorized returns on equity.

COMMISSIONER HALL: Thank you.

THE WITNESS: Thank you.

JUDGE BUSHMANN: Recross based on Commission questions.

Public Counsel?

MR. OPITZ: No recross.

JUDGE BUSHMANN: Staff?

MR. THOMPSON: No questions. Thank you.

JUDGE BUSHMANN: U.S. Department of Energy?

MR. TSHIKORORO: No questions, Your Honor.

JUDGE BUSHMANN: Consumers Council?

MR. HOFFMAN: No questions.

JUDGE BUSHMANN: KCPL.

MR. ZOBRIST: Just a couple.

RECROSS-EXAMINATION BY MR. ZOBRIST:

Q On Commissioner Hall's last question about trends, do you have Mr. Hevert's Direct Testimony up there?

A Yes.

Q I'm sorry. I'm sorry. Surrebuttal?

A Yes.

Q On page 10 he has a chart number 3 that says, Authorized ROEs for vertically-integrated electric utilities for the past three years. At least for the past three years we haven't seen a discernible trend; isn't that true?

A Based on Mr. Hevert's testimony, I guess he can give that allusion. But if you look at actual litigated findings by regulatory commissions, which is what I presented in response to Mr. Hevert's testimony and as shown in my Surrebuttal Testimony in this case on MPG-SR-1, where the Commission makes a finding on the current market cost of equity, they have been declining over time.

Integrated utilities in particular are impacted by regulatory decisions that don't change the return on equity from what was previously approved. So it gives the -- the sig -- the allusion of the Commission finding that a current market cost of equity, for example, for Wisconsin Electric Power Company in Michigan is 10.2 percent this year where the Commission really didn't adjust rates in a regulatory case --

Q Well, Mr. Gorman --

A -- in that here.

Q -- the allusion is you're only referencing litigated cases, whereas Mr. Hevert is looking at all cases; isn't that a fair point?

A If the question is whether or not the utility commissioners are finding the return on equity to be decreasing over time, based on their interpretation of what the market cost of equity is, then there is a clear and defined downward trend in those findings.

Q Maybe I'm -- maybe I missed my point. What I was trying to say is you are referencing litigated cases; Mr. Hevert is render -- is referencing all cases, whether -- whether it's settlement, whether it's a partial settlement, whether it's fully litigated; correct? You see a trend in the litigated cases; he doesn't see a trend in all the cases as they're coming out, whether they're settled, litigated, or a mixture?

A And I think that's a true statement. So the question is is what question are we trying to answer?

Q I simply wanted to point out the difference between litigated and non, so -- let me ask you one other thing -- one other point. The companies proxy group that you used in this case, isn't it true that the vast majority of those companies do have fuel adjustment clauses?

A Yes.

Q Okay. And is it also true that if a public utility is not earning it's recognized ROT -- let me try again. It's getting late. Isn't it true that if a regulated public utility is not earning its authorized return on equity, regulatory lag is not a good thing; correct?

A Well, it's -- it's not a good result for the utility, but it could mean that utility management needs to work a little harder.

MR. ZOBRIST: Okay. That's all I have, Judge. Thank you.

JUDGE BUSHMANN: Redirect?

MS. ILES: Yes, Your Honor.

REDIRECT EXAMINATION BY MS. ILES:

Q Mr. Gorman, you stated, I think early in cross, that capital costs are lower today than at the time the Commission issued its last order for KCP&L. What do you rely on in making that statement?

A Changes in utility bond yields and -- including treasuries and forecasted levels of treasury bond yields at the time of my last case and in this case.

Q And Mr. Zobrist listed a number of -- had you refer to Mr. Hevert's testimony and a number of factors that he listed concerning recent increases in the cost of capital.

A Correct.

Q I believe one of the things he had you note was a change in treasury bond yields. Do you recall that line of questioning?

A I do.

Q Could you explain to us, given that change, that recent change in treasury bond yields, how would that impact -- how should that impact the determination of ROE in this case?

A Well, I think the change in treasury bond yields were fully reflected in all the rate return witnesses' testimonies. I'm looking at Mr. Hevert's Direct Testimony, his Exhibit RBH-5. At that time the current observable 30-year treasury bond yield was three point -- 3.2 percent. It's now 3.1. So it was higher at the time he did his study.

He also used a projected util -- or treasury bond yield of 3.80 percent. Current yield of 3.1 percent is still 70 basis points below the projected yield he used at the time of his analysis. So treasury bond yields may have increased over the last few months, but they're still lower than the treasury bonds used in Mr. Hevert's analysis.

In my study, current observable treasury bond yields were about 2.7 percent; but I relied on projected treasury bond yields in my study, which were 3.7 percent. So the change in treasury bond yield was expected, it was reflected in my study, and it's still lower than the treasury bond yields I used to produce my recommended return on equity range.

So there's nothing unexpected here. It's all included in everybody's study and fully accounted for. And the increase in treasury bond yields is actually lower than the projected treasury bond yields that many witnesses, including me and Mr. Hevert, used in our studies.

Q Mr. Zobrist also asked you some questions about results that you, I believe his words were, disregarded in your risk premium and CAP-M analyses. So the question I have for you is were the results that you disregarded on the low end of your recommendation or, actually, below your recommended range would be another way to put that?

A Yes. Like Staff there are -- return on equity findings I think are sound methodologies. But for reasons based on a review of market evidence, I did not include those return on equity estimates in forming my recommended range because the return on equity, consistent with the Hope and Bluefield, needs to be a reasonable estimate of what the current market cost of equity is, but it also needs to ensure the financial integrity of the utility. So those are important parameters that I use, and presumably other witnesses in this case have used also, to interpret the entire analysis to form what their recommended return on equity is.

In this case that meant I was not reducing my return on equity down as low as some of my model estimates suggested I could have supported if I would have been comfortable doing that.

Q All right. And then in answer to questions about the FAC and whether implementing an FAC in this case would have an impact on your recommendation, you mentioned that one of the consequences of the implementation of an FAC could be an upgrade in KCP&L's bond rating. Do you recall that testimony?

A Yes.

Q And how would that impact the cost of equity for KCP&L if their bond rating was upgraded?

A If their bond rating was upgraded, their cost of debt would be reduced, because their default risk and their -- would be lower and their cash flows would be stronger in relationships to their financial obligations. In other words, their operating risk would be lower with a fuel adjustment clause than it would be without one. And if that results in improved bond rating, then their cost of capital would also be lower to reflect that reduction in risk.

Q Now, Mr. Zobrist I believe also asked you about

some testimony that you submitted to the Illinois Commerce Commission.

A Yes.

Q And can you tell us, has the Illinois Commerce Commission relied on your recommendation in setting ROEs in utility cases?

A They have relied on my DCF studies in most of the cases I've been involved in. They have a preference for the Staff's Cap-M methodology in awarding their developed range. So they have given weight in many cases to my DCF studies.

Q One other thing I wanted to touch on with respect to when you were talking about average authorized returns on equity, and you mentioned -- you made some comments about the Wisconsin case and how that had an impact on the two hundred and four -- 2014 average for vertically-integrated ROEs. Can you explain how -- how that case impacts that average?

A Well, I think it impacted the '14 and '15. In Wisconsin they have a requirement for biannual rate cases, so they have a rate case every two years. But Wisconsin is also limiting the actions they undertake in order to implement new rates every year. So there have been settlements by all the parties, including the Industrial Group in Wisconsin; and those settlements have often resulted in just carrying forward the return on equity that had been previously approved by the Commission as part of the rate settlement.

The finding by the Industrial Groups in particular is not that that's a fair reflection of the current market cost of equity for the utility; but, rather, it's an indication that the settlement in its entirety was a reasonable resolution of the issues for that rate case. And that's why I think a settled case, in particular those in Wisconsin, should not be viewed as a finding by the Wisconsin Commission of what the current market cost of equity is for the Wisconsin utilities.

Q And, finally, the chairman asked you about your hourly rate, and we also heard testimony earlier today about a budget for this case for Mr. Hevert. Do you have a budget for this case or an hourly estimate?

A I do. Usually it's about $30,000.

Q Okay.

A I'm assuming that's what it is. I would have to check.

MS. ILES: No further questions.

JUDGE BUSHMANN: Thank you, Mr. Gorman. That completes your testimony, sir. You may be excused.

THE WITNESS: Appreciate it.

(Witness excused.)

JUDGE BUSHMANN: That's all the evidence or witnesses that we had scheduled for today. And we'll plan on starting tomorrow at 8:30 a.m. and proceeding with the next set of witnesses.

MR. HACK: Before we leave the record, may I ask just a question about the witnesses I talked to you about earlier today? Bob Bell, Forrest Archibald -- Sierra Club is the only party that filed testimony against our witnesses on the LaCygne Project. They have specifically waived cross of Mr. Bell, Mr. Archibald, and Mr. Ling. Staff has waived of those witnesses. I have not heard from anybody else. I know the commissioners may have questions. But if we can avoid bringing folks in, I'd love to be able to do that.

JUDGE BUSHMANN: They're scheduled for Wednesday --

MR. HACK: For Wednesday.

JUDGE BUSHMANN: -- correct? So tomorrow I'll probably ask before we start. Counsel might think about whether or not they're willing to waive cross and objections to testimony for those three witnesses, Archibald --

MR. HACK: Bell and Ling.

JUDGE BUSHMANN: -- and Ling. So contemplate that. And, Commissioners, we'll see if they have any questions that they would need to ask those three witnesses.

MR. HACK: Appreciate it very much.

JUDGE BUSHMANN: All right. Anything further?

Then we're adjourned for the day.

(The hearing was adjourned until 8:30 a.m. on. June 16, 2015.)

INDEX

INDEX (Continued)

EXHIBIT INDEX

EXHIBIT INDEX (continued)

EXHIBIT INDEX (continued)

EXHIBIT INDEX (continued)

	Marked	Rec'd
KCPL Exhibit 121-HC Supplemental Testimony of Darrin Ives, Highly Confidential	21	
KCPL Exhibit 122 Direct Testimony of James Kiely	21	
KCPL Exhibit 123-NP Surrebuttal Testimony of James Kiely, Nonproprietary	21	
KCPL Exhibit 123-HC Surrebuttal Testimony of James Kiely, Highly Confidential	21	
KCPL Exhibit 124 Direct Testimony of Ronald Klote	21	
KCPL Exhibit 125-NP Rebuttal Testimony of Ronald Klote, Nonproprietary	21	
KCPL Exhibit 125-HC Rebuttal Testimony of Ronald Klote, Highly Confidential	21	
KCPL Exhibit 126 Surrebuttal Testimony of Ronald Klote	21	
KCPL Exhibit 127 Direct Testimony of Paul Ling	21	
KCPL Exhibit 128 Rebuttal Testimony of Paul Ling	21	
KCPL Exhibit 129 Rebuttal Testimony of H. Edwin Overcast	21	
KCPL Exhibit 130 Surrebuttal Testimony of H. Edwin Overcast	21	
KCPL Exhibit 131 Direct Testimony of Christopher Rogers	21	

EXHIBIT INDEX (continued)

EXHIBIT INDEX (continued)

	Marked	Rec'd
KCPL Exhibit 139 Summary of Authorized ROEs from 1st Quarter of 2014 through 2nd Quarter Of 2015	180	181
KCPL Exhibit 140 Data from which Exhibit 139 was developed	181	181
KCPL Exhibit 141 Moody's Investor Service, dated 3/10/15, article titled A Sector In-Dept Analysis Of U.S. Regulated Utilities	202	203
KCPL Exhibit 142 Article relied on by Ms. Reno regarding analyst growth rates	244	251
KCPL Exhibit 143 Introduction and summary of Regulation Analyst Certification released by the SEC	245	251
KCPL Exhibit 144 Chart comparing Mr. Gorman's recommendations On ROEs compared to Staff's	278	280
KCPL Exhibit 145 Standard & Poor's Report, dated 5/2/14	281	281
STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION:		
Staff Exhibit 200-NP Staff Report Revenue Requirement - Cost Of Service, with Appendices 1-3, including Errata filed 4/9/15, Nonproprietary	21	
Staff Exhibit 200-HC Staff Report Revenue Requirement - Cost Of Service, with Appendices 1-3, including Errata filed 4/9/15, Highly Confidential	21	
Staff Exhibit 201 Staff Accounting Schedules	21	

EXHIBIT INDEX (continued)

	Marked	Rec'd
Staff Exhibit 202-NP Staff's Rate Design & Class Cost-of-Service Report, filed 4/21/15, Nonproprietary	21	
Staff Exhibit 202-HC Erratum to Exhibit 202-NP, Highly Confidential	21	
Staff Exhibit 203 Reconciliation filed on 6/10/15	21	
Staff Exhibit 204 Rebuttal Testimony of Alan Bax	21	
Staff Exhibit 205 Surrebuttal Testimony of Alan Bax	21	
Staff Exhibit 206-NP Rebuttal Testimony of Daniel Beck, Nonproprietary	21	
Staff Exhibit 206-HC Rebuttal Testimony of Daniel Beck, Highly Confidential	21	
Staff Exhibit 207 Surrebuttal Testimony of Natelle Dietrich	21	
Staff Exhibit 208-NP Rebuttal Testimony of Dana Eaves, Nonproprietary	21	
Staff Exhibit 208-HC Rebuttal Testimony of Dana Eaves, Highly Confidential	21	
Staff Exhibit 209-NP Surrebuttal Testimony of Dana Eaves, Nonproprietary	21	
Staff Exhibit 209-HC Surrebuttal Testimony of Dana Eaves, Highly Confidential	21	

EXHIBIT INDEX (continued)

EXHIBIT INDEX (continued)

EXHIBIT INDEX (continued)

	Marked	Rec'd
Staff Exhibit 226-NP Surrebuttal Testimony of Keith Majors, Nonproprietary	21	
Staff Exhibit 226-HC Surrebuttal Testimony of Keith Majors, Highly Confidential	21	
Staff Exhibit 227 Rebuttal Testimony of Zephania Marevangepo	21	188
Staff Exhibit 228 Surrebuttal Testimony of Zephania Marevangepo	21	188
Staff Exhibit 229 Rebuttal Testimony of Derick Miles	21	
Staff Exhibit 230 Surrebuttal Testimony of Derick Miles	21	
Staff Exhibit 231 Rebuttal of Joel Molina	21	
Staff Exhibit 232 Rebuttal Testimony of Byron Murray	21	
Staff Exhibit 233 Surrebuttal Testimony of Byron Murray	21	
Staff Exhibit 234 Direct Testimony of Mark Oligschlaeger, filed in Case Number EU-2015-0094	21	
Staff Exhibit 235 Rebuttal Testimony of Mark Oligschlaeger, including Errata filed 5/18/15	21	
Staff Exhibit 236-NP Surrebuttal Testimony of Mark Oligschlaeger, Nonproprietary	21	
Staff Exhibit 236-HC Surrebuttal Testimony of Mark	21	

EXHIBIT INDEX (continued)

EXHIBIT INDEX (continued)

EXHIBIT INDEX (continued)

	Marked	Rec'd
OPC Exhibit 312 Surrebuttal of Ted Robertson	21	
MISSOURI DIVISION OF ENERGY:		
DOE Exhibit 350 Direct Testimony of John Buchanan, Revenue Requirement	21	
DOE Exhibit 351 Surrebuttal Testimony of John Buchanan	21	
DOE Exhibit 352 Rebuttal Testimony of Martin Hyman	21	
DOE Exhibit 353 Surrebuttal Testimony of Martin Hyman	21	
DOE Exhibit 354 Direct Testimony of Jane Lohraff, Rate Design	21	
DOE Exhibit 355 Surrebuttal Testimony of Jane Lohraff	21	
SIERRA CLUB:		
Sierra Club Exhibit 400 Direct Testimony of Tim Woolf	21	
Sierra Club Exhibit 401 Surrebuttal Testimony of Tim Woolf	21	
Sierra Club Exhibit 402-NP Direct Testimony of Rachel Wilson, Nonproprietary	21	
Sierra Club Exhibit 402-HC Direct Testimony of Rachel Wilson, Highly Confidential	21	
Sierra Club Exhibit 403-NP Surrebuttal Testimony of Rachel Wilson, Nonproprietary	21	

EXHIBIT INDEX (continued)

EXHIBIT INDEX (continued)

EXHIBIT INDEX (continued)

	Marked	Rec'd
USDE Exhibit Number 702 Direct Testimony of Michael Schmidt, Rate Design/Class COS	22	
USDE Exhibit Number 703 Rebuttal Testimony of Michael Schmidt, Rate Design/Class COS	22	
USDE Exhibit Number 704 Surrebuttal Testimony of Michael Schmidt, Rate Design/Class CO	22	

CERTIFICATE OF REPORTER

I, Angie D. Threlkeld, a Certified Court Reporter, CCR No. 1382, the officer before whom the foregoing hearing was taken, do hereby certify that the foregoing hearing was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further, that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

Angie D. Threlkeld

Angie D. Threlkeld, CCR

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