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

RONALD D. PRIDGIN, Presiding,
REGULATORY LAW JUDGE

REPORTED BY:

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P R O C E E D I N G S

JUDGE PRIDGIN: All right. Good morning. We're back on the record.

Let me clarify with counsel a roadmap for today. I understand we're first going to be doing space heating discount and/or Trigen issues, and those witnesses would be Mr. Rush from KCP&L, and Mr. Herz from Trigen; is that correct?

MR. WILLIAMS: And Janice Pyatte from Staff.

JUDGE PRIDGIN: Okay. I have Ms. Pyatte crossed off. I believe nobody had questions for her, but...

MR. WILLIAMS: That's fine.

JUDGE PRIDGIN: Okay. And she did ask me before the hearing if she were needed, and she does seem to be available.

And then Mr. Mills, I think you had a witness that you wanted to get on after those two because of scheduling issues?

MR. MILLS: Yeah. Mr. Baudino, our cost of capital witness, is here today. He's available all day today, if need be, but if we can get him done relatively early, he can hopefully get an earlier flight and then start heading home.

JUDGE PRIDGIN: Okay. Mr. Zobrist?

MR. ZOBRIST: All I've got to say is we have Mr. Cline available, and I think he's just going to be tendered for cross I think on the additional amortizations and some brief issues, and he would be the last company witness today.

MR. MILLS: Yeah. And I don't think Mr. Cline will take long. We can certainly do him before Mr. Baudino.

JUDGE PRIDGIN: Okay. So just for a roadmap, at least for now, Mr. Rush from KCP&L will be the first witness. Mr. Herz, second. Mr. Cline, third. Mr. Baudino, fourth. And then to me it looks like we would be going back to cost of capital witnesses. I believe Mr. Barnes was finished. We'd be going on to Ms. Bernsen from Staff, unless parties -- okay. I'm seeing some heads shaking. And that's four or five witnesses deep, so that will take some time, I'm sure.

I think I had already stated for the record, but today, tomorrow, and Thursday we will need to end at four o'clock or so, because the Commission has local public hearings that they're running from here. And for our tech staff to be able to set up and have enough time to test, we'll need to end fairly early. And we may end up ending even earlier any of those days, but I'm just saying we won't go any later, just so folks can make schedules.

Mr. Zobrist?

MR. ZOBRIST: Yeah, Judge, I had one question about Chris Giles. I'm not certain if anybody had any additional questions for him. If not, I'd like for him to be excused. He will be here, but in terms of the schedule, I didn't know if anyone had any additional questions for him on either the additional amortizations or other related cost of capital issues, and I presume he'd be short because he's already been up on the stand a couple of times.

MR. WILLIAMS: I don't.

MR. MILLS: No.

MR. WILLIAMS: Well, I don't know at this point.

JUDGE PRIDGIN: I understand.

MR. WILLIAMS: I can check, but I can't commit.

JUDGE PRIDGIN: Okay. He can check but he can't commit.

Any update on Mr. Cross?

MR. ZOBRIST: I have not heard anything from him. Roger Steiner -- I was detecting a sentiment not to cross-examine Mr. Cross, and I don't know if -- I think Mr. Mills said he was gonna waive cross-examination. I don't remember about any other parties.

MR. MILLS: Yeah, I said I had no cross, and I believe Mr. Thompson on behalf of the Staff pretty clearly said he was willing to waive cross of Mr. Cross, as well.

JUDGE PRIDGIN: I think I recall him saying that, too. So he may not need to --

MR. PHILLIPS: What's his issue?

JUDGE PRIDGIN: Incentive compensation.

MR. PHILLIPS: No, we don't have any questions.

MR. ZOBRIST: Well, if Mr. Steiner gives me a call, is it all right for me to tell him that Mr. Cross can be released, or do we need further --

JUDGE PRIDGIN: I would think so, especially considering he's been in an accident.

MR. ZOBRIST: Right. Because I do understand he was hospitalized overnight.

JUDGE PRIDGIN: Okay. Unless any parties say to the contrary, I see no reason for him to come in.

MR. ZOBRIST: Okay. Thank you, Judge.

JUDGE PRIDGIN: You're welcome. Anything else before Mr. Rush takes the stand?

MR. ZOBRIST: I guess the one housekeeping matter would be if everyone has waived cross-examination of Mr. Cross, we would move his testimony into evidence, which I believe is Exhibit 6.

JUDGE PRIDGIN: Let me clarify that number. That's the number that I have. It's rebuttal NP and HC. Okay. Mr. Zobrist has moved for admission of Exhibit 6. Any objections?

(NO RESPONSE.)

JUDGE PRIDGIN: Okay. Hearing none, Exhibit No. 6 NP and HC is admitted.

(EXHIBIT NO. 6 NP AND HP WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

MR. PHILLIPS: Judge Pridgin?

JUDGE PRIDGIN: Mr. Phillips?

MR. PHILLIPS: I wasn't able to be here Friday or Monday. I was wondering if we had made a commitment to you on when we would have a stipulation relative to rate design.

JUDGE PRIDGIN: I don't think anybody has stated an exact date. Obviously the sooner the better. But I don't think -- I'm certainly not ordering anything because I know you're busy doing other things right now.

MR. WILLIAMS: I expect we'll be circulating a draft today.

JUDGE PRIDGIN: I'm sorry. Mr. Williams will be circulating a draft.

MR. WILLIAMS: Today I anticipate.

JUDGE PRIDGIN: Okay. Very good. Mr. Phillips, thank you. Anything further before Mr. Rush takes the stand?

(NO RESPONSE.)

JUDGE PRIDGIN: Okay. Mr. Rush, if you'll come forward, sir. And one more thing. I do think that Mr. Keevil asked that, for this witness only, if I'm not mistaken, that his cross-examination go last. It's out of the order of cross-examination that Staff filed; that he's asked that his cross-examination of this witness only, if I understand, to be last; is that correct, Mr. Keevil?

MR. KEEVIL: Yes, Judge.

MR. FISCHER: We have no objection.

JUDGE PRIDGIN: Okay. Very good.

And I'm sorry, Mr. Rush. You can have a seat. If you'll bear with me. You've been on -- you were up for true-up and have been sworn; is that correct?

THE WITNESS: That's correct.

JUDGE PRIDGIN: All right. Mr. Rush, you're still under oath.

Any parties -- Mr. Keevil, you wish cross-examination obviously?

MR. KEEVIL: Yes, just briefly, Judge.

JUDGE PRIDGIN: Any other parties have cross for Mr. Rush on this issue?

(NO RESPONSE.)

JUDGE PRIDGIN: Okay. Mr. Keevil, when you're ready, sir.

MR. KEEVIL: Judge, if I could ask you just kind of a clarifying question. There are two issues involved here according -- as set forth in the issue list.

I believe one of them is stated to be should the qualification provision of the existing general service all-electric rate schedules be expanded as proposed by KCPL, and then skipping part of it, to make rate discounts available to existing and future customers who were not all-electric customers. That's one.

And then the other issue is should the

existing general service all-electric rate schedules and separately metered space heating provisions of KCPL standard general service tariffs be eliminated or restricted to customers currently receiving service under those rates.

Is it my understanding we're wrapping both of those together for purposes of cross of Mr. Rush and Mr. Herz?

JUDGE PRIDGIN: Yes, please.

MR. KEEVIL: Okay. Fine. Just wanted to make sure.

JUDGE PRIDGIN: Sure.

MR. KEEVIL: Now, has Mr. Rush's testimony been marked and offered and received or any of that good stuff?

MR. FISCHER: Judge, I think this would be the last issue that Mr. Rush would testify about, so I would move the admission of his direct and rebuttal testimony.

JUDGE PRIDGIN: Let me get that exhibit number.

MR. KEEVIL: I apologize. I wasn't here when Mr. Rush was on the stand for true-up. Were there any corrections that Mr. Rush made to his testimony?

MR. FISCHER: Let's ask him.

DIRECT EXAMINATION BY MR. FISCHER:

Q. Mr. Rush, do you have any corrections on this issue?

A. No.

JUDGE PRIDGIN: And were those exhibit numbers his direct -- No. 21 is rebuttal. No. 22, any objections?

(NO RESPONSE.)

JUDGE PRIDGIN: Hearing none, Exhibits 21 and 22 are admitted.

(EXHIBIT NOS. 21 AND 22 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

CROSS-EXAMINATION BY MR. KEEVIL:

Q. All right. Good morning, Mr. Rush.

A. Good morning.

Q. Now, just as -- by way of background, currently KCPL has three general service categories applicable to commercial and industrial customers, which are denominated as small, medium and large; is that correct?

A. Additionally, we have one called large power, but we have a small, medium and large general service tariff, and then we have a large power tariff.

Q. Right. I was restricting mine to just the general service. So there are three general service?

A. That's correct.

Q. Okay. Now, within each of those three general service categories, KCPL has two general service tariffs, if you will: A standard tariff, standard general service tariff, and an all-electric general service tariff, correct?

A. In general terms, yes, uh-huh.

Q. Now, in this case, KCPL is proposing to change the availability section of the all-electric rates tariff in each of the three general service categories to allow customers who are not all electric but whose, quote, primary heating source, close quote, is electric heat, to qualify for these lower rates, correct?

A. That's correct.

Q. Okay. Now, in addition to changing the availability section of the tariff, the all-electric tariffs in each of the three general service categories would be renamed or relabeled as a space-heating tariff, correct?

A. That's correct.

Q. Okay. Now -- and when I referred to a moment ago as the standard general service tariffs, in each of those standard general service tariffs, KCPL currently already has a rate provision for separately metered space heating, correct?

A. And that's correct also, yes.

Q. Now, if KCPL's proposal to expand the all-electric rates to customers who are not all electric is approved by the Commission, KCPL would then have two different space-heating rates in its tariffs, correct?

A. I'm not sure I follow what you're saying.

Q. Well, you said you currently have the separately metered space-heating provision as part of the standard general service tariff, correct?

A. Yes.

Q. And that would remain if your proposal to make the all-electric tariff a space-heating tariff is approved, correct?

A. Yes. For my clarification, the separate meter space-heating tariff is set up for only space-heating consumption during that winter period, so it is -- basically you would think if you have two meters, you have a general service meter that covers all of your energy consumption, and then you have another meter that is separately established with separate service for that energy consumption. So --

Q. Thank you, Mr. Rush. We can get into this.

A. Okay.

Q. You would have -- let's go back to the question. You would have two space-heating tariffs?

A. We would have one space-heating tariff that is designed for separate -- just the total pure space heating, and then we would have one tariff that's available for space heating in general consumption. So it is two very distinct products.

Q. Now, the difference would be the metering and what usage the discounted rate is applied to, and the amount of the discount, correct?

A. From the company's perspective, right. From the customer's perspective, it's quite different.

Q. Now, you've responded to certain data requests from Trigen throughout the course of this proceeding, correct?

A. Yes, we've had numerous data requests from them.

Q. I think it's like 40. Let me ask you this: Do you agree that KCPL has not measured the potential customer shifts that would result from KCPL's requested change in the availability of what is currently the all-electric rate, and that as a result, billing determinants are not available to project the associated revenue impact?

A. That's correct.

Q. Okay. Do you agree that by broadening the availability of the all-electric rate, load characteristics will change for the overall class?

A. That would be contingent on what types of customers would apply. I mean, you're creating an availability for a new type of service, so there would potentially be changes in load characteristics.

Q. Is that a yes or a no, Mr. Rush?

A. It's uncertain.

(EXHIBIT NO. 703 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

BY MR. KEEVIL:

Q. Okay. Mr. Rush, I've handed you a copy of what's been marked as Exhibit 703. Do you recognize that as KCPL's response to Trigen's data request No. 5?

A. Yes.

Q. Do you see there where it says the -- well, can you just read KCPL's response there, if you would?

A. "This increase in rates will shift

responsibility of costs associated with this service to those customers using this rate. In addition, by broadening the availability of the all-electric (space heat) winter energy charge, load characteristics will slightly change for the overall class, and the increase will reflect a recognition of the change."

MR. KEEVIL: I move for admission of Exhibit 703.

JUDGE PRIDGIN: Any objections?

(NO RESPONSE.)

JUDGE PRIDGIN: Hearing none, 703 is admitted.

(EXHIBIT NO. 703 WAS RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

BY MR. KEEVIL:

Q. Mr. Rush, based on your earlier answer, do you disagree with this response provided in response to DR No. 5?

A. Well, I use the word "slightly," so I guess I would agree that there is a very strong chance that we will slightly see a change in load characteristics, so I would agree with that.

Q. Not contingent or anything; they will change, correct?

A. When customers are added to utilize this service.

Q. Thank you, Mr. Rush.

Do you agree that KCPL has filed no incremental or marginal cost studies or any other cost study in this case to support its proposed expansion of the all-electric tariff?

A. No studies were provided for any of those subjects.

Q. Okay. Thank you.

Do you agree with the following statement? And let me read you a couple of sentences, and tell me if you agree with it: "A cost-of-service study yields important information beyond each class's individual contribution to return. it also provides an indication of costs attributable to customer, energy, and demand components. These are the cornerstones of rate design."

Do you agree with that?

A. Yes.

Q. In fact, that's Ms. Liechti's testimony, is it not?

A. I remember that, yes.

Q. I thought you might recognize that.

Do you agree that KCPL's standard

general -- what I'm referring to -- you understand what I'm referring to as the standard general service tariff, correct?

A. It's the one that is not all-electric.

Q. Not all-electric, right.

Do you agree that KCPL's standard general service tariffs already have seasonal rates with lower rates in the winter than in the summer?

A. Yes.

Q. And the winter -- how is the winter period defined in those tariffs?

A. I can't remember the specific dates, but it seems like it's, like, September 15th through May 15th. Maybe it's October 15th through May 15th. It's an eight-month period of time that's -- winter is split.

Q. Winter's eight months?

A. Yeah.

Q. Right. Okay.

Do you agree that in the cost-of-service study that KCPL filed in this case, the all-electric general service customers, the separately metered space-heating customers, and the standard general service tariff customers were all rolled in together within each of the general service categories of

small, medium and large?
A. Yes, they were. That's what was agreed to in the Regulatory Plan.
Q. Okay. So you didn't break out the electric and the standard. They were all just rolled in together as small, as medium, or as large, correct?
A. Yes.
Q. Okay. Regarding the -- related to that, then, regarding the existing all-electric customers and space-heating customers, do you agree that KCPL did not file, in this case, any incremental or marginal cost studies relating to serving those customers?
A. Consistent with what we did in the residential, which is identical to that where we rolled in the space heating and water heating rates all with the general use rate, no studies were performed. I mean, so --
Q. No studies were performed. Thank you.
A. So it happened in all the categories that had those characteristics.
Q. So the answer is, you do agree that there was no separate incremental or marginal cost studies filed for those customers?

A. As far as if you're talking about a class cost of service --

MR. KEEVIL: Judge, could you instruct the witness to answer? That's a yes or no question.

JUDGE PRIDGIN: Could you ask the question again, please? Was the question, do you agree?

BY MR. KEEVIL:

Q. Do you agree that KCPL, in this case, did not file any incremental or marginal cost studies related to serving its existing all-electric or electric space-heating customers?

A. That would be correct.

Q. Okay.

MR. KEEVIL: I think that's all I have, Judge.

JUDGE PRIDGIN: Mr. Keevil, thank you.

No further cross from counsel, I assume?

(NO RESPONSE.)

JUDGE PRIDGIN: Any questions from the bench? Commissioner Murray?

QUESTIONS BY COMMISSIONER MURRAY:

Q. I have to apologize because I am not really up to speed on this issue yet, but can you tell me what the dollar value here is? Can you estimate that dollar value to Trigen?

A. To Trigen. What I think Trigen is wanting us to do is to stop providing the all-electric tariff and -- or the change in the tariff that's recommended by the company. There would be no increase to Trigen at all.

What it would do, I suspect my -- that it will restrict the tariffs that are available to customers in probably Trigen's area, and ultimately give them an opportunity to serve heating to their -- to customers that are currently Kansas City Power & Light's customers or serve -- I'm not sure I understand. They're trying to restrict it, so I guess it creates a more competitive edge for them to provide heating service to downtown Kansas City.

COMMISSIONER MURRAY: Okay. Thank you.

JUDGE PRIDGIN: All right. I don't have any questions. Any recross based on that?

MR. KEEVIL: No, Judge.

JUDGE PRIDGIN: Okay. Thank you. Redirect?

MR. FISCHER: Just briefly.

REDIRECT EXAMINATION BY MR. FISCHER:

Q. In questioning from Mr. Keevil, he used the term rate discount, I believe, reflecting -- or talking about the all-electric rates?

A. Right.

Q. Do you consider the rate that would be available to these customers to be a rate discount?

A. No, I don't. I know the phrase is used throughout, but this is a cost-type rate. We look at incremental cost. I know that we may have not provided a study specific to this, but we provided all kinds of incremental information that looks at that. The rates were designed in 1996 based on cost of service and rate design principles, and approved by the Commission, so I don't look at it as a discount. It's just the price is the price. It is a lower price than those customers using something -- have a different characteristic for a different end-use product, but it's not a discount.

MR. FISCHER: That's all I have, your Honor.

JUDGE PRIDGIN: All right. Thank you. Does Mr. Rush have any further testimony?

MR. FISCHER: No, your Honor. And I'd move for his admission of his testimony.

MR. KEEVIL: I think it was accepted. Yeah.

JUDGE PRIDGIN: I've got 21 and 22.

We've already got it admitted.

All right, Mr. Rush. Thank you, sir.

THE WITNESS: You bet.

JUDGE PRIDGIN: Mr. Herz, if you're ready, sir.

JOSEPH HERZ testified as follows:

JUDGE PRIDGIN: Thank you, sir. Please have a seat.

Mr. Keevil, anything before he's tendered for cross?

MR. KEEVIL: Yes, Judge. I believe there's one -- one correction to his direct testimony that he wanted to make.

THE WITNESS: Yes. Page 24, line 21, in the middle of that line the words "load factors" should be stricken and replaced with the word "customers."

DIRECT EXAMINATION BY MR. KEEVIL:

Q. Is that all -- that's the only correction you have, correct, Mr. --

A. That's correct.

MR. KEEVIL: Judge, since we've dispensed with all the background questions, with that, then I would offer -- my understanding, Judge, correct me if I'm wrong, his direct has been marked as Exhibit 701, and the surrebuttal is 702.

JUDGE PRIDGIN: Yes, sir, that's correct.

MR. KEEVIL: Okay. I would offer both of those exhibits into evidence and tender the witness for cross.

JUDGE PRIDGIN: All right. Mr. Keevil, thank you. Any objections?

MR. FISCHER: No objection.

JUDGE PRIDGIN: Hearing none, Exhibits 701 and 702 are admitted.

(EXHIBIT NOS. 701 AND 702 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

JUDGE PRIDGIN: Counsel wish to cross? Staff, KCPL, any other parties?

Mr. Williams, when you're ready, sir.

CROSS-EXAMINATION BY MR. WILLIAMS:

Q. I just have a couple of questions. And what I want to get into is the role of your client with regard to KCP&L. Is Trigen-Kansas City Energy Corporation a customer of Kansas City Power & Light that would be affected by general service space-heating rate discounts?

A. I don't know if Trigen -- if your question was I think in part if Trigen is a customer of KCP&L, that I don't know. I suspect that there is some electrical usage at the facility that -- and that Trigen is a customer, but, yes, you know, since the service territory of Trigen and KCP&L overlap, the decisions coming out of this proceeding relating to space heating would -- would affect directly or indirectly Trigen.

Q. Let me ask it this way: Is Trigen's interest in the particular issues dealing with the availability of general service space-heating rate discounts in this case due to Trigen's role as a competitor with KCP&L?

A. I would -- I would believe so.

MR. WILLIAMS: No further questions.

JUDGE PRIDGIN: Mr. Williams, thank you. Mr. Fischer?

CROSS-EXAMINATION BY MR. FISCHER:

Q. Good morning, Mr. Herz. My name is Jim Fischer, and I represent Kansas City Power & Light in this proceeding. Welcome back to Missouri.

A. Thank you.

Q. I just had a couple questions. Has your counsel informed you that all of the cost of service and rate design issues in this case with the exception of those being raised by Trigen have settled with the other parties?

A. Yes.

Q. Okay. Has he also indicated to you that the following parties have indicated an intention to sign or not oppose the stipulation on rate design: The Commission Staff, the Office of Public Counsel, Praxair, the Department of Energy, which I think also represents the federal executive agencies, Wal-Mart, Ford Motor Company, the Missouri Industrial Energy Consumers, City of Kansas City, Missouri, Jackson County, Missouri, AARP, and an individual by the name of Bill Dias?

MR. KEEVIL: Judge, I'm going to object to the extent he's asking what is attorney/client. I mean, he's asking what I advised him, and, frankly, it's irrelevant to this issue anyway. I mean, I don't know where he's going with this.

JUDGE PRIDGIN: Mr. Fischer?

MR. FISCHER: I'll rephrase the question.

BY MR. FISCHER:

Q. Mr. Herz, are you aware that those parties have indicated their willingness to settle the rate design issue?

A. Yes.

Q. Reading your testimony, it appears you've participated in quite a large number of regulatory proceedings in a number of jurisdictions on cost of service and rate design issues; is that correct?

A. That's correct.

Q. In your experience, would you agree that when a large number of consumers, small commercial, large commercial, industrial and governmental representatives, are able to settle a rate design issue in a rate case, that there is generally a fair amount of compromise involved among the parties to settle that case?

MR. KEEVIL: Objection. Again, this is irrelevant. He's talking about the issues that have settled.

MR. FISCHER: Judge, I'm just asking his experience on how -- in rate design issues generally and whether -- and whenever a case is settled, in his experience, whether there's a fair amount of compromise to get that done.

JUDGE PRIDGIN: I guess I'm wondering what the relevance is. I mean, where are you going with this?

MR. FISCHER: Okay. I'll withdraw it

then.

JUDGE PRIDGIN: Okay. Thank you.

BY MR. FISCHER:

Q. On page 3, lines 9 through 10 of your direct testimony, you indicate that Trigen operates a district steam-heating system that primarily serves commercial and industrial customers in the Kansas City, Missouri downtown area; is that correct?

A. Yes.

Q. And on page 3, lines 12 through 13, you state that Trigen's customers are also without exception electric customers of KCPL; is that correct?

A. Yes.

Q. You're not suggesting there that you are here in this proceeding representing any of those commercial and industrial customers in the Kansas City, Missouri downtown area with the exception of Trigen, are you?

A. No, that's correct.

Q. You're in this proceeding representing only Trigen-Kansas City Energy Corporation; isn't that correct?

A. Yes.

Q. Mr. Herz, some of your recommendations to the Commission in this case would actually raise the electric rates to those commercial and industrial customers in the downtown Kansas City area if they were accepted by the Commission; is that correct?

A. If you are referring to the recommendation that the discounted -- excuse me -- the discounted all-electric rates and the separately metered space-heating rate discounts were eliminated, that would be correct. If you're referring to my recommendation that the discounted all-electric rates are -- and the discounted space-heating rates were basically frozen to existing customers, then my answer would be no.

Q. Okay. But would you agree that most, if not all, of your recommendations in this proceeding, if they were accepted by the Commission, would either raise the electric rates to those commercial and industrial customers, or make it more difficult or impossible for them to qualify for space-heating and all-electric rates in the future?

A. The answer would be no with respect to freezing the rates. But if the Commission were to approve the recommendation that the rates be eliminated, then the answer would be yes.

Q. Okay. So would you agree that your role in this proceeding is not to recommend changes to KCPL's rate structure that would necessarily help those commercial and industrial customers in the downtown Kansas City area?

MR. KEEVIL: I'm going to object to that as mischaracterizing the witness's previous testimony.

For one thing, he hasn't even talked about the customers whose rates would go down as a result of Mr. Herz's prefiled testimony, so he's mischaracterizing.

JUDGE PRIDGIN: Mr. Fischer?

MR. FISCHER: Your Honor, if he can answer the question, I'd appreciate an answer. That's not a basis for an objection.

JUDGE PRIDGIN: Could you ask the question again, please?

BY MR. FISCHER:

Q. In your role in this case -- or your role in this proceeding is not to recommend changes to KCPL's rate structure that would necessarily help those commercial and industrial customers in the downtown Kansas City, Missouri area; is that correct?

MR. KEEVIL: And, again, I'm going to object. Are we talking about all commercial and industrial customers, or are we talking about commercial and industrial customers on the specific tariff?

JUDGE PRIDGIN: Mr. Fischer?

MR. FISCHER: I'm talking about any of those commercial and industrial customers in the Kansas City -- downtown Kansas City area.

JUDGE PRIDGIN: I'll overrule and let him answer to the extent that he knows.

And Mr. Herz, do you need that question asked again?

THE WITNESS: Let me try first.

JUDGE PRIDGIN: Okay.

THE WITNESS: And if this doesn't get to the question, perhaps we may need to restate it again.

But I disagree that my recommendations would hurt the commercial and industrial customers in the downtown area.

Number one, if the recommendation that the all-electric rates and the space-heating -- separately metered space-heating rate discounts were eliminated, if that were adopted by this Commission, that would actually help the standard general service commercial and industrial customers in the downtown service area in that the rate increase applicable to those customers would not be as large as a result of those customers no longer continuing to subsidize the customers receiving the discounts.

BY MR. FISCHER:

Q. Okay. Thank you.

Mr. Herz, then what you're suggesting is that your recommendations would either raise or make the qualifications to obtain space heating and all-electric rates more difficult to receive for customers in the downtown area, but if that was adopted, that that would shift those -- those costs, or it would reduce other general service costs to other customers; is that what you're saying?

THE WITNESS: I might have to have that question restated.

MR. FISCHER: I'll just withdraw it, your Honor.

BY MR. FISCHER:

Q. Your role in this proceeding is to represent the financial interests of your client Trigen-Kansas City Energy Corporation; is that correct?

A. No.

Q. It's not?

A. No. My role in this proceeding is -- my scope between -- or with Trigen was to review the rates of KCP&L, and in particular, the proposed expansion of the availability of the discounted all-electric rate to customers that are not all-electric customers, and to file testimony and make recommendations to the Commission on the appropriateness of KCP&L's rates.
Q. Can you identify any of your recommendations that would be adverse to the financial interest of Trigen-Kansas City?
A. I don't -- you know, I don't know. I hadn't thought about -- actually I hadn't thought about that in connection with the scope of my work in this -- in this proceeding.
Q. Well, as you sit there on the stand, can you think of anything that would be adverse to the financial interest of your client that you're recommending to the Commission?
A. I don't know -- one of my recommendations is that the -- if the discounted rates are not eliminated, that KCP&L be required to submit a comprehensive cost-of-service study and cost-benefit study of -- of the discounted rates and of the programs that KCP&L has in place. I don't

know how the outcome of that -- I don't know what the outcome of that would be, and therefore, I don't know whether or not that might work in favor or against the financial interest of my client.

Q. On page 8 of your surrebuttal testimony at lines 13 through 14, you indicate that, in fact, "I believe that KCPL's standard general service tariff rate design is appropriate"; is that correct?

A. Yes.

Q. And I believe you also indicate that KCPL's standard general service tariff gives recognition to KCPL's lower cost in the winter months; is that correct?

A. Yes.

Q. Mr. Herz, did you participate in KCPL's cost of service and rate design proceeding that was held in 1996?

A. No, I did not.

Q. Have you read the testimony of any of the parties in that case or reviewed the results of the cost-of-service studies that were performed by Staff, KCPL, and other parties in that case?

A. I did not review the testimony. I did review the cost-of-service study submitted by the company that was provided to us in response to data requests.

Q. In this proceeding, have you conducted a cost-of-service study yourself?

A. No, I did not.

Q. Have you calculated the impact on the customers in the downtown area of Kansas City if your recommendations were adopted by the Commission in this case?

A. No, I did not. I sought that information from the company, but that information was not provided to me by the company, so I was not able to perform that estimation.

Q. Do you have an estimate of what the customer impact would be? Would it be a 20 percent increase in rates?

A. No, I do not. And I'm assuming the question is with regard to current availability under the all-electric tariff. And, of course, under the company's proposed expand availability, since no one seems to know at this point what the impact might be, obviously it would not be possible to calculate the impact of the company's proposed expansion of the all-electric tariff to a space-heating tariff.

MR. FISCHER: I think that's all I have, your Honor. Thank you.

JUDGE PRIDGIN: Mr. Fischer, thank you. No further cross? Any questions from the bench? Commissioner Murray?

QUESTIONS BY COMMISSIONER MURRAY:

Q. Good morning.

A. Good morning.

Q. Your recommendation is just that the company eliminate the discount, is that correct, that they have been applying since '96?

A. In part, and if it's not eliminated, if the Commission does not eliminate those discounts, then freeze it to the customers currently receiving the discount until the company provides the Commission with a comprehensive cost-of-service study that analyzes those discounts, and from that determine whether those discounts should continue to be available in the future.

Q. And by expanding the customers that are -- that can have access to the discount, what is that tariff doing? What is the result of that expansion in terms of rate design?

A. It's -- it's not known what the results of that expansion would be. We have submitted data requests asking the company what would be the impact of the proposed expansion, and the company is -- the company responded that they were unable to provide that; that they basically did not know what the impact of their proposal would be. So, we're sort of at a loss here as to what impact that might have.

Q. What did you think it would have?

A. I think what the impact -- or the impact of the company's proposal is that it's -- it's rather unclear. In fact, the language that's proposed by the company is rather loose as to who would be eligible for the discounted rates going forward.

Presently, to receive the all-electric discount, a customer has to have electric-consuming facilities only for cooking, for water heating, and for heating. Under the company's proposed language, in fact, I provide on page 10 -- at the bottom of page 10 of Exhibit 701, in strike-and-add format, the changes that the company is proposing to the availability.

And if you look at the change, you can -- the changes that were being proposed by the company, the requirement that only electric service for all lighting, cooking, water heating, comfort space heating, except aesthetic fireplaces, comfort cooling, general purposes, and any other purposes, all of that has been stricken as a requirement to be eligible for receiving these discounted rates.

And basically what it's being replaced with is a -- first sentence, it says, "Using electric space-heating as the primary source" -- and again, primary's not defined or -- nor is it set as to how it would be determined, but if you -- if you go on, it says "The electric" -- this is near what's been added. "The electric space-heating equipment may be supplemented by active or passive solar heating or other means approved by the company."

Now, other -- "other means" is basically open ended, so it would allow a lot of discretion on the part of the company as to who could be eligible for that discounted rate -- for these discounted rates, and who may not be eligible for it.

Q. And what do you think are the other means that might be approved by the company?

A. Excuse me. I don't -- I don't have a clue. And I -- I don't want to suggest that the company might do this, but as you have individuals within the company making the decisions as to how to interpret that, and which customers would or would not be eligible, it -- it does leave open a possibility that customers with -- within Trigen's service territory could be viewed differently than customers outside. And by saying that, I'm not suggesting that that is what, in fact, the company is going to do. I'm just pointing out, though, that with this language, that would allow a pretty broad interpretation on the part of the customer -- the company's representatives to determine who would be eligible for the discount and who might not be.

Q. So that by including means that Trigen is currently supplying service by, that would enable the -- enable KCP&L to attract those customers with their discount; is that what you're saying?

A. That's correct. And it isn't so much the concern I have that -- about the company pursuing and trying to attract more customers or -- to -- to compete with other suppliers, whether it's gas or steam. It's is there a -- is there a cost basis for the differential that's being offered? And the answer is no.

And is there a need for offering this discount? And that hasn't been shown that there is a need for this customer discount. And so we're sort of left at a loss -- or we're -- we're at a loss here as to how do we evaluate and critique the reasonableness and the appropriateness of the discounted rates.

Q. I'm assuming you wouldn't have a problem with the tariff language if it said "The electric space-heating equipment may be supplemented by active or passive solar heating", period?

A. That would certainly help tighten up the language, but Commissioner, I -- I struggle with whether or not there needs to be any discount at all, because the rate structure that KCPL has in place already provides for lower rates in the winter months to all customers, and what we're doing here is we're -- we're making a distinction between customers based on what they may or may not use electricity for behind the meter.

Q. And you don't think that's appropriate?

A. It can -- I don't think it's appropriate absent any cost basis or a showing of customer needs for this, and we don't have that. If -- if -- generally if -- if you are going to offer items such as this, there should be some underlying cost support for that or some demonstration that it's needed on the part of customers, and we don't have any of that here, so it's --

Q. Is it not intuitive that solar heating would reduce the customer's need for as much electricity in the winter as they're currently using, if they added solar heating?

A. I think -- the answer is yes, and I think it would be very worthwhile looking into, encouraging the use of solar heating, but I don't think the way to do that is by discounting -- offering discounted rates to customers that install a particular type of electrical-using equipment absent a showing that there's a cost basis or there's a need -- need to do so.

Q. If the Commission were to adopt Trigen's position on this issue, how would it affect the total rate design issue?

A. It would not affect the rate design issue at all. What it would impact -- let me back up.

First of all, Trigen's proposal -- my proposal is that -- is that the space-heating-related discounts should be eliminated, or if the Commission chooses to not eliminate those discounts because of the impact it may have on the customers currently receiving those discounts, that the availability of these discounts should then be restricted to those customers currently receiving the service.

If the discounts were eliminated in their entirety -- I have two tables that show the revenue impact associated with those discounts. The first is on page 9, Table 1. Then you see that the all-electric discount amounts to a little bit over $7 million a year.

And then on Table 2, the separately metered space-heating discount amounts to a little bit over -- on page 15, amounts to a little bit over $1 million a year.

So that -- so the total discounts amounts to about eight and a half million dollars a year. Therefore, if the discounts were eliminated in their entirety, the standard general service rates basically would -- would not have to go up eight and a half million dollars because of the elimination of the discounts.

In other words, eight and a half million of the increase would come from elimination of the discounts.

That may not have been very clear, but the point of it is the general service rates would not have to go up as much if they were eliminated.

On the other hand, if -- if the Commission were to decide to not eliminate the discounts in their entirety but to restrict them to current customers, then, of course, there wouldn't be any impact.

Q. Okay. So you're saying that eight and a half million dollars of the increase is basically to provide the additional discount?

A. That's correct. Basically the standard general service customers are subsidizing eight and a half million dollars to the -- to the customers that are currently receiving the space-heating-related discounts.

COMMISSIONER MURRAY: Thank you.

THE WITNESS: Thank you.

JUDGE PRIDGIN: All right. I have no questions. Any recross?

MR. FISCHER: Just briefly.

RECROSS-EXAMINATION BY MR. FISCHER:

Q. Mr. Herz, you're not suggesting, are you, that if the elimina -- if the Commission eliminated the winter space-heating rate and the all-electric rate, as you've suggested, that there wouldn't have to be other changes in the rate structure?

A. There would not have to be other changes in the -- in the rate structure. The company's rate structure would remain -- would remain as is. This would only impact how much the unit charges within the existing rate structure would have to change.

Q. So, it would be fine with you if we pocketed that eight and a half million dollars into Kansas City Power & Light?

A. No. I -- but as I mentioned, the rate structure itself wouldn't change. It's the unit charges within the rate structure that --

Q. So you would have to adjust the rate structure?

MR. KEEVIL: Objection. He's mischaracterizing again --

MR. FISCHER: I'll try to --

MR. KEEVIL: -- the witness's testimony.

MR. FISCHER: I'll try to rephrase it.

BY MR. FISCHER:

Q. So you would have to change the rates in other -- other categories of service; is that correct?

A. Well, that's -- that's correct. Even with the -- which is going to occur in any case, even with the settlement direction that the parties are looking at on -- on the other issues in this case. The rates are going to have to change within each of the rate schedules. But that is not a change in the rate structure, nor would there have to be a change in the rate structure if -- if the space-heating-related discounts were eliminated.

Q. So you would agree, wouldn't you, that if the Commission adopted your recommendations in this case, the rate design Stipulation and Agreement that the other parties have agreed to would have to be modified?

A. No, it would not.

Q. The rates would not have to change?

A. The -- yes, the rates -- the rates are going to change as a result of this proceeding, and whether or not the space-heating-related discounts are eliminated, the rates are going to have to change.

Q. So they will be different than what the other parties have agreed they should be?

A. No.

MR. KEEVIL: Judge, I'm going to object here. In part, perhaps maybe there is a rate design on the other issues settlement floating around out there that I have not seen, because from the line of Mr. Fischer's questioning, it's certainly the impression I'm getting.

I have not seen any rate design settlement that had actual rates in it. And from what he's saying, there is one, and it's --

MR. FISCHER: I will withdraw the question.

MR. KEEVIL: What I have seen is --

JUDGE PRIDGIN: He's withdrawing.

MR. KEEVIL: Okay.

MR. FISCHER: That's all I have.

JUDGE PRIDGIN: All right. Thank you.

Mr. Herz, thank you very much, sir.

THE WITNESS: Thank you.

MR. KEEVIL: Can I have a little bit of redirect here?

JUDGE PRIDGIN: Oh, yes, sir. I apologize.

REDIRECT EXAMINATION BY MR. KEEVIL:

Q. Mr. Herz, related to Commissioner Murray's question, what you're dealing with here is she asked you what the impact of your proposal of the other rate design before Mr. Fischer got into that, and just for clarification here, is what you are proposing within each of the general service classes, there would have an effect on the rates within each of those classes, but as for the overall class allocation -- just explain that.

A. Yes. It would -- it would have an impact upon the general service rates within each of the three general service rate categories. Would not have an impact on any cost-of-service analysis or how the revenue increase would be distributed between the various general service rate classes.

Q. Okay. So what you're -- what you're talking about here would be an intraclass rate design allocation issue as opposed to an interclass impact?

A. That's correct.

Q. Okay. Also Commissioner Murray asked if your recommendation was just to eliminate the discount rate, and I wanted to ask you, do you see your recommendation to eliminate the discount rate as the only issue here, or is the issue of KCPL's proposal to expand the availability of its discount a separate issue in your mind?

A. The issue to expand is a separate issue, and obviously, I'm opposed to KCP&L's proposal to expand the availability of the all-electric discounts. With respect to the -- the existing all-electric discounts and the separately metered space-heating discounts, I -- it's my recommendation that those discounts be eliminated, but I also recognize that from the Commission's perspective, the Commission may not wish to deal with the impact that doing so would have on those customers currently receiving that discount.

So, an alternative recommendation I have is that if the Commission chooses not to eliminate the discounts, to then freeze those discounts -- or freeze the customers to the existing customers, those that are presently receiving those discounts.

Q. Okay. You just mentioned the impact of your proposal of the customers currently receiving the discounts.

What would the impact of KCPL's proposal to expand be on the customers currently receiving the discounts?

A. Unfortunately, we don't know what the impact would be. We've asked the company that question, and the company indicated that they're not able to quantify or determine what the impact would be at this time.

Q. Commissioner Murray also asked you some questions about the proposed tariff language and the insert that KCPL has there regarding solar heating.

Is it your understanding that KCPL's proposal here is meant to encourage solar power?

A. No. As I understand KCP&L's purpose for expanding, it's to basically make the discount -- the all-electric -- the all-electric rate discounts available to customers that are currently not all-electric.

Q. Mr. Fischer asked you a question regarding your recommendation to change what he referred to as the rate structure, and what you, I think, had indicated would not be a change in rate structure. Could you explain the difference there just for the record? As I understand it, what the impact would be here would be to change the rates, not the rate structure?

A. That's correct.

Q. Can you explain the difference?

A. Yes. The -- the -- as I understand it, the -- the KCP&L rate structure was the result of a 1996 class cost-of-service study rate design case, and the current rate structure for each of the general service categories presently consists of customer-related charges, facility charges, demand charges for two of the three general service categories, energy charges that are based on load factor, and then also the rates differ by season.

And as I understand it, the -- the space-heating-related discounts were not the result of that class cost-of-service study in 1996, but, rather, reflected the rate differential that was in place prior to the 1996 cost-of-service study.

So the -- so on a going-forward basis, the -- the proposal by -- as I understand it, this is consistent with what all of the parties are doing, would be to not change the rate structure that's in place consisting of those charges that I had previously identified, but rather to change the rates that are applicable within each of those categories so as to generate the targeted revenue from each of those customer classes. And how one handles or how the Commission determines what to do with the space-heating-related discounts would determine the level of rates that would then be required within each of the -- within the current rate structure of each of the three general service categories to generate the targeted revenue.

Q. So connected with what I think you just said, in the event that the discount rates were eliminated, the customers on the standard general service tariffs rates, they would actually see lower rates as a result?

A. That's correct.

MR. KEEVIL: Thank you, Judge. That's all.

JUDGE PRIDGIN: All right. Thank you.

Mr. Herz, thank you.

THE WITNESS: Thank you.

MR. KEEVIL: Was his testimony received, Judge?

JUDGE PRIDGIN: I believe it was.

MR. KEEVIL: Okay.

JUDGE PRIDGIN: Yes, I show that it was. 701 and 702 were admitted.

MR. KEEVIL: May he be excused, also?

JUDGE PRIDGIN: Certainly. And do I understand that counsel, even though we're still on space heating, that counsel have no cross-examination for Ms. Liechti and Ms. Pyatte; is that correct?

MR. KEEVIL: That's correct, as far as I'm aware.

JUDGE PRIDGIN: Any counsel wish cross of those witnesses?

(NO RESPONSE.)

JUDGE PRIDGIN: Okay. Are we then ready to go on to -- I believe -- was it Mr. Cline from KCP&L would come back?

MR. FISCHER: Yes, your Honor. I would move, though, for the admission of the rest of the KCP&L rate design witnesses. Ms. Liechti I think is the one.

JUDGE PRIDGIN: Let me find that exhibit number.

MR. FISCHER: And also Laura Becker.

JUDGE PRIDGIN: Okay. I'm showing Ms. Liechti's direct, NP and HC, as No. 38. Her rebuttal is 39. And Ms. Becker's direct is No. 40. And you're offering all of those, Mr. Fischer?

MR. FISCHER: Yes.

JUDGE PRIDGIN: All right. Any objections?

(NO RESPONSE.)

JUDGE PRIDGIN: Okay. Hearing none, Exhibit 38 NP and HC, Exhibit 39, and Exhibit 40, are all admitted.

(EXHIBIT NOS. 38 NP AND HC, EXHIBIT 39, AND EXHIBIT 40 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

MR. FISCHER: Thank you.

JUDGE PRIDGIN: And Mr. Cline will come back.

I'm sorry, Mr. Zobrist --

MR. ZOBRIST: Excuse me. Mr. Cline just took a short break. He'll be back here in a couple of minutes, Judge.

JUDGE PRIDGIN: That's fine.

MR. WILLIAMS: Judge, as long as we're offering rate design witness testimony, I'll offer Staff witnesses, which would be Janice Pyatte's direct, Janice Pyatte's rebuttal, Janice Pyatte's surrebuttal, which are Exhibits 128, 129 and 130.

JUDGE PRIDGIN: Exhibits 128, 129 and 130 have all been offered. Any objections?

(NO RESPONSE.)

JUDGE PRIDGIN: Okay. Hearing none, Exhibits 128, 129 and 130 are admitted.

(EXHIBIT NOS. 128, 129 AND 130 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

JUDGE PRIDGIN: Did Mr. Cline just sneak back in?

MR. WILLIAMS: Yes. Your Honor, I want to do Busch as well, Staff witness Busch; the direct testimony of James A. Busch, which has been marked as Exhibit 108; the rebuttal testimony of James A. Busch, which has been marked as Exhibit 109; and the surrebuttal testimony of James A. Busch, which has been marked as Exhibit 110. I'd like to offer those exhibits.

JUDGE PRIDGIN: Exhibits 108, 109, 110, and I'm sorry, Mr. Williams, any more?

MR. WILLIAMS: Yes. There's the

supplemental surrebuttal testimony of James A. Busch, which is Exhibit 111. I'll offer that as well.

JUDGE PRIDGIN: Exhibits 108 through 111 have all been offered. Any objections?

MR. WOODSMALL: Your Honor?

JUDGE PRIDGIN: Mr. Woodsmall?

MR. WOODSMALL: I guess I have no objection. This is all predicated upon the belief, and I think it's everybody's belief, that we will reach a rate design settlement that will either be agreed upon by all the parties, or at least non-opposed. If that settlement somehow falls apart, I don't want this interpreted as Praxair waiving its right to cross-examine those parties on that evidence.

JUDGE PRIDGIN: Okay. I believe I understand.

MR. KEEVIL: Mr. Woodsmall, your Honor, I guess that would be our position, too.

JUDGE PRIDGIN: I understand that, and I understand we have no objections to the exhibits, but in the event that the parties do not reach a stipulation, we will need to recall these witnesses and make them available for cross-examination.

MR. WILLIAMS: I was just talking about

exhibits.

JUDGE PRIDGIN: I understand. All right.

MR. MILLS: And since we seem to be taking care of rate design exhibits, I'd like to offer Ms. Meisenheimer's testimony, which are Exhibits 207, 208 -- I'm sorry, 206, 207, 208 and 209, all public, not highly confidential.

JUDGE PRIDGIN: If you'll bear with me just a moment, please.

I first show 108, 109, 110 and 111 as admitted.

(EXHIBIT NOS. 108 THROUGH 111 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

JUDGE PRIDGIN: And Mr. Mills, let me get those numbers again.

MR. MILLS: The numbers were 206, 207, 208 and 209, which are, respectively, Meisenheimer direct, Meisenheimer supplemental direct, Meisenheimer rebuttal and Meisenheimer surrebuttal.

JUDGE PRIDGIN: Any objections?

MR. PHILLIPS: No objections, your Honor. Since we're doing that, we might as well offer Gary Price, direct testimony, 806; Gary Price, rebuttal testimony, 807, which is public, as well as HC; and Gary Price, surrebuttal, which is public, as well as HC 808. This is on the assumption we will go forward with the settlement.

JUDGE PRIDGIN: All right. Let me show Exhibits 206, 207, 208, and 209 all admitted.

(EXHIBIT NOS. 206 THROUGH 209 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

JUDGE PRIDGIN: And then Mr. Price's testimony has been offered. That's Exhibits 806, 807 NP and HC, and 808 NP/HC; is that correct, Mr. Phillips?

MR. PHILLIPS: That's correct, Judge Pridgin.

JUDGE PRIDGIN: Okay. Any objections?

(NO RESPONSE.)

JUDGE PRIDGIN: Okay. Exhibit 806, 807 NP and HC, 808 NP and HC are admitted.

(EXHIBIT NOS. 806, 807 NP AND HC AND 808 NP AND HC WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

JUDGE PRIDGIN: Okay. Anything else before we get to Mr. Cline?

(NO RESPONSE.)

JUDGE PRIDGIN: Okay. And Mr. Zobrist, Mr. Cline is back up to testify to?

MR. ZOBRIST: I think it's additional

amortizations and perhaps some related final questions on cost of capital.

JUDGE PRIDGIN: As it relates to cost of capital. Okay.

MR. WILLIAMS: Judge, can we take a short break so I can get the appropriate Staff attorney?

JUDGE PRIDGIN: That's fine. Let's take a recess. It's 9:45 on the clock on the back of the wall. Let's resume at ten o'clock.

(A RECESS WAS TAKEN.)

JUDGE PRIDGIN: All right. We're back on the record. It looks like Mr. Cline is our next witness, and he will resume testimony on amortizations and cost of capital.

We will then go to OPC witness Baudino, and then back to Staff witnesses on cost of capital, which would begin with Ms. Bernsen.

Is that everyone's understanding?

MR. ZOBRIST: That's correct.

JUDGE PRIDGIN: All right. Anything further from counsel before Mr. Cline stands cross?

MR. ZOBRIST: Just wanted to confirm that his testimony, Exhibits 23, 24 and 25, have been previously admitted?

JUDGE PRIDGIN: I show them as admitted.

MR. ZOBRIST: Thank you, Judge.

JUDGE PRIDGIN: All right. Thank you. Mr. Cline, if you'll have a seat. I believe you're already under oath.

THE WITNESS: Thank you, your Honor.

JUDGE PRIDGIN: Any counsel wish cross of Mr. Cline? Mr. Dottheim? Any other parties? Okay. Mr. Dottheim, when you're ready, sir.

CROSS-EXAMINATION BY MR. DOTTHEIM:

Q. Good morning, Mr. Cline.

A. Mr. Dottheim, good morning.

Q. Mr. Cline, I'd like to refer you to your rebuttal testimony, Exhibit No. 24. In particular, I'd like to refer you to page 4, line 14.

A. Yes.

Q. Okay. Page 4, starting at line 14, you discuss a conference call with representatives of Standard & Poor's, do you not?

A. Yes.

Q. That's the conference call that occurred on July 18, 2006, with Richard Cortright, Garrett Jepson, Barbara Isoman, and Leo Carrillo of Standard & Poor's, was it not?

A. Yes.

Q. KCPL arranged that call with Standard & Poor's, did it not?
A. Yes.
Q. At that July 18, 2006 conference call, Richard Cortright stated, did he not, that KCPL's business profile would be a 5 instead of a 6 if it weren't for the nonregulated Great Plains Energy subsidiary Strategic Energy, did he not?
A. That is not how I recall it.
Q. At the July 18, 2006 conference call, Richard Cortright stated, did he not, that "Strategic Energy is considered sizeable for credit risk analysis purposes regarding Kansas City Power & Light," did he not?
A. He indicated that it is a factor that is evaluated in looking at KCP&L.
Q. I'd like to direct you, again, to your rebuttal testimony on page 4, lines 19 to 22, where you make the statement, "An outcome consisting of an over-reliance on additional amortizations at the expense of return on equity and other means of rate relief would severely taint the credibility of the process to date, and we would expect the company -- the company's ratings to reflect that."
You make that statement in your

testimony, do you not?
A. I do.
Q. Okay. Now -- excuse me. Is -- is that your statement, or is that your -- you're reporting what was stated by one or more of the S&P representatives on the July 18, 2006 conference call?
A. It reflects my view. I believe it also reflects the views stated in the report that was published on Kansas City Power & Light on August 1st by S&P.
Q. The terms "severely taint," is that your term, or is that the term of any of the Standard & Poor's representatives that were on the conference call on July 18, 2006?
A. I don't recall that those terms were used on the call.
Q. Did you have any of the representatives that were on the -- that is, the Standard & Poor's representatives that were on the July 18th, 2006 call verify the statements that are contained in your rebuttal testimony regarding that July 18th conference call?
A. This statement is not so much a representation of the conference call. This is a -- this is a representation of what I believe S&P's view

and Moody's view would be of the circumstances that I outline here.

Q. Okay. Well, let me ask my question again.

Did you have any of the representatives, the Standard & Poor's, that were on the July 18th conference call, verify any of the statements that are contained in your rebuttal testimony regarding that July 18th call?

A. I had spoken with them about this concept, yes.

Q. Did you send them a draft or your actual file testimony and ask them to verify the correctness of your representation of that call?

A. I have not, but it's a public document.

Q. Mr. Cline, shortly after the company filed the Stipulation and Agreement, that is, the KCPL Regulatory Plan, Standard & Poor's issued a research report that references the Stipulation and Agreement, did it not?

A. I believe so, yes.

Q. Okay. And you attached that report to your testimony that was filed in the KCPL Regulatory Plan case last year, Case Number EO-2005-0329; is that correct?

A. I believe I did. I don't have that with me.

MR. DOTTHEIM: Okay. At this time I'd like to have marked as an exhibit the April 1, 2005 Standard & Poor's research report that I just referenced.

JUDGE PRIDGIN: Let me get the proper exhibit number.

MR. DOTTHEIM: I think that may be Exhibit 149, but considering I suggested last time an incorrect exhibit number, that probably should be verified.

JUDGE PRIDGIN: I think you're right, and that's why I'm double-checking here. The last exhibit I show is 148, the last Staff exhibit, so unless counsel sees something different, we'll label this as 149.

Okay. Mr. Dottheim, could you briefly describe that again, please.

MR. DOTTHEIM: Yes. This document that I'm asking be marked as Exhibit 149 is an April 1, 2005 research update on Great Plains Energy. And it was issued after the Stipulation and Agreement which comprises the KCPL Regulatory Plan was filed on March 28th, 2005, establishing Case

Number EO-2005-0329, and the document was attached as Schedule MWC-6 to Mr. Cline's direct testimony in Case Number EO-2005-0329.

JUDGE PRIDGIN: All right, Mr. Dottheim, thank you.

(EXHIBIT NO. 149 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

JUDGE PRIDGIN: Mr. Dottheim, when you're ready, sir.

BY MR. DOTTHEIM:

Q. Mr. Cline, could you verify that the document that's been marked as Exhibit 149 is the April 1 "Research Update: Great Plains Energy And Unit Ratings Affirmed; Outlook Stable" that was attached to Schedule MWC-6 to your direct testimony in Case Number EO-2005-0329?

A. Yes.

Q. Mr. Cline, do you recall whether you also attached to your direct testimony in that case another Standard & Poor's document, "New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised" that explain the business profile rankings of Standard & Poor's?

A. Yes.

MR. DOTTHEIM: Okay. At this time I'd

like to have marked as Exhibit 150 the Standard & Poor's "New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised" which was Schedule MWC-1 to Mr. Cline's direct testimony in Case Number EO-2005-0329.

JUDGE PRIDGIN: Thank you. That will be 150.

(EXHIBIT NO. 150 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

JUDGE PRIDGIN: When you're ready, Mr. Dottheim.

BY MR. DOTTHEIM:

Q. Mr. Cline, have you had an opportunity to review the document that's been marked Exhibit 150?

A. Yes.

Q. Can you identify that as the document that was attached to Schedule MWC-1 to your direct testimony in Case Number EO-2005-0329?

A. Yes.

Q. And that document would explain or address the matter of when there's a discussion of Standard & Poor's ranking a utility as a business profile of 6 or a business profile of 5, this document contains an explanation of those rankings?

A. To a degree, yes. And it contains the thresholds that would apply to each.

Q. And in actuality, even in the -- the latter pages of the document contain rankings for various utilities including Kansas City Power & Light?

A. It does.

Q. Are you aware of there being a more recent Standard & Poor's document explaining the business profile rankings than this document?

A. No. This is the current.

Q. Mr. Cline, respecting the KCPL Regulatory Plan which, of course, includes the additional amortizations methodology, was that proposal as it was developed submitted to Standard & Poor's rating evaluation service?

A. Yes, it was.

Q. And you actually addressed that in your direct testimony in Case Number EO-2005-0329, did you not?

A. I did, yes, I did.

Q. And you actually attached as a schedule some of those documents received from Standard & Poor's in response to KCPL's request in regards to the rating evaluation service, did you not?

A. Yes, I did.
Q. Did KCPL's submissions to Standard & Poor's rating evaluation service contain KCPL's proposal in this case on off-system sales net margins?
A. No, it did not.
Q. I'd like to refer you again to your -- to your rebuttal testimony, Exhibit No. 24, page 3, lines 5 to 6.
You state there, do you not, Dr. Hadaway's recommended level of return on equity is independent of the existence of the additional amortization mechanism?
A. Yes.
Q. Would you agree, Mr. Cline, that the Staff's cost of capital witness, Mr. Barnes, determined the Staff's recommended level of return on equity independent of the existence of the additional amortization mechanism?
A. I can't comment on Mr. Barnes' methodology.
Q. I'd like to refer you again to your rebuttal testimony, page 5, lines 1 to 3.
You state there, do you not, ratepayers are disadvantaged in the short run if a high level of

cash flow for financing is provided through additional amortizations rather than cash being sourced through traditional ratemaking. You state that there, do you not?

A. I do.

Q. By traditional ratemaking, you mean an additional equity return for providing additional cash?

A. Yes.

Q. What time frame are you using when you use the term "short run"?

A. I'd like to clarify Schedule MWC-3, if I could, if I could have a bit of latitude.

Q. Well, first, if you'd answer my question, please.

A. This was based on a forward-looking view by the company, not the current case. This was based on the impact of --

Q. When you say "this", you're referring to your schedule?

A. The concept I was attempting to illustrate in MWC-3 is based upon the --

Q. Okay. But would you please answer my question?

JUDGE PRIDGIN: Could you ask it again,

please, Mr. Dottheim?

MR. DOTTHEIM: Yes, yes.

BY MR. DOTTHEIM:

Q. Your sentence at the top of page 5, lines 1 to 3, you make -- you make reference to short run. The sentence, "Ratepayers are disadvantaged in the short run," how are you defining the term "short run" in that sentence?

A. From a cost perspective, I'm looking at a one-year period.

Q. In that --

A. However, there are other disadvantages long-term.

Q. And that one-year period being?

A. In the case of my example, the following year, because it would influence the --

Q. The first year that rates would be in effect from the presently existing Kansas City Power & Light rate case?

A. Yes.

Q. Mr. Cline, would you assume hypothetically for me that KCPL includes a Regulatory Plan additional amortization in its true-up revenue requirement recommendation in this case.

Would a change in the capital structure

recommended by KCPL's rate of return witness, Dr. Hadaway, be required specifically as a result of the Regulatory Plan additional amortization proposed by Kansas City Power & Light?

A. The point I'm attempting to make is that it --

Q. Mr. Cline, would you answer my question, please?

A. Would you please repeat it?

Q. Yes. Would you assume hypothetically for me that Kansas City Power & Light includes a Regulatory Plan additional amortization in its true-up revenue requirement recommendation in this case.

Would a change in the capital structure recommended by KCPL's rate of return witness, Dr. Hadaway, be required specifically as a result of the Regulatory Plan additional amortization proposed by Kansas City Power & Light?

MR. ZOBRIST: Your Honor, I'm gonna object, because I think this is a question that ought to be directed to Dr. Hadaway. He's asking a hypothetical of one witness to comment on what another witness would do or not do with regard to the 50 points, if I understand the question correctly, so

I believe it's improperly directed to Mr. Cline.

MR. DOTTHEIM: Well, I believe -- excuse me. I'm sorry for interrupting.

JUDGE PRIDGIN: Go ahead, Mr. Dottheim.

MR. DOTTHEIM: Yes. I would believe that Mr. Cline could answer the question if he knows. If he doesn't know, then he can say, "I don't know." But since Mr. Cline also testifies on financial matters and, in particular, is testifying on additional amortizations and has provided an analysis that is -- he's indicating is forward-looking, I think he may well be able to answer this question.

JUDGE PRIDGIN: I agree. I'll overrule. I'll let him answer to the extent that he knows. And if you could ask him the question again, please.

MR. DOTTHEIM: Yes.

BY MR. DOTTHEIM:

Q. Mr. Cline, would you assume for me hypothetically that KCPL includes a Regulatory Plan additional amortization in its true-up revenue requirement recommendation in this case.

Would a change in the capital structure recommended by KCPL's rate of return witness, Dr. Hadaway, be required specifically as a result of the Regulatory Plan additional amortization proposed by Kansas City Power & Light?

MR. ZOBRIST: Same objection, calls for speculation.

JUDGE PRIDGIN: I'll overrule again. He can answer to the extent that he knows, and if he doesn't know, he can say so.

THE WITNESS: I don't know how it would affect Dr. Hadaway's cost of capital, capital structure calculation.

BY MR. DOTTHEIM:

Q. Again, referring you to page 5 of your rebuttal testimony, lines 1 to 3, your support for that statement is your Schedule MWC-3, is it not?

A. It is. And my knowledge of the funding activities of the company and how we would, in fact, approach those going forward.

Q. Regarding your Schedule MW-3 -- excuse me, MWC-3, column 1 entitled "Equity Financing", that column represents the cost of using equity financing to provide the additional cash flow required for maintaining KCPL's credit rating with a capital structure ratios for debt and equity assumed in column 1 of 68.5 percent equity, and 31.5 percent debt? Are those the ratios that are assumed in column 1 for equity financing?

A. Yes. It's illustrating a concept.

Q. And again, referring you to your Schedule MWC-3, column 2, what you've entitled "Debt Financing", that represents your calculation of the cost of using Regulatory Plan additional amortizations in year 1, which is synonymous with the pending case, is it not?

A. No. It's -- it's in the following year. It's the impact of a funding decision in the next year based upon the decision in year 1. That's -- that's the point I'm trying to make here.

Q. All right. The capital structure assumed in column 2 for calculating the cost of Regulatory Plan additional amortizations that you've used for the column entitled "Debt Financing" is 100 percent debt, is it not?

A. It assumes that the expenditure is financed with 100 percent debt. The incremental expenditure is financed with 100 percent debt. Again, as a way of illustrating the concept.

Q. Okay. Is the Staff or Kansas City Power & Light recommending a capital structure of 100 percent debt for purposes of implementing the Regulatory Plan additional amortizations in this case?

A. They are not, but that's not the point of the schedule.

Q. Well, Mr. Cline, will the rates set in this case be based upon the Commission's determination of capital structure and return on equity, or based upon KCPL's funding policy?

A. The Commission's, but they need to be aware that it will affect KCPL's funding --

Q. Thank you, Mr. Cline, for --

A. -- policy.

Q. -- answering my question. Thank you.

MR. DOTTHEIM: One moment, please.

JUDGE PRIDGIN: Certainly.

MR. DOTTHEIM: Thank you for your patience, Mr. Cline.

THE WITNESS: Sure.

JUDGE PRIDGIN: Nothing further, Mr. Dottheim?

MR. DOTTHEIM: Not at this time.

JUDGE PRIDGIN: All right. Thank you. Further cross? Mr. Woodsmall?

MR. WOODSMALL: Yeah, just briefly. And this may be highly confidential.

CROSS-EXAMINATION BY MR. WOODSMALL:

Q. Can you tell me if KCP&L has an

up-to-date estimate on the cost of Iatan 2?

A. It's under development as we -- as we speak. It is not finalized at this point, but it is under development.

Q. Can you tell me if the 1.2 billion dollar figure that has been referenced in regard to the Regulatory Plan is still accurate in your mind?

A. We've publicly disclosed that, you know, for a variety of reasons, that the ultimate cost of the plan will be higher than the initial estimates because of commodity prices and labor shortages, but we don't, again, have a definitive number at this point.

Q. What is your understanding of how much higher that may be?

A. I can't speak to that at this point.

Q. You have no clue?

A. Well, we -- we -- we -- in our public disclosures we talked about a 10 to 20 percent increase from the initial estimates.

Q. And that is your best guess at this point?

A. I can't be any more precise than that at this point.

Q. When do you expect that a more precise estimate will be available?

A. I think in our last quarterly shareholder call, I think we talked about that being available the latter part of 2006. So within the next couple of months.

Q. Are you aware of any commitments that KCP&L has made regarding a definitive estimate to be provided to parties in the collaborative process?

A. I'm not.

Q. Okay.

A. No, I'm not.

Q. And you're not aware of any definitive estimate that's been prepared to date?

A. No. I know only that it's under development.

MR. WOODSMALL: Okay. Thank you.

JUDGE PRIDGIN: Further cross?

(NO RESPONSE.)

JUDGE PRIDGIN: Redirect?

MR. ZOBRIST: Just a couple of questions, Judge.

REDIRECT EXAMINATION BY MR. ZOBRIST:

Q. In response to Mr. Woodsmall's question, I wanted to clarify, is the 1.2 billion dollar figure -- and occasionally we see in this S&P reports

1.3 billion dollar figure -- is that just for Iatan 2, or is that for the entire Regulatory Plan?

A. That's for the entire Regulatory Plan.

Q. Okay. Thank you.

Now, in response to several questions from Mr. Dottheim with regard to Schedule MWC-3 attached to your rebuttal, you stated that it was trying to illustrate a concept.

What concept were you trying to illustrate?

A. The concept is that the decisions made with respect to the amount of earnings derived through traditional ratemaking principles and additional amortization will have an impact on the company's funding and capital structure decisions on a go-forward basis.

That was the -- that was the point that I was -- that I was trying to make here; that clearly, you know, KCP&L supports the additional amortization mechanism, but not as a -- a substitute for fair ratemaking. It's an augmentation to fair, reasonable, just rate setting as an accommodation, as a means, you know, to give us the opportunity to achieve our CreditMetrics and maintain our credit quality during the period of construction of this plan.

To the extent that there is over-reliance -- and I stress that term, "over-reliance," on additional amortization, and we have a -- a very disparate view of rate of return here between the company and the Staff. To the extent there's over-reliance on amortization, then -- and a -- and a reduced focus on equity earnings, a lower rate of return, that will influence the company's ability to raise equity on an economic basis in the future.

And to the extent that the company is not able to access the equity markets effectively and has to rely more on debt, that's what my schedule indicates; that the revenue requirement, as we raise more debt, will be higher because there has to be cash flow to support that in order to maintain the CreditMetrics. And that will result in a cost disadvantage to ratepayers in the short run.

Q. And when you speak of equity earnings, that's raising capital in the equity markets, correct?

A. Yes.

Q. Okay. And just for a point of information, what is the split of KCPL's investors? What percent are institutional and what percent are individual?

A. It's about 50/50.

Q. Okay.

MR. ZOBRIST: That's all I have, your Honor.

JUDGE PRIDGIN: Mr. Zobrist, thank you. Mr. Cline, thank you. And we will go to Mr. Baudino, if I'm not mistaken. And after his cross, we'll go back to Ms. Bernsen and it looks like perhaps Mr. Traxler, unless counsel has something else.

(NO RESPONSE.)

JUDGE PRIDGIN: I heard no objections. After Mr. Baudino, I assume we'll go on to Ms. Bernsen and Mr. Traxler. Okay. Very good.

Mr. Baudino, if you'll raise your right hand to be sworn, please.

RICHARD BAUDINO testified as follows:

JUDGE PRIDGIN: Thank you very much, sir. Please have a seat.

Mr. Mills, anything before he's tendered for cross?

MR. MILLS: No, there's no corrections to his testimony, so he's ready to go.

JUDGE PRIDGIN: Any parties wish cross of Mr. Baudino?

MR. ZOBRIST: Kansas City Power & Light Company does.

JUDGE PRIDGIN: KCP&L.

MR. PHILLIPS: Yes, we do.

JUDGE PRIDGIN: Mr. Phillips from DOE. Staff?

MR. THOMPSON: No, thank you.

JUDGE PRIDGIN: Mr. Phillips, when you're ready, sir. Make sure your microphone's on, please.

CROSS-EXAMINATION BY MR. PHILLIPS:

Q. Yes, Mr. Baudino. My name is Paul Phillips, and I'm representing DOE-NNSA in this case. And have you had a chance -- apparently you have -- to read the other cost of capital return on equity testimony?

A. Yes, I have.

Q. And I believe in your surrebuttal testimony -- you have that in front of you?

A. I do.

Q. And that's your Exhibit 203; is that right?

A. I actually don't know what the number is, but I do have a copy of my surrebuttal with me.

Q. In that surrebuttal testimony you state that the other ROE witnesses have also used current stock price, earnings forecasts, and current interest rates in formulating, quote, our recommendations; is that right?

A. Yes.

Q. Would those witnesses be witness Woolridge and witness Barnes, Staff witness Barnes?

A. Yes, that is to whom I was referring.

Q. And the range of return in this case, would it be true that the other two witnesses, Woolridge and Barnes, are also recommending a return in the 9 percent range?

A. Yes, we've got a range with Staff and intervenor witnesses of 9 to 9.9 percent.

Q. And then the one witness in this case that's not within that range, is that Mr. Hadaway?

A. Yes, Dr. Hadaway's at 11 and a half percent.

Q. By saying 11 and a half percent, then I assume you don't consider the adder that he's proposing of .5 percent as being part of his return on equity?

A. That is -- the 11 and a half does include his 50 basis point adder.

Q. Okay. It does.

On the last line there of that first answer, you say that "The Commission should reject Dr. Hadaway's baseless criticism of me and the other ROE witnesses"; is that correct?
A. Could --
Q. My copy is page 2.
A. Okay.
Q. And it's lines 14 and 15.
A. Oh, yes, okay, I have that.
Yes, that is what it says.
Q. So, in your opinion, not only has he made baseless criticisms of you, but the other two witnesses, as well, Mr. -- Dr. Woolridge and Mr. Barnes?
A. Yes.
Q. The next question and answer relates to Commission-allowed returns in 2006. Do you see that?
A. Yes.
Q. Are you referring there to commissions throughout the United States, or is this just the Missouri Commission?
A. This referred to Table 1 of Dr. Hadaway's rebuttal, I believe it was.
Q. And that consisted of commissions around the country; is that right?

A. Yes. That was an average return of Commission -- Commission-allowed returns across the country --

Q. And why is that unreasonable to look at those Commission returns?

MR. ZOBRIST: Judge, I'm gonna object to this as friendly cross. Mr. Phillips has established that this witness is in line with his witness's recommendation on ROE, and unless there are specific cross-examination questions, we're really kind of gilding the lily here, and I object.

JUDGE PRIDGIN: Mr. Phillips?

MR. PHILLIPS: Well, your Honor, I didn't realize gilding the lily was a legal objection to cross-examination.

I'm trying to clarify why, in this witness's opinion, that looking at other Commission decisions around the country is not something that is reasonable to do.

MR. ZOBRIST: Judge, just for the record, the objection is friendly cross-examination, not traditionally permitted by this Commission.

JUDGE PRIDGIN: Right. I will overrule, at least for the moment, because we have been -- even though the testimony of the parties has some similarities, it's not the same, and I understand he's trying to get at Mr. Baudino's, I guess, underlying assumptions of getting to his conclusions. So, I'll overrule.

I'm sorry, Mr. Phillips. Would you ask that question again, please?

MR. PHILLIPS: Yes.

BY MR. PHILLIPS:

Q. Could you state why, in your opinion, it's unreasonable to consider other Commission opinions relative to decisions where they have made -- come up with returns different from ...

A. I think my objection to using Commission -- the average of Commission-allowed returns is that it really doesn't focus on the evidence in this proceeding. And as I kind of explained here on page 3, the equity -- beginning on line 11, these equity returns may reflect utilities that were more leveraged than KCP&L, face greater business risks, or have other circumstances not comparable to KCPL; and that using allowed returns implies the Commission should rely directly on those decisions rather than on the evidence presented in this proceeding.

So, I think for reference purposes, it's good to see what other commissions have allowed in other states, but I think for purposes of -- my recommendation to the Commission here is that it rely on the evidence in this proceeding.

Q. So you're saying it really needs to rely on the other three witnesses, including yourself, period?

A. Well, I think the Commission will take into account the four ROE witnesses, including Dr. Hadaway, but my recommendation is 9.9. I believe Dr. Hadaway's recommendation is overstated.

Q. I take it you've testified in other jurisdictions besides Missouri and -- have you testified in New Mexico? I think you're from New Mexico?

A. I am from New Mexico, and I have testified in New Mexico, yes.

Q. What other jurisdictions have you testified in?

A. A complete listing is appended to my direct testimony, but -- so, there's a complete listing of my testimony appearances there.

So, Louisiana, Georgia, Ohio are the ones -- you know, some that come to mind, but a complete listing of all of my testimonies in RAB-1, which is attached to my direct testimony.

Q. Okay. Thank you.

On page 4 of your surrebuttal, there's a question relative to GDP.

Have you ever used GDP as part of a DCF analysis?

A. No.

Q. Have you encountered in any of those other jurisdictions the use of GDP in DCF analysis?

A. Yes, I have.

Q. Do you know if any of those commissions adopted that as part of their approval for DCF?

A. I don't recall as I'm sitting here whether or not they did.

Q. That's fine.

On the same page, you talk about the First Call/Thomas betas, and you also talk about the Value Line. Could you just explain briefly what the First Call/Thomas betas are?

A. I'll admit that I don't know how they were calculated, but they are presented in the analyst's reports for First Call/Thomas, and that's about all -- that's what I know. I imagine they regress or look at the changes in utilities price vis-a-vis a market index.

Q. And you think they're more accurate than Value Line betas?

A. I don't know. I can't really tell you which is more accurate.

I do know that the First Call/Thomas betas are lower, and frankly, they're more what I would consider reasonable going forward for a regulated utility company.

JUDGE PRIDGIN: I'm going to start limiting, I think, your answer, Mr. Baudino, because he's asking you some pretty simple questions, and they're not yes or no, but they're pretty -- I think they could be answered with just a few words rather than a narrative.

THE WITNESS: Yes, sir. Thank you.

JUDGE PRIDGIN: You're welcome.

MR. PHILLIPS: Thank you, your Honor.

BY MR. PHILLIPS:

Q. On the next page, page 5, you talk about the SWEPCO docket. Is that before the Texas Commission?

A. No. That's in Louisiana.

Q. Louisiana. What's the status of that case? You say in there you have filed some -- was it supplementary testimony in July?

A. Yes.
Q. Has there been a decision by that Commission?
A. That -- there has not been a decision. The company has responded with I believe updated testimony recently. I will be filing -- it's either called rebuttal or surrebuttal, I can't remember which one, but soon, and then we will determine a hearing schedule after that.
Q. So the hearing hasn't taken place yet?
A. It has not taken place.
Q. And I think it's your testimony that you do not believe the Commission should rely on projected interest rates; is that correct?
A. That is correct.
MR. PHILLIPS: That's all I have. Thanks.
JUDGE PRIDGIN: Mr. Phillips, thank you. Further cross? Mr. Zobrist, when you're ready.
MR. ZOBRIST: Thank you, Judge.
CROSS-EXAMINATION BY MR. ZOBRIST:
Q. Good morning, Mr. Baudino.
A. Good morning, Mr. Zobrist.
Q. I'm Karl Zobrist and I represent Kansas City Power & Light Company. I'd like to, at first,

at the beginning here, establish the range of figures that you had in your testimony. Your DCF for the comparable companies range from 8.45 percent to 10.65 percent; is that correct, sir?

A. Yes.

Q. And then when you checked the DCF analysis that you conducted with the capital asset pricing model which we've referred to here as CAPM, the range was 8.39 percent to 12.49 percent return on equity, correct?

A. That's correct.

Q. And it was your opinion that the CAPM results for the comparison group may be overstated; is that correct?

A. Yes.

Q. And the Value Line betas that you spoke about just earlier this morning, you removed those from your calculation?

A. I did not. They are part of my calculation.

Q. But you discounted the effect that the Value Line beta had on your recommendation to the Commission?

A. No, I would not put it that way.

Q. Well, you stated in your testimony that you thought that they were above the range that you believed was acceptable, correct?

A. Yes.

Q. And am I correct that it is your recommendation to the Commission that it, in its decision, discount the results of your CAPM range and basically disregard the upper ranges but consider the lower ranges?

A. Well, not exactly. My recommendation to the Commission is to rely on the DCF results, and I presented the CAPM as another sort of check or reference point as it is a model that's commonly presented in rate proceedings, and what I did was just show a range of results for the CAPM.

Q. But again, you felt that those upper ranges of the CAPM were too high?

A. I believe they are overstated at this time, yes, sir.

Q. Now, in your direct testimony, I believe around page 8, you referred to a number of reports that both Moody's and Standard & Poor's have issued; is that true?

A. Yes.

Q. And on page 8 you quote the Moody report as noting that the company is expanding upon a

1.2 billion dollar program of capital expenditures and that it also relies on the wholesale market, correct?

A. That's correct.

Q. And in the May Standard & Poor's report, you noted that S&P had referred to and mentioned the capital requirements -- the future capital requirements that were associated with emissions standards which the company would need to spend money for and to put in plant, correct?

A. Yes, that's correct.

Q. Have you had an opportunity to read the August 1, 2006 S&P report that I believe we have in evidence here today?

A. I did read that, yes.

Q. Okay. Do you have a copy in front of you? I can get you one, if you don't.

A. Let me check and see.

MR. ZOBRIST: May I approach the witness, Judge?

JUDGE PRIDGIN: Certainly.

MR. ZOBRIST: Judge, let the record reflect that I've handed the witness what has been previously marked and admitted into evidence as Exhibit 145.

BY MR. ZOBRIST:

Q. Is that correct, Mr. Baudino?

A. Yes.

Q. And you've had an opportunity to look at that document prior to coming here today?

A. I believe I did see this document prior to coming here, yes.

Q. And if I could ask you to turn to page 2, please.

A. Okay.

Q. And if you look at the section entitled "Rationale", if you would direct your attention to the fourth paragraph, do you see where it talks about KCP&L's satisfactory business profile being a 6?

A. Yes.

Q. Okay. And then if I can direct your attention to the next sentence that starts "These attributes," and I'd like to read that. It states, "These attributes are partially offset by nuclear risks associated with the 47-percent-owned Wolf Creek Station, a somewhat challenging, albeit, improving, regulatory environment, and high capital requirements associated with the construction of the 850 megawatt Iatan 2 coal plant (of which KCPL's share will be 465 megawatts) a 100.5 megawatt wind project, and installation of plant equipment to comply with increasingly stringent emission standards."

Did I read that correctly?

A. Yes, you did.

Q. Okay. And so S&P recognizes these construction risks that it lists here, correct?

A. It certainly does, yes.

Q. And you do recognize that these construction risks are going to be facing the company within the next few years?

A. Yes.

Q. Let me just ask you, as we go to the DCF analysis, you used a 21-company comparison group; is that correct?

A. That's correct.

Q. Okay. And my understanding is, is that you took that from a publication called AUS Utility Reports, a July 2006 version?

A. Yes, that's how I selected the sample.

Q. Okay. And you used a number of midwestern companies in that sample?

A. Yes, there are.

Q. Okay. And that would include DPL, Inc. which is the parent company of Dayton Power & Light Company in Ohio?

A. Yes.
Q. And pardon me if you need to go to your --
A. Thank you. Thank you. I'm getting that right now just so I can follow along with you.
Q. And I think it's at your direct testimony, page 16.
A. Okay. I do have that, yes. Go ahead.
Q. And then you have DTE Energy, which is the new name for Detroit Edison?
A. Correct.
Q. And then you have FirstEnergy, which does have Ohio operations, correct?
A. That's right.
Q. And then you have NSTAR. What is NSTAR?
A. I need to refresh my recollection, if you'll allow me.
Q. That's fine.
A. NSTAR is the holding company for Boston Edison.
Q. Okay. Well, I guess that's not a midwestern company.
A. No, I don't think so.
Q. I think the next one you have that's a midwestern company is Wisconsin Electric (sic), which

is in southeastern Wisconsin around the Milwaukee area?

A. The Value Line report says that it provides service in Wisconsin and upper Michigan, so that's -- that's as much as I can tell you right now.

Q. And that's fine.

And Xcel Energy -- and that's capital X-c-e-l Energy -- is the new name of at least one of its utilities which used to be called Northern States Power Company in Minnesota and Wisconsin.

A. Yes, supplies power to Minnesota, Wisconsin, North Dakota, South Dakota, Michigan, and also gas.

Q. What's the fewest number of companies that you've ever used in a comparable company group?

A. Ever?

Q. Well, just to the best of your memory.

A. Okay. Actually, I think when I --

THE WITNESS: May I be allowed to explain the answer?

JUDGE PRIDGIN: He asked you kind of an open ended question.

THE WITNESS: Okay. Thank you. When I started out with the New Mexico Public Service Commission, I used a smaller group much along the same lines as Mr. Barnes did. And also in my early years in Kennedy Associates, I would use typically, you know, maybe four or five companies. Back then you had a much more stable sort of earnings outlook and earnings forecast for these companies. And I was able to really hone the sample to about 90 percent or greater electric revenues, and with the restructuring and other changes that have gone on in the electric utility industry over the last few years, I felt that it was really critical to expand that sample.

I believe that in his rebuttal testimony Dr. Hadaway referred to -- you know, I don't mean to put words in his mouth, but what I took from his testimony was that it's statistically more valid to have a larger sample. I think that's particularly more true nowadays. So, I've expanded that from four or five companies to more companies. I think it is a better, more robust sample size.

BY MR. ZOBRIST:

Q. And when you were a member of the New Mexico Commission Staff, that was in the early to mid '80s; is that correct?

A. That's correct.

Q. Okay. You began working there in October 1982, correct?

A. That's correct.

Q. Now, within your comparison group, you used Empire District Electric Company; is that correct?

A. Yes.

Q. You found that to be an appropriate member of your group?

A. I did.

Q. Okay. You did not use IDACORP, which is the holding company in which Idaho Power Company is a member. Why not, if you can tell us?

A. Unfortunately, I did not print out the sheet that showed the companies -- why I rejected them, and so I just can't recall as I sit here why I did not include them, but they --

JUDGE PRIDGIN: I think he said he didn't recall. I think that answers the question.

THE WITNESS: Okay. Thank you.

MR. ZOBRIST: Thanks, Judge.

BY MR. ZOBRIST:

Q. Now, initially in your group of companies you had UIL Holdings, Incorporated, which is the parent company of United Illuminating Company in New Haven, Connecticut, correct?

A. Correct.

Q. Okay. Now, you eliminated UIL Holdings from your comparison group, correct?
A. Yes.
Q. And you did that because you felt that the returns that you were seeing from your analysis showed that they were too high?
A. No. It was really because of the 18 percent number from First Call/Thomas. You had one analyst at that level, and clearly, that's -- nobody believes that's a viable long-term forecast for a utility company.
Q. Okay. You felt that that 18 percent forecast was -- was too high?
A. Yes.
Q. Did you eliminate any companies because you felt that their forecasts were too low?
A. I don't believe I did, no.
Q. Okay. Now, when you completed your DCF analysis, you submitted it to an analysis or checking process through the CAPM model; is that correct?
A. I presented a CAPM analysis, yes --
Q. Okay. Well --
A. -- after that.
Q. Pardon me.
As I understand, you've testified that

your recommendation is based on your DCF analysis, not your CAPM analysis?

A. Correct.

Q. Okay. And the CAPM analysis arrived at an expected market return on one portion of 3.71 percent; is that correct?

A. 13.71.

Q. 13.71 percent; is that correct?

A. Yes.

Q. And you felt that was too high and needed to be either disregarded or discounted?

A. I think, yes.

Q. And in making that judgment, you utilized your experience as an economist and as a former Staff member and as a person who's testified before regulatory commissions for about 25, 30 years, correct?

A. Yes.

Q. And experts do that all the time, they take a look at numbers and they express judgments, either advising commissions to discount something or to perhaps increase something based upon their view of the data?

A. Yes, and I'd say that's particularly true with return on equity.

Q. Okay. Now, you made the comment that you felt that that Value Line beta was -- was not an accurate predictor of the future because it was reflecting volatility that had occurred in the recent -- in the last five to 10 years because of restructuring, deregulation, and the increase in unregulated investments that were more risky than core electric operations; is that correct?

A. I would say within the last five years, yes.

Q. Within the last five years, all right. And you said that you believed that the industry is going to be more stable going forward; is that correct?

A. Yes.

Q. Okay. And yet at the current time, there are still commissions that are grappling with issues of deregulation and how to carry out previous legislative mandates and commission mandates, correct?

A. Yes, that's true.

Q. And we've seen, for example, in Illinois on the reverse power options -- reverse power auctions that both Commonwealth Edison and the Ameren operating countries -- companies in Illinois were

downgraded by S&P; isn't that true?
A. That I don't know. I knew there was some issue with that, but I don't recall the downgradings.
Q. Okay. But you recall the Illinois reverse power auctions a couple of months ago, right, or maybe it was just a month and a half ago?
A. I read something on that. I just don't recall the details of it.
Q. Okay. Is it fair to say that in Illinois, they're still experiencing some major issues with regard to the introduction of deregulation?
A. Yes.
Q. And the Federal Energy Regulatory Commission is in the process of revisiting Order 888, which was the seminal order that introduced open access to the electric transmission grid?
A. Yeah, I would accept that, yes.
Q. And that's a controversial topic, is it not?
A. Sure.
Q. And in recent months, we have continued to see volatility in the price of natural gas; is that correct?

A. Well, yes, that's -- that's correct. It's mostly gone down since last year, but they're still continuing in volatility.

Q. Right. And volatility is whether it goes up or whether it goes down, correct?

A. Yes.

Q. And in your recommendation to the Commission, is it correct that you gave no specific consideration to the KCPL construction program?

A. I don't know how to answer that yes or no.

Q. Well, so you can't answer the question.

Did you or did you not give specific consideration to the fact that KCPL is embarking upon a 1.2, 1.3 billion dollar construction program?

A. I would say that I gave general consideration to it as part of the overall risk profile of the company.

Q. Did you give any specific consideration to the fact that Kansas City Power & Light Company relies to a greater degree on revenue and earnings from off-system sales than the wholesale electric -- electricity markets, than other utilities at least in Missouri?

A. I have not really looked at that.

Q. Okay. Now, you criticized Dr. Hadaway for failing to consider the -- I believe you called it mitigation presented by the Stipulation and Agreement approved by this Commission; is that correct?

A. Yes.

Q. Now, are you aware that the Stipulation and Agreement is still under legal challenge here in the Missouri courts?

A. I believe it is, yes.

Q. Okay. And you're aware that there are a number of parties to this proceeding who are not signatories to the Stipulation and Agreement?

A. I don't know if they're parties to this proceeding. I am aware certain parties have appealed that or have challenged the Regulatory Plan.

Q. Okay. And I'm asking a different question.

A. Okay.

Q. So, I apologize. Let me rephrase it. You are aware that the Regulatory Plan, as approved by the Stipulation and Agreement, is still being challenged in the Missouri appellate courts, correct?

A. I know it's being challenged in the courts. I didn't know if it was at the appellate level or what level, but I know it's being challenged.

Q. Okay. My next question is about this proceeding. Are you aware that there are a number of parties to this proceeding, this rate case proceeding, who did not sign on to the Stipulation and Agreement and are not bound by its terms?

A. I don't know if -- I don't know that.

Q. Okay. Are you aware that the parties who entered into the Stipulation and Agreement -- pardon me. Let me rephrase that.

Are you aware that Standard & Poor's did not raise the credit rating of KCP&L as a result of the Stipulation and Agreement having been approved by this Commission?

A. I believe that's correct.

Q. Okay. And just a couple of other questions. In your DCF analysis, you did not rely upon any long-term analysis in your models; is that correct? You relied upon essentially short-term analyses?

A. I don't -- I would not say it that way. I'm --

Q. Go ahead.

A. Okay. The analyst forecast I use I assume would be for the longer term, because that's best data that we have specific to those companies.

With respect to, I think, the longer term forecast, you're relying on -- or you're referring to with respect to gross domestic product -- growth -- gross domestic product, that's hard to say -- I did not rely on that.

Q. Okay. You did not rely or use any long-term GDP growth rate; is that correct?

A. That's correct.

Q. You stated that you did not give -- I believe you were stating that you gave only general consideration to the construction program of KCPL, correct?

A. Yes, as part of the company's overall risk profile.

Q. Okay. Okay. And you did not give any consideration to the off-system sales margins that the company earns, correct?

A. I believe I did mention that. I quoted from a report. One of the reports I quoted from mentioned the wholesale sales and the off-system sales as a risk.

Q. Okay. But you did not make any specific allowance for those risks or propose any plan on how to -- how the Commission ought to permit the company to manage those risks, correct?

A. Do you mean I didn't make a specific adjustment to the return on equity for those risks?

Q. Correct. Or offer another particular manner in which the company could manage those risks.

A. I did not make anything -- any specific adjustment for those risks. It was not required in my analysis.

Q. Okay. And you did not give any consideration to the past good performance of the company in making your recommendations; is that correct?

A. I did not mention it specifically, but it is part of the company's risk profile.

Q. Now, I believe in your surrebuttal, you stated that -- and I believe this is around page 7. Let me check. You made the statement that "Dr. Hadaway's 11.5 percent is almost 100 points higher than the 2000" -- I assume you meant either 2006 or 2005 ROEs authorized by the Missouri Commission; is that your --

A. Yes.

Q. -- statement? Are you aware of what the return on equity allowed in the Empire District Electric Case Number ER-2004-0570 was?

A. I have read that, and I do not recall what it was.

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

JUDGE PRIDGIN: Mr. Zobrist, thank you. Let me see if I have any questions from the bench. Commissioner Murray?

QUESTIONS BY COMMISSIONER MURRAY:

Q. I think just one related to a question that you were just asked regarding not making any adjustments for risks for construction or off-system sales, and you said it was not required in your analysis. Was it your understanding that adjustments for risk would be made by someone else applying the information that you had done with your analysis?

A. No, Commissioner Murray. It was just that those elements of risk that Mr. Zobrist talked about are part of the overall general risk profile of the company. If -- if the analyst, such as myself or Dr. Hadaway or Mr. Barnes, constructs a proper sample of companies that are recently good comparison companies for purposes of risk and estimating the

ROE, there really is no need to make additional adjustments for specific risk items like wholesale sales or a construction program.

Q. So you assumed that the comparables had comparable risks; is that correct?

A. There's -- not really. I call them comparison companies, and maybe it's a term of art that I use, but -- because no two companies are perfectly comparable. What we hope to do is construct a sample, a big enough sample of companies, that would be reasonably comparable to the subject company that we're trying to estimate the cost of equity for.

So, although -- so, for example, although KCP&L may have a little bit higher risk with respect to wholesale sales or its construction program, it may have compensating factors in other areas to make it even out such that they're still comparable, and that they're reasonably comparable to the sample group of companies, and so that once you derive a ROE from those companies, you don't need to make any additional adjustments.

Q. And is it somewhere in your testimony or one of the other OPC witness -- witness's testimony where the comparables were compared in that manner to show that although KCP&L had larger risks than some of them in some areas, that it had lower risks than some of them in other areas? Is that apparent in the testimony?

A. No, ma'am, I don't believe it's apparent in the testimony. I think what I tried to do is gather a group of companies that had similar bond ratings to KCP&L, and that was what I did, so those bond ratings tend to reflect all the elements of risk.

Q. Okay. So you relied on bond ratings to determine comparability in terms of risk?

A. As one of the elements, and having a majority of revenues coming from regulated electric utility operations.

Q. What else did you look to for comparing risk?

A. Those are the two main factors.

COMMISSIONER MURRAY: Okay. I think that's all. Thank you.

THE WITNESS: Thank you.

JUDGE PRIDGIN: Commissioner, thank you. I don't have any questions. Any recross?

MR. THOMPSON: Yes, your Honor.

JUDGE PRIDGIN: Okay. Mr. Thompson and

KCP&L? Any other parties?

MR. ZOBRIST: I have no recross.

JUDGE PRIDGIN: Okay. Thank you, Mr. Zobrist. Mr. Thompson?

RECROSS-EXAMINATION BY MR. THOMPSON:

Q. Commissioner Murray was asking you questions about adjustments to reflect construction risk and off-system sales margin risk, and I believe you testified that those adjustments aren't needed because all the risk is essentially reflected in the bond ratings which you use to construct your comparable group; is that right?

A. That's -- that's a fair restatement of what I said.

Q. So isn't it true, then, that it would be your expert opinion that adjustments of that kind, in fact, would be inappropriate?

A. In this proceeding, yes.

MR. THOMPSON: Thank you. No further questions.

JUDGE PRIDGIN: Mr. Thompson, thank you. Mr. Mills, redirect?

MR. MILLS: Yes, I have some. Thank you.

REDIRECT EXAMINATION BY MR. MILLS:

Q. In response to some questions from Mr. Phillips, the gentleman behind me, from DOE, about Value Line versus First Call/Thomas betas, do analysts in your field rely on both of those sets of betas?

A. I've seen them both presented, just as I think Value Line is probably more widely used at this point. However, as I said, for the reasons I stated before, it's good to get an alternate source, because those betas seem to be going the wrong direction for Value Line.

Q. Are you aware that -- of any regulatory body that has -- has frowned upon the use of First Call/Thomas betas.

A. Not that I know of.

Q. So they're accepted by analysts and by regulatory bodies?

A. I don't know the extent to which the First Call/Thomas betas have been accepted by regulatory bodies, you know, as opposed to Value Line betas, but they're available to investors, and that's why I presented them.

Q. Value Line has been -- the Value Line betas have been around longer than the First Call/Thomas betas; is that correct?

A. I'm not sure of that. They've been around a long time, though, and have been widely relied on in the past.

Q. Now, you were asked some questions by Mr. Zobrist about the UIL and its 18 percent growth rate. Do you recall that?

A. Yes, I do.

Q. Is 18 percent a realistic long-term growth rate for an electric company?

A. No.

Q. Do you know of any electric companies that are roughly comparable to KCPL in terms of the amount of their revenues from regulated operations that have anything even approaching an 18 percent growth rate?

A. No, nowhere near.

Q. Now, you were asked some questions about KCPL's risk factors, and I'm gonna talk specifically first about construction risk. And I think you asked -- Mr. Zobrist asked you a couple of questions about this, and let me ask you this way: Is it fair to say that you specifically considered construction risk but did not believe a specific adjustment was necessary?

A. I think that is a fair statement, yes.

Q. Okay. Now, in your career, you have looked at a lot of electric companies around the country; is that correct?
A. Yes, I have.
Q. Do you believe that KCPL's level of participation in the off-system sales market is unique among all those companies around the country?
A. No, it's not unique. It was cited as a risk factor, but other companies also participate in wholesale market.
Q. Now, in terms of construction risk, off-system sales risk, really any source of a business risk that face the company, would the fact that KCPL has entered into a Regulatory Plan tend to mitigate those risks?
A. Other things being equal, yes.
Q. Okay. And is not the Regulatory Plan that KCPL has entered into going to be in effect for a number of years?
A. Yes, it is.
Q. Okay. Some of the terms of it last for ten years or longer, don't they?
A. I believe that's correct.
Q. Okay. And isn't one of the features and, in fact, one of the goals of that plan to

provide regulatory stability for KCPL during that period of time?

A. Yes.

MR. MILLS: That's all the questions I have. Thank you.

JUDGE PRIDGIN: All right, Mr. Mills, thank you. Mr. Baudino, thank you very much, sir.

THE WITNESS: You're welcome.

MR. THOMPSON: Judge, I have a question. Did you receive Mr. Baudino's testimony?

MR. MILLS: No, I have not offered it yet.

JUDGE PRIDGIN: I don't think it's been offered.

MR. MILLS: I think now that we're done with cross-examination, I would like to offer Exhibits 201, 202 and 203, being Mr. Baudino's direct, rebuttal, and surrebuttal testimony, respectively.

JUDGE PRIDGIN: Okay. Mr. Mills, thank you. Exhibits 201, 202, and 203 have been offered. Any objections?

MR. PHILLIPS: None, your Honor.

JUDGE PRIDGIN: Hearing none, Exhibits 201, 202, and 203 are admitted.

(EXHIBIT NOS. 201, 202 AND 203 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

MR. MILLS: And may this witness be excused?

JUDGE PRIDGIN: He may.

MR. MILLS: Thank you.

JUDGE PRIDGIN: Thank you, sir. I would like to get to Ms. Bernsen, and after her testimony, Mr. Traxler I still show has some cost of capital testimony, and Mr. Trippensee, that would be available today. And that would leave Mr. Woolridge and Mr. Hadaway and Mr. Schnitzer on cost of capital for Wednesday; is that correct?

MR. THOMPSON: And I think Mr. Camfield, if that's correct.

JUDGE PRIDGIN: Mr. Camfield?

MR. ZOBRIST: I think he's Thursday, Judge.

JUDGE PRIDGIN: Okay. Thank you. If there's nothing further, then, if Ms. Bernsen will come forward to be sworn, please.

DEBORAH BERNSEN testified as follows:

JUDGE PRIDGIN: Thank you very much. If you will please have a seat.

And Mr. Thompson, anything we need to

clarify before she is tendered for cross?

DIRECT EXAMINATION BY MR. THOMPSON:

Q. Ms. Bernsen, do you have any corrections to your prefiled testimony?

A. No, I do not.

MR. THOMPSON: Tender the witness at this time, Judge.

JUDGE PRIDGIN: All right, Mr. Thompson, thank you. Any counsel wish cross?

MR. MILLS: No questions.

MR. ZOBRIST: KCPL does, Judge.

JUDGE PRIDGIN: Okay. KCPL.

Any other parties?

(NO RESPONSE.)

JUDGE PRIDGIN: Okay. There are none others.

Mr. Zobrist, when you're ready.

CROSS-EXAMINATION BY MR. ZOBRIST:

Q. Good morning.

A. Good morning.

Q. I just have a couple of questions. In your rebuttal testimony, you gave a nice history of the Commission's various opinions over the last 25, almost 30 years with regard to what I'm gonna call performance-based ratemaking; is that a fair --

A. I would actually refer to them as rate of return adjustments.
Q. Okay. Rate of return adjustments?
A. To be more accurate.
Q. And a number of the cases that you did talk about did award upward adjustments based upon good performance; is that correct?
A. Yes, some of them were upward adjustments.
Q. And then there were a couple that actually subtracted points for poor performance; is that correct?
A. That's correct.
Q. And I think what you were telling the Commission is overall, the more recent trend was to not upwardly adjust or downwardly adjust; is that correct?
A. I believe that's correct.
Q. Now, you didn't mention the Empire rate case that was decided in 2005, did you?
A. No, I did not.
Q. Okay. Now, in that case, the Commission did add 30 basis points to the return on equity because of risks that were facing that company; isn't that true?

A. That was based upon what you just termed as risk. It was not based upon the company's perceived performance.

Q. Okay. Now, the earlier cases that you did mention, in fact, it was a 1983, I believe, Empire District Electric Company case, that did award 40 basis points for excellent customer relations; is that correct?

A. I would -- I would like to check that.

Q. Sure. And that's your rebuttal at page 4.

A. And you're referring to the 1983 Empire case?

Q. Correct.

A. ER-83-42?

Q. Correct. I believe what you said there is that the Commission found that there was evidence of excellent customer relations, the implementation of Staff audit recommendations, and a low cost of long-term debt and preferred stock; is that correct?

A. That's true. That's what the Order cited.

Q. And then in a case involving this company, Kansas City Power & Light Company, No. ER-83-49, a similar 40-basis-point upward adjustment occurred, correct?

A. That's correct.

Q. And in that case, the Commission found that KCPL had engaged in substantial efforts designed at improving its management efficiency and granted the adjustment, correct?

A. That's -- that's correct.

Q. Now, although you have traced the recent history of these adjustments mainly for performance, you're not suggesting to the Commission that they do not have that power to either upwardly adjust or to lower an adjustment based upon performance?

A. I don't believe -- that may take a legal assessment.

Q. And that's my point. You're not offering a legal opinion here today, correct?

A. No, I'm not.

Q. Okay. And has anyone told you that it's illegal for the Commission to do this?

A. No, no one has told me it's illegal.

Q. Now, am I correct that you have read the testimony of Robert Camfield provided by Kansas City Power & Light Company in this case?

A. Yes, I have reviewed his testimony.

Q. Now, is it fair to say that neither you

nor any other Staff member prepared a performance study like Mr. Camfield in his firm did?
A. I did not prepare a performance study, and I'm not aware that any other Staff member did similar to Mr. Camfield's format.
Q. And specifically, Staff did not conduct any review of overall retail prices of his company and how they have declined over the years; is that correct?
A. I did not. I don't know if another Staff member has.
Q. And you did not conduct an analysis of total productivity factors that measured how it either increased or decreased, is that correct, as it relates to Kansas City Power & Light?
A. I did not and would not have, frankly.
Q. Okay. Because what -- you don't have the qualifications to or...
A. I don't believe that it is substantive enough to make large scale assessments like the company is being -- is performing effectively, so I would not have done that and used that as a way to make that statement as a basis.
Q. Okay. Well, now, in your testimony, do you state that you conducted a study to find out that

such a total productivity factor analysis cannot be done?

A. No. I did state that some of the methods that Mr. Camfield used are tools. They are useful for looking at things like trends. However, I did disagree with his use of the comparators, and I don't believe that you could use his results to make a statement that the company is being -- is performing very efficiently and at high levels.

Q. So is it fair to say that you disagreed with Mr. Camfield, but you did not offer up a specific analysis to show that the company was performing poorly or just at the --

A. That's true, I did not.

Q. And you also did not do a study with regard to cost diagnostics as Mr. Camfield spoke of in his testimony?

MR. THOMPSON: I'm gonna object at this point, Judge. She stated at the beginning of this series of questions, she did not do her own performance study like Mr. Camfield. So, I think that would encompass all the different things Mr. Camfield looked at in his study.

JUDGE PRIDGIN: Okay. Mr. Zobrist?

MR. ZOBRIST: Well, if Staff's willing

to stipulate to that, that's fine.

BY MR. ZOBRIST:

Q. Is your counsel correct, that you've done no studies like Mr. Camfield's?

MR. THOMPSON: She did not do such a study in this case. You're mischaracterizing her testimony, and I object.

MR. ZOBRIST: Well, the reason I am probing this, Judge, is that she said that she did criticize Mr. Campbell's -- Mr. Camfield's use of total productivity factors, but that she did not conduct a test to refute his test. And I'm trying to figure out -- and let me just ask the witness this, if I may.

BY MR. ZOBRIST:

Q. Did you conduct any other study to either criticize or refute Mr. Camfield's testimony with regard to cost diagnostics or what he calls the corporate scorecard metrics?

A. Please restate your question.

Q. Okay. And I can break it down.

A. Yes.

Q. You said that you criticized his use of total productivity factor, but you didn't come up with a counter study, correct?

A. I did not do a counter study to his total factor productivity study.

Q. Did you do any kind of a counter study with regard to cost diagnostics of utility operations?

MR. THOMPSON: That's the same question I just objected to, Judge. I'm gonna renew that objection.

MR. ZOBRIST: Well, I think this is cross-examination, and I'm entitled to ask, you know, one or two more questions about what she did or what she didn't do.

JUDGE PRIDGIN: I'll overrule.

BY MR. ZOBRIST:

Q. Would you like me to repeat the question?

A. Yes, please.

Q. Okay. Did you do any kind of a counter study to assess cost diagnostics of Kansas City Power & Light company's utility operations?

A. No, I did not.

Q. Final question: Did you conduct any counter study with regard to what Mr. Camfield's corporate scorecard metrics focusing on customer service and things like that like Mr. Camfield did?

MR. THOMPSON: Same objection.

THE WITNESS: No, I did not.

JUDGE PRIDGIN: Overruled. You may answer. I'm sorry.

THE WITNESS: No, I did not.

MR. ZOBRIST: Okay. Thank you. That's all I have.

JUDGE PRIDGIN: Mr. Zobrist, thank you. If there's no further cross? Okay. Questions from the bench. Commissioner Murray?

COMMISSIONER MURRAY: I have none, thank you.

JUDGE PRIDGIN: All right, thank you. Redirect?

MR. THOMPSON: Thank you, your Honor.

REDIRECT EXAMINATION BY MR. THOMPSON:

Q. Is it fair to say that it's your professional opinion that Mr. Camfield's study lacked validity?

A. I believe I would characterize it as it did not -- it was not supportive of the generalized statements that he made regarding the overall performance level of the company. I believe that his -- his premise was that the company's performance based upon these various indicators supported the rationale for a rate of return adjustment, and that is the whole premise of Staff's rebuttal to Mr. Camfield, is that the use of rate of return adjustments is neither supportable nor effective nor appropriate as this Commission has even stated in prior Orders.

So, from that standpoint, you know, did not believe that he was using -- while some of his techniques are useful, they did not support his ultimate conclusion, which he believed that they -- the company ranked as a high performance company compared to others.

Q. Would you agree that Kansas City Power & Light has already been rewarded for any efficiencies that management has achieved in operating the company?

MR. ZOBRIST: Judge, I think that's beyond the scope of direct -- excuse me -- of cross-examination.

JUDGE PRIDGIN: Mr. Thompson?

MR. THOMPSON: Waiting for your ruling, Judge.

JUDGE PRIDGIN: Ask the question again, please.

MR. THOMPSON: Could you read it back?

(THE REPORTER READ BACK THE PREVIOUS QUESTION.)

MR. ZOBRIST: Objection. Beyond the scope of cross-examination. I also believe that it was not covered in her direct.

JUDGE PRIDGIN: And I don't recall it being in there either, so I'll sustain.

MR. THOMPSON: No further questions. Thank you, your Honor.

JUDGE PRIDGIN: All right. Thank you. If there's nothing further then? All right, Ms. Bernsen, thank you.

What I would like to do -- this looks to be a pretty convenient time to break for lunch, and it looks like we would have Mr. Traxler up after lunch, and then Mr. Trippensee, still on cost of capital. Is that the parties' understanding?

Okay. And hearing no objection, I'll assume that Mr. Traxler will go on, and we'll resume around one o'clock, Mr. Trippensee afterwards, and then if there are any other witnesses who can go this afternoon, I'd like to get them on.

Otherwise, it looks like we will have more cost of capital witnesses that will be set for Wednesday: Mr. Hadaway, Mr. Schnitzer, Mr. Woolridge. The parties agree, disagree?

(NO RESPONSE.)

JUDGE PRIDGIN: All right. We will go off the record. We will recess until one o'clock, and then we will begin with Mr. Traxler. All right. Thank you very much. We're in recess.

(THE NOON RECESS WAS TAKEN.)

JUDGE PRIDGIN: All right. We're back on record, and Mr. Traxler's at the stand. I understand Mr. Traxler will stand cross-examination on cost of capital, and then Mr. Trippensee will do the same, and his testimony may be on return on equity and how they relate to the additional amortization. Do I understand that correctly?

MR. MILLS: Yes.

JUDGE PRIDGIN: Okay. Do we have any other witnesses scheduled for this afternoon? I'm seeing no.

Okay. Mr. Dottheim?

MR. DOTTHEIM: Yes. And Mr. Traxler's testimony is on additional amortizations.

JUDGE PRIDGIN: All right. Thank you. I'm sorry, Mr. Dottheim.

MR. DOTTHEIM: Excuse me. Judge, I don't believe I offered this morning Exhibits 149 and

150.

MR. ZOBRIST: No objection.

JUDGE PRIDGIN: All right. 149 and 150 are offered.

MR. DOTTHEIM: And if I might ask, I think I previously offered 145, 146, and -- yeah, and 147.

JUDGE PRIDGIN: Yes, I do show those.

MR. DOTTHEIM: And they've been received?

JUDGE PRIDGIN: Yes, sir. I do show those as being received, and I also show 149 and 150 being admitted.

(EXHIBIT NOS. 149 AND 150 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

MR. DOTTHEIM: And I believe this will be the last time that Mr. Traxler takes the stand unless the -- well, no, I take that back, because I expect when we file with the Commission a Stipulation and Agreement on additional amortizations, we'll be back before the Commission on that. But at this time, I'd offer Exhibits 134, 135 and 136, Mr. Traxler's direct, rebuttal and surrebuttal.

JUDGE PRIDGIN: Okay. 134, 135, and 136 are all NP and HC, and they've been offered. Any objections?

MR. FISCHER: No objection.

JUDGE PRIDGIN: Seeing none, 134, 135 and 136, they're all NP and HC, they are admitted.

(EXHIBIT NOS. 134, 135 AND 136 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

JUDGE PRIDGIN: Okay. Anything else before we begin with Mr. Traxler?

(NO RESPONSE.)

JUDGE PRIDGIN: All right. And we'll see how this afternoon goes. This may very well be the end of today when we get done with Mr. Traxler and Mr. Trippensee, but we'll see how long this takes us and if any other witnesses are reasonably available.

Is there anything else from counsel before we begin crossing Mr. Traxler?

(NO RESPONSE.)

JUDGE PRIDGIN: All right. Mr. Traxler, you are still under oath. And let me see which counsel wish to cross Mr. Traxler. KCP&L? Any other counsel? Mr. Fischer, when you're ready, sir.

CROSS-EXAMINATION BY MR. FISCHER:

Q. Good afternoon.

A. Good afternoon.

Q. I guess I need to speak in the mic.
Good afternoon, Mr. Traxler. I've got just a few questions I'd like to go over with you regarding how the reconcilement works and how it relates to the ROE issue and depreciation and a couple of other issues, and then how that relates to the regulatory amortization, if that's okay with you.
A. Sure.
Q. Do you have that revised revenue requirement reconcilement that you prepared? I think it was dated October 19th, 2006.
A. Yes, I do.
MR. FISCHER: Okay. Judge, I've got a couple extra copies, too, if the Commission needs any just for -- to follow along with this discussion.
JUDGE PRIDGIN: All right.
MR. PHILLIPS: May I inquire? Is that Exhibit 146 -- or 46?
MR. DOTTHEIM: No. It was not marked as an exhibit.
MR. PHILLIPS: Okay.
MR. FISCHER: I don't know whether I need to mark it. I probably don't have enough copies for everybody.

COMMISSIONER MURRAY: Mr. Fischer, I don't need this one.

MR. FISCHER: You don't need that one? Okay. Does anybody else need it?

MR. PHILLIPS: (Raised hand.)

MR. MILLS: You got an extra? I know it's here somewhere.

MR. FISCHER: I did happen to circle a couple of numbers which I think for purposes of this we should just disregard. I was just trying to remember which numbers had changed from the previous reconciliation, so...

BY MR. FISCHER:

Q. Mr. Traxler, this revised reconciliation does not include the impact of the true-up items like the wind generation and the other items that will be considered in the true-up; is that correct?

A. Well, it reflects the difference between the fact that the company's case does include those items, and the Staff's case does not, and that's why there's an issue value for those items.

Q. Okay. And that's in the -- the nonissue true-up column would reflect some of those numbers?

A. Yes, that's correct.

Q. And I believe when the Staff originally filed the accounting schedules in the beginning part of the case, the Staff included an estimate or an allowance for known and measurable changes, and it was estimated to be $20 million?

A. I believe that's correct.

Q. Okay. And eventually the reconcilement will be revised to include the impact of the known and measurable changes that will be considered in the true-up proceeding; is that correct?

A. Yes, sir, as soon as we -- the company's already completed its update, as I understand. As soon as the Staff finishes that, we'll provide another reconcilement.

Q. Okay. But for now, the revised reconcilement shows the differences between the Staff's case and the company's case without considering the true-up items that will be reflected in the true-up?

A. Without reflecting the true-up items in the Staff's case.

Q. Yes. Is it correct that the Staff's revenue requirement after the Regulatory Plan amortization, which is I think found on line 88, would be approximately -- a rate increase of approximately $51,697,093?

A. As reflected on this reconcilement, was that your question?
Q. Yes.
A. Yes.
Q. Okay. And I believe the company's original request in the case was 58 -- 55.8 million; is that your understanding?
A. Yes, sir, that's correct.
Q. Okay. The Regulatory Plan amortization that results from the adoption of the Staff's case before the true-up is found on line 87, is that correct, of the reconcilement where it indicates that that Regulatory Plan amortization would be $86,237,537?
A. Yes, sir, that's correct.
Q. Mr. Traxler, the Regulatory Plan amortization is added to KCPL's revenue requirement when the projected cash flows from KCPL's Missouri jurisdictional operations failed to meet certain financial metrics that were contained in the Regulatory Plan; is that correct?
A. That's correct.
Q. And those financial metrics were designed to meet two CreditMetrics that were necessary to maintain KCPL's investment-grade rating;

is that your understanding?

A. Yes, it is.

Q. Now, on page 17 of your surrebuttal at lines 13 through 16, you address this point, I believe, when you state that "The revenue requirement for KCPL in this case and all subsequent rate cases between now and 2010, the period covered by the Regulatory Plan, is driven by the cash flow required to meet two CreditMetrics necessary for maintaining KCPL's investment-grade credit rating"; is that right?

A. That's correct.

Q. Now, in this case, if the Commission adopted Staff's case in total, then there would be a need for a Regulatory Plan amortization of $86 million approximately?

A. Well, before the true-up, that's accurate. I don't expect that to be the case after the true-up, but for the purposes of the reconcilement that we're looking at, that's true.

Q. That's certainly fair. And for purposes of these questions, let's just look at it before the true-up, because we don't know where those numbers might move. And is it your understanding that both KCPL and Staff would agree on that point, that at this point, if the Commission adopted all the Staff's recommendations, including ROE, depreciation, the off-system sales position, and the cost-of-service adjustments, that there would be a need for a regulatory amortization of approximately $86 million in order to meet those financial metrics?

A. Yes, it's my understanding that there is not a dispute with regard to the calculation.

Q. Yeah, that's just the way the math works.

A. That's right.

Q. Okay. Now, if we turn back to the revised reconcilement, if we look at line 4 on the first page, we're going to find an item listed for rate of return on equity, which I believe is worth about 23.6 -- or 7 million dollars; is that correct?

A. Yes, that's correct.

Q. And that's the difference between the Staff's ROE recommendation and the company's ROE; it's worth 23.7 million?

A. Between the -- that's correct.

Q. Just so I don't lose track of where I'm at, I'd like to write a couple things on the board and ask you about it. Let's --

COMMISSIONER MURRAY: Mr. Fischer, excuse me, but I didn't -- I thought I had that revised reconciliation statement with me.

THE WITNESS: I've got an extra copy.

COMMISSIONER MURRAY: Thank you. Sorry to interrupt.

BY MR. FISCHER:

Q. I'm gonna be asking you some questions, Mr. Traxler, about the effect of the ROE issue on the regulatory amortization, and at this point, it's worth $23.7 million; is that right, roughly?

A. Strictly based on the ROE recommendations of Dr. Hadaway and Mr. Barnes?

Q. Yes.

A. Yes.

Q. So if the Commission granted the company's request for an ROE of 11 and a half percent, then the Staff's revenue requirement prior to the Regulatory Plan amortization would actually decrease -- or excuse me, would actually go up by 23.7 million?

A. That's correct.

Q. In other words, the revenue requirement difference between the Staff's ROE and the company's ROE would be that 23.7 million, and if the company won the issue, it would cause the Staff's revenue requirement to go up by 23.7 million?

A. That's correct.

Q. Okay. So if the Commission granted the company's request, then the Staff's revenue requirement prior to the Regulatory Plan amortization as included in the calculation would -- okay, that's what I just asked you; that part, prior to the Regulatory Plan being considered, that causes the Staff's revenue requirement to go up by 23.7?

A. That's correct.

Q. But if we go to line 86, that's where that's reflected, correct? So if the Commission accepted the company's ROE recommendation, then the Staff's revenue requirement on line 86 would go up by 23.7 million?

A. Yes. That native revenue requirement reflected on line 86 would change from 34 and a half million to a negative 10.8.

Q. Okay. That's pretty close to my calculation, too.

And then on page 17 of your surrebuttal testimony, at lines 16 through 18, you state "The cash flow required to meet the two [metric --] CreditMetrics does not change depending on whether you use a higher ROE or a Regulatory Plan amortization for purposes of addressing a cash flow

deficiency"; is that correct?
A. That's correct.
Q. So based upon that fact, isn't it correct to conclude that the cash flow required to stay investment-grade rated in this case does not change depending upon whether the Commission grants the Staff's recommended ROE or the company's ROE in this case?
A. No, the cash flow required by the CreditMetrics doesn't change.
Q. It still requires the same overall rate increase of 52 million; is that right?
A. Under our case, that's correct.
Q. Okay. So in the end, the Staff's revenue requirement after the Regulatory Plan amortization is included in the revenue requirement is going to be the same whether the Commission accepts the company's ROE or whether the Commission accepts the Staff's ROE?
A. I'm sorry, could you ask that question again?
Q. Yeah, I was -- I was just summarizing what I thought we had agreed to. Assuming the Commission either accepts the Staff's ROE recommendation or the company's ROE, in the end,

after the Regulatory Plan amortization is considered, it will still have the same rate increase, the same $52 million?

A. Well, that's -- again, that's based on the -- prior to the true-up, that's what the numbers reflect.

Q. Right. Right. And I'm trying to just limit it to prior to the true-up.

So, in other words, if we're just considering the immediate rate increase to the customers that will come out of this case, then wouldn't it be correct to conclude that it doesn't matter whether the Commission accepts the company's ROE recommendation or the Staff's recommendation; the ultimate rate increase is still going to be almost $52 million?

A. Well, I wouldn't agree that it doesn't matter.

Q. Okay.

A. I certainly disagree with that proposition.

Q. And that's kind of a short-term/ long-term question?

A. Yes, it is.

Q. But for purposes of the actual increase that comes out of the case, this case, it will -- it wouldn't matter, it would still be 52 million?

A. Just for this case, and it doesn't address what happens after this case in subsequent cases that we both anticipate.

Q. I understand. Okay.

The company needs that $23.7 million of cash flow in order to stay investment-grade rated, whether it comes from return on equity or from the Regulatory Plan amortization; is that correct?

A. Again, based on the numbers we had prior to the true-up, that's accurate.

Q. Mr. Traxler, wouldn't you agree, however, that there is an impact upon the company's cash earnings depending on whether the Commission accepts the company's ROE or the Staff's ROE?

A. Cash is cash, in my view.

Q. Okay.

A. So I wouldn't agree with any distinction there.

Q. If the Commission accepted the company's recommended 11.5 ROE, you would disagree that the cash earnings to the company would be better than if the Commission accepted the Staff's ROE of 9.4?

A. Well, if you're confining earnings to equity -- equity stockholders, of course the higher ROE generates a higher equity return.

Q. Okay. For purposes of this question, let's limit it that way.

The shareholders are going to be -- have more cash earnings if the Commission accepts the 11.5 ROE than if the Commission would accept the 9.4 ROE?

A. Yes, that would apply in any rate case.

Q. Okay. Have you ever heard the term "quality of earnings"?

A. Well, I have a general understanding of the -- of the concept, yes.

Q. Could you explain to the Commission what your understanding of that term would be, the quality of earnings?

A. Quality of earnings generally relates to the earnings that are actual cash earnings as opposed to a noncash earning which would be evidenced by, example, a negative pension cost would increase earnings, but there's no cash involved with that. And that would generally be seen as something that isn't quality.

Q. Okay. And from the investor's perspective, the quality of earnings is better if the cash flow is coming from rate of return on equity than on a noncash item like pensions, as you mentioned, or like depreciation?

A. Well, depreciation doesn't generate earnings. The example I gave on pensions would. So -- and certainly with the example on the pensions, yes, we would see that as more favorable with a cash return.

Q. Okay. And again, I think we've already agreed, haven't we, that the rate increase to the customers in this case will be the same whether the Commission accepts the company's recommendation or the Staff's on ROE; is that right?

A. With regard to the cash either being supplied by ROE or what's required for the amortization based on the numbers we have right now, it would be a shift between one or the other depending on what ROE is allowed --

Q. Yeah.

A. -- by the Commission.

Q. And that's what I think you're saying on page 17 of your surrebuttal when you stated that the cash flow required to meet the two metrics does not change depending on whether you use a higher ROE or a Regulatory Plan amortization for the purpose of addressing the cash flow deficiency.

A. In this first year case. Nothing after that.

Q. Right.

MR. FISCHER: Judge, I'd like to have an exhibit marked.

JUDGE PRIDGIN: I believe this will be No. 51.

(EXHIBIT NO. 51 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

BY MR. FISCHER:

Q. Mr. Traxler, I wasn't sure if my handwriting would be very good, so I went ahead and typed this into a better format.

But I'd like to go through this and make sure that this is what we agreed to regarding the effect of the ROE issue.

It's my understanding that we've agreed that the ROE issue is worth approximately 23.7 million, and if the Staff wins the issue, the following items would occur:

The equity earnings would go up by 23.7 million; and the Regulatory Plan amortization would decrease by 23 million -- 23.7 million; and then the rate increase would still remain the same at 51.7 million.

Is that true?

A. That's mathematically correct, yes.

Q. Okay. Now, I'd like to turn a minute to the Staff's proposed depreciation expense adjustment.

And I believe that -- is it correct that line 75 of the reconcilement shows the analyzed depreciation expense adjustment as worth 12. -- $12,659,330; is that correct?

A. That's correct.

Q. And is that the depreciation adjustment that's being sponsored by Rosella Schad in this proceeding?

A. Yes, it is.

Q. I think line 76 down below there has an additional 5 million dollar adjustment related to planned additions that will be included in the true-up proceeding; is that your understanding of what that is?

A. Yes, it is.

Q. Okay. So the total depreciation expense adjustment is worth, together, 17.6 million; is that right?

A. That's correct.

Q. I think I'd like to focus on the adjustment related to the 12.7 million, the one that

Rosella Schad is sponsoring for purposes of this case.

Wouldn't you agree that the Regulatory Plan amortization is similar to the additional -- to additional book depreciation?

A. It's -- in our view, it's the same.

Q. On page 21 of your direct testimony, I think you make that point. You describe a previous 3.5 million dollar amortization that was included in KCPL's revenue requirement in Case EO-94-199.

A. I'm sorry, what --

Q. That's on page 21 of your direct. And I'm sorry, I don't have a line number, but you say there that this --

MR. DOTTHEIM: Mr. Fischer, what page again?

MR. FISCHER: It's page 21 of the direct.

THE WITNESS: What I'm saying there is that the impact on -- revenue requirement on rate base is the same. That doesn't mean that we agree that the -- or take a position that it's not important to change those rates.

BY MR. FISCHER:

Q. I understand. You say there that

this -- the 3.5 million dollar amortization has been treated as additional book depreciation with the accumulated balance being reflected as a reduction in rate base; is that correct?

A. That's correct.

Q. Okay. In fact, the Regulatory Plan amortization essentially has the same effect as additional book depreciation; isn't that what you just indicated?

A. The effect on rate base and revenue requirement is the same.

Q. And the depreciation issue does not affect KCPL's cash earnings; is that right?

A. It certainly affects their cash flow. Now, return on equity, it's not related to that.

Q. Okay. And I think that was -- that was the point.

I think we said the depreciation issue was worth 12.6 million roughly, at least the part sponsored by Rosella Schad.

Would you agree that like the situation for ROE in the Regulatory Plan amortization, the cash flow required to meet the two CreditMetrics does not change depending on whether you use a higher depreciation expense number or a Regulatory Plan amortization for purposes of addressing the cash flow deficiency?

A. That's correct.

Q. Depreciation expense and the Regulatory Plan amortization essentially have the same effect on the company's cash flows; is that right?

A. Yes, it does.

Q. But in this case, Staff is suggesting that the Commission lengthen the lives of some of KCPL's plan; is that your understanding?

A. That's correct.

Q. And ultimately, that decreases depreciation expense by $12.6 million; is that right?

A. That's accurate.

Q. And that I think is found on line 75 of your reconcilement?

A. That's correct.

Q. Now, let's assume, if you would, for a minute, that the Commission did not accept the Staff's depreciation expense adjustment for purposes of this question.

If that happened, the Staff's revenue requirement prior to the Regulatory Plan amortization, which is found on line 86 of the reconcilement, would increase by 12.6 million; is that right?

A. That's correct.

Q. But if the Commission did not accept the Staff's depreciation adjustment in this case, it would also have the effect of reducing the Regulatory Plan -- the Regulatory Plan amortization by the same 12.6; is that right?

A. That's correct.

Q. I think I got that wrong.

In the end, the Staff's revenue requirement after the Regulatory Plan amortization is included in the revenue requirement would still stay the same; it would still be almost $52 million. Is that correct?

A. Prior to the true-up, that's correct.

Q. So, on this depreciation expense adjustment, the Staff reduces the company's cash flows by 12 and a half million dollars by recommending the depreciation expense adjustment, but then the effect of it is on the Staff's case that the Staff gives that back in the Regulatory Plan amortization in order to keep the company's cash flows at a level that would meet the investment-grade rating; is that right?

A. That's correct.

Q. And based upon that effect, isn't it correct to conclude that the cash flow required to stay at investment-grade rating in this case does not change depending on whether the Commission accepts the Staff's depreciation adjustment or not?

A. The impact on the cash flow required to meet the CreditMetrics doesn't change. How to read the scenario remains the same.

Q. Mr. Traxler, what's your understanding of the purpose for decreasing the cash flow by suggesting the depreciation expense adjustment and then giving it back in the Regulatory Plan?

A. Well, the purpose from the Staff's view is that this company's depreciation -- or this company has added at least nine additional plants and rebuilt one coal unit since the last rate case, and the decision to look at depreciation rates is based on the fact that the rates set for this company should still be based on appropriate rates for that plant investment.

Q. Okay. I'd like to refer you to line 86, your Staff revenue requirement prior to the Regulatory Plan amortization.

Now, if the Commission accepted the Staff's depreciation adjustment, then there would be

a revenue requirement before the Regulatory Plan amortization is in effect of that 34 and a half million dollars, that negative 34 and a half million, correct?
A. That's correct.
Q. Now, if the Commission decided not to accept the depreciation adjustment, then that number would actually go down by the 12.6 million; is that correct?
A. Well, the revenue requirement would go up. The negative number would go down.
Q. That's what I was trying to say.
A. Let's make sure we're clear on that, yes.
Q. The over-earnings I think --
A. -- would be reduced.
Q. -- that Mr. Thompson referred to in his opening would be reduced if the Commission decided not to accept that depreciation adjustment?
A. Yes, that's correct.
Q. And, again, at this point, we're not talking about the known and measurable changes that will be reflected in the true-up?
A. That's correct.
Q. By recommending a 12.6 million dollar

depreciation expense adjustment in this case, the Staff's revenue requirement prior to the Regulatory Plan amortization is more negative by $12.6 million?

A. That's correct.

Q. And under this example, then, the Regulatory Plan amortization would actually become -- would decrease by 12.6 million, as well, if the position of the company was accepted on depreciation; is that correct?

A. That's correct.

Q. Let's assume for a moment, just a hypothetical, that the Staff's depreciation adjustment was 112 million instead of just 12 million.

Wouldn't that adjustment decrease the company's cash flows by $100 million more, but in the end it would still have -- it would still have to be made up by the Regulatory Plan amortization?

A. Any change in depreciation, including your example, would have the opposite effect on the amortization.

Q. Okay. So the Staff's depreciation adjustment, if it had been $100 million higher, the Regulatory Plan amortization would also have been $100 million higher, right?

A. That's right.

Q. But the ultimate rate increase to the customer would still be $52 million; is that correct?

A. Based on the numbers we're working with, that would be true.

Q. Okay. But the other effect would be that the Staff's revenue requirement before the Regulatory Plan amortization came into effect would actually be $100 million more negative, too; is that correct?

A. That's correct.

Q. Would you agree with me that if the Commission ruled in the company's favor on ROE and depreciation, which I believe would total 36.6 or 7 million dollars, that the Regulatory Plan amortization would be reduced by that same $36.6 million?

A. Let me check your math real quick.

Q. Sure, please.

A. You said 36.2 million?

Q. I think I said 36.6; is that right? I was using 12.6, and --

MR. FISCHER: What was our ROE?

JUDGE PRIDGIN: It was 23.

MR. FISCHER: It was 23.

THE WITNESS: 23.6 and 12.6 is 36.2.

MR. FISCHER: 36.2, okay. Thank you for correcting my math.

BY MR. FISCHER:

Q. Would you agree with me that if the Commission ruled in the company's favor on ROE and depreciation, which you indicated is $36.2 million, the Regulatory Plan amortization would be reduced by $36.2 million?

A. Yes, it would.

Q. And the rate increase to the customer would still be the same, about 52 million on line 88 of the reconcilement; is that right?

A. Yes.

Q. Would you agree that there would be a difference, though, from the company's perspective, at least, on the real cash earnings that it will need to attract equity investors?

A. I'm sorry, ask that question again, please. Could you repeat that?

Q. Sure. While there wouldn't be a difference for ratepayers in this immediate case that the rate increase would be 52 million, would you agree that there would be a difference from the company's perspective on the real cash earnings, the equity earnings that would be needed to attract equity investors as it goes forward with its Regulatory Plan?

A. From the company's perspective, yes, they're asking for considerably higher return than anybody else in this case, that's right.

Q. Wouldn't you expect that the real cash earnings, the equity earnings to the company, would increase, would be substantially higher if the Commission awarded 11 and a half rather than the 9.4 percent that the Staff is recommending?

A. Yes, that's true.

Q. Yet, for purposes of this case, the rate increase to the customers remains the same, correct?

A. Based on the numbers at this time, that's correct.

MR. FISCHER: Judge, I'd like to have another exhibit marked.

JUDGE PRIDGIN: I believe this will be 52.

(EXHIBIT NO. 52 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

BY MR. FISCHER:

Q. Mr. Traxler, I, again, just developed this exhibit to summarize our discussion here today.

If we're trying to determine the effect of the depreciation expense adjustment, would you agree that the expense adjustment is worth approximately 12.6 million; that's the Rosella Schad portion of that adjustment?

A. Yes, it is.

Q. And if the company wins that depreciation issue, then the following effects would occur: There would be no effect on the company's equity cash earnings; is that correct?

A. That's correct.

Q. And the Staff's revenue requirement prior to the amortization, which was referred to as the over-earnings, would decrease by 12.6 million; is that correct?

A. That's correct.

Q. And the Regulatory Plan amortization would also decrease by 12.6 million; is that correct?

A. That's correct.

Q. And the rate increase would still remain the same at 51.7 million; is that right?

A. Based on the numbers prior to the true-up, I believe that to be correct.

Q. Okay. I'm told that the expense issues in the case would not have that same effect as the

ROE and depreciation issue; is that your understanding?

A. Yes, it is.

Q. And in the end, the Commission will rule on those issues and then will run the Regulatory Plan amortization calculation to determine how large that Regulatory Plan amortization would have to be?

A. Yes, that's correct.

Q. But for the purposes of these issues, ROE and depreciation, there really isn't -- it doesn't affect the level of the Regulatory Plan amortization at the end of the day --

A. Well --

Q. -- on how they rule; is that correct?

A. Well, yes, it does. In other words, if you -- if the company is -- if the Commission approves the return on equity for the company, then regulatory amortization is impacted, it's reduced.

Q. Oh, I'm sorry, sure.

A. Same thing with depreciation.

Q. The ultimate rate increase to the customer is not -- does not change?

A. Well, based on the cash flow requirements we're looking at right now, that's true, prior to the true-up.

MR. FISCHER: Okay. Thank you very much for your patience. I think that's all I have.

JUDGE PRIDGIN: Mr. Fischer, thank you.

MR. FISCHER: Judge, I guess I would move -- I'm not sure it's necessary, but I'd move for the admission of those two exhibits.

JUDGE PRIDGIN: 51 and 52 have been offered. Any objections?

(NO RESPONSE.)

JUDGE PRIDGIN: Hearing no objections, Exhibits 51 and 52 are admitted.

(EXHIBIT NOS. 51 AND 52 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

JUDGE PRIDGIN: We'll have questions from the bench.

Commissioner Murray?

COMMISSIONER MURRAY: Thank you.

QUESTIONS BY COMMISSIONER MURRAY:

Q. Mr. Traxler, good afternoon.

A. Good afternoon, Commissioner.

Q. Would you turn to page 18 of your direct testimony, please.

A. Yes.

Q. On line 10 you say, "I rejected the 10 percent discount rate assumption based upon the data included in the August 1, 2006 research bulletin from Standard & Poor's for Great Plains Energy, and Standard & Poor's indicated that a 6.61 percent discount rate was used to determine the present value of KCP&L's operating lease and purchased power capacity contract obligations."

I just have a question there. If you would explain that difference to me, please.

A. The initial data supplied by the company for purposes of calculating a Regulatory Plan amortization supplied to the Staff assumed a 10 percent discount rate.

In a August 1st bulletin from Standard & Poor's, they indicate that they actually used 6.1 percent. I inquired of the company as to whether or not they agreed with the 6.1 percent. The response from KCP&L was that, yes, S&P had changed its discount rate, and they would agree that 6.1 percent is more correct at this time.

Q. And what is the dollar difference there? What dollar difference does that make, do you know?

A. I really -- I couldn't tell you without running a calculation. It just -- the only effect it has is on the amount of the Regulatory Plan amortization.

Q. Can you run that calculation? I don't mean right now.
A. Yes, I could.
Q. Would you do that?
A. Yes.
Q. And then page 19 of your direct, on line 15 you say that "The Staff's revenue requirement based upon a traditional cost of service approach is [approximate --] an approximate revenue excess -- earnings excess of $80 million."
Now, why do you say 80 million there when 34 million is the number that it's my understanding the Staff is saying is an over-earnings amount?
A. Well, the 80 million dollar number was based on the direct filing, and we made significant changes.
Q. So originally you did allege that the company was over-earning by $80 million?
A. That's what the numbers generated.
Q. All right. You make reference on page 20 of your direct to the Stipulation and Agreement in EO-2005-0329; is that correct? I'm looking at line 10, 10 and 11.
A. Yes, I do.

Q. On page 19, and this isn't one of the pages that you referenced there, but on page 19 of the Stipulation and Agreement, the only full paragraph on that page says that "The non-KCP&L signatory parties commit to work with KCPL to ensure that based on prudent and reasonable actions, KCPL has a reasonable opportunity to maintain its bonds at an investment-grade rating during the construction period ending June 1, 2010." Is that correct?

A. Yes.

Q. And then it goes on to talk about "As a part of that commitment, the nonsignatory parties agree to support additional amortizations to maintain financial ratios"; is that correct?

A. That's correct.

Q. Then it says, "The additional amortization to maintain financial ratios will only be an element in any KCP&L rate case when the Missouri jurisdictional revenue requirement in that case fails to satisfy the financial ratios shown in Appendix E through the application of a process illustrated in Appendix F." Is that what it says?

A. That's correct.

Q. Now, it's my understanding, and correct me if I'm wrong, but it's my understanding from the

Stipulation and Agreement that the additional amortization was to be used not as a way to reduce ROE or to reduce any other number that would be legitimately arrived at through traditional cost of service --

A. That's correct.

Q. -- regulations --

A. That's correct.

Q. -- but it was to be used only after those numbers did not come up to what was required to maintain the investment grade.

A. That's correct.

Q. Okay. Now, would you turn to your surrebuttal testimony, please. On line 21 -- well, scratch that. On line 15, you say, "The net result is a recommended revenue requirement increase of $52.1 million." Is that correct?

A. What page are you referring to, Commissioner?

Q. I'm sorry. Page 14.

A. That's correct.

Q. And you said revenue requirement increase, and then down on line 21, there's a question posed to you that says, "Will the Staff's recommended rate increase for KCP&L," and then it goes on, but my question is: Isn't it really -- scratch that. I'm gonna go to another question.

Okay. I'm reading from line 16 through 18 on page 15 of your surrebuttal, and it's in a question that quotes from -- basically it quotes from your direct testimony where you said, "KCPL has an incentive to maximize its requested return on equity for the purpose of avoiding an amortization resulting from the financial benchmark ratio analysis."

Do you recall making that statement?

A. Yes, I do.

Q. And are you still in agreement with that statement?

A. Yes, I am.

Q. Now, conversely, a party whose primary objective is to keep the rates as low as possible for the long-term would have an incentive to minimize the ROE and place as much cash flow as possible into the amortization, would it not?

A. If a party had that intent, that would be true.

Q. On page -- on line 21 of the same page, 15 of your surrebuttal, you make the statement, "This ratemaking treatment allows ratepayers to earn a return on the additional -- allows ratepayers to earn

a return on the additional cash flow provided for the purpose of maintaining KCPL's investment-grade credit rating, and that is with the Regulatory Plan amortization"; is that correct?
A. That's correct.
Q. Now, in other words, wouldn't it be accurate to say that it prevents KCP&L from earning a return on an equivalent amount of rate base in the future?
A. Well, it prevents Kansas City Power & Light from earning a return on a rate base that they shouldn't be allowed to earn on because the money's been provided by ratepayers.
Q. Okay. I understand that's Staff's position.
A. And that's -- that's simply agreed to by the parties in the Stipulation and Agreement.
Q. Now, shouldn't ROE be determined by the reasonably calculated cost of capital irrespective of any Regulatory Plan amortization?
A. Certainly.
Q. And would you agree that then, and only then, should the Regulatory Plan amortization -- a need for that even be considered?
A. Yes, I would agree with that.

Q. And would you agree that the parties can differ whether and by how much the ROE should be adjusted for certain risk factors?
A. They do disagree on that in this case.
Q. But, you would agree that the Regulatory Plan amortization should come into play only after the ROE is established by whatever risk factors are --
A. That's correct. A fair rate of return to shareholders is expected under any -- from any rate case.
Q. So if a reasonable ROE supports the cash flow needed to maintain KCPL's credit rating, there would be no need for the amortization; is that correct?
A. I would agree that if the -- there's a certain ROE that would eliminate the need for an amortization.
Q. Okay. You talk about in your testimony, and you've talked about today in cross-examination, that the cash flow required to meet the two CreditMetrics doesn't change depending on whether you use a higher ROE or a Regulatory Plan amortization; do you agree?
A. For purposes of this case, yeah, the

first-year revenue requirement would -- that's an accurate statement --

Q. But wouldn't the revenue requirement as a percentage of rate base increase in the next rate case if Staff's Regulatory Plan amortization amount is used here?

A. -- I'm sorry, Commissioner, could you repeat that?

Q. Okay. The revenue requirement as a percentage of rate base would increase in the next rate case, would it not?

A. The revenue requirement in the next case would definitely be higher if the Regulatory Plan amortization is not used in this case.

Q. Now, I'm talking about if a Regulatory Plan amortization as Staff recommends is used, then the revenue requirement in the next case, if you're looking at a percentage of rate base, would increase, would it not? If your rate base is lower, and the company has a certain revenue requirement, it would be a higher percentage of that lower rate base, would it not?

A. Well, there's a certain relationship between those two numbers. I mean, there's an interrelated impact. You'd have to know the numbers to really answer that question. I'd have to probably make a calculation.

Q. Okay. If Staff's Regulatory Plan amortization is accepted, how much will the rate base be reduced in the next rate case?

A. With a combined impact of the amortization plus the reduction in deferred income tax balance, it's approximately $52 million, I believe, as a net effect on rate base.

Q. Okay. So just for ease of calculation, if you assume that the ROE was 10 percent, that would reduce the amount of revenue earned on -- earned through ROE by 520 million -- or 520,000; is that correct?

A. That's correct. It would be 5.2 million.

Q. Five -- yes, definitely. My decimal points are a little mixed up here.

So, that would be that much less revenue that would be available through a return on -- zero return on equity, would it not?

A. The overall revenue requirement would be reduced by 5.2 million under your assumption of a 10 percent return that's been -- now, I'm assuming you're talking about a return that's already been factored up for income tax?

Q. Yes.

A. (Nodded head.)

Q. Do you anticipate that in the next rate case, KCP&L's next rate case, that Staff will determine that KCP&L's revenue should be reduced, revenue requirement should be reduced?

A. That would be dependent upon the Commission's decision in this case. We could still have a significant difference in the next case on ROE, which could generate an excess revenue requirement and/or issues on depreciation and other issues in this case. That could still be a possibility in the next rate case.

Q. Now, in year two or rate case No. 2 under the Regulatory Plan, assuming that Staff's proposals are accepted here across the board, and there is a reduction of revenue requirement from the reduction in rate base of 5.2 million that you just spoke about, the Regulatory Plan amortization methodology is still in play, is it not?

A. Under the Regulatory Plan, every rate case between now and the term covered by the plan through 2010, we have an obligation to compare the company's total revenues to make sure that those

metrics are covered. So the answer is yes.
Q. So, then the result of accepting Staff's numbers here would likely be even more -- even a higher amount placed into the Regulatory Plan amortization in the next rate case in order to meet those CreditMetrics, would it not?
A. Well, I can't really answer that question because of the fact that, you know, there's additional revenues and maybe reduction in expenses, a lot of things are gonna happen between now and the next rate case which will impact the overall cash requirement.
Q. So do you think the overall cash requirement is likely to decrease between now and the next rate case, knowing what you know about the company and its Regulatory Plan and...
A. I really couldn't -- really wouldn't attempt to forecast -- make a statement on such a -- it's based on so many variables between now and the next rate case.
Q. Okay. But between now and the end of the Regulatory Plan, in order for the company to maintain its credit ratios as agreed in the Stipulation and Agreement, any shortfall will be moved in -- any prudently incurred, whatever that

language is, shortfall, will be moved into the regulatory amortization; is that correct?
A. Once the Commission makes a decision in every rate case on the issues, at that point in time, we'll take that scenario and determine whether or not an additional amortization is required. The amortization will result specifically from the Commission's decisions on all the other issues.
Q. So in rate case No. 1 following the plan, if Staff's position prevails, there is, in effect, a revenue requirement reduction for the company of -- and I don't know what it will be after true-up, but --
A. No, there's definitely gonna be a rate increase from the Staff's recommendation.
Q. It will be a rate increase?
A. That's a certainty.
Q. But -- but that is only -- how do I say this? It's a rate increase that occurs in this rate case. However, the company has to reduce its rate base in the next rate case by the -- whatever amount goes into the Regulatory Plan amortization, correct?
A. Well, that -- that's -- that's true for where the numbers are in the Staff's case now, and that's before the Commission decision and also before

the true-up. So, whether or not that's true or not really depends on, again, the Commission decision as to whether or not the entire revenue requirement would be an offset to rate base. That's really dependent on your decision.

Q. Well, I'm trying to run through the hypothetical of the Commission accepting Staff's position.

A. Okay. If you were to accept the Staff's position, and based on my estimate of the impact of the true-up on the Staff's case, my best estimate at this time would be that the entire revenue requirement would be a Regulatory Plan amortization.

Q. Which translates to, in the next rate case, a reduction in rate base by that full amount?

A. That's correct.

Q. So, although you may call it a rate increase, and it may, in fact, be to the ratepayers a rate increase at this time for this year, at the next rate increase, the company's rate -- at the next rate case, the company's rate base will be reduced by that amount --

A. Well --

Q. -- is that true?

A. That's accurate.

COMMISSIONER MURRAY: I think that's all I have. Thank you.

JUDGE PRIDGIN: Commissioner Murray, thank you. Commissioner Appling.

MR. APPLING: I came in late.

JUDGE PRIDGIN: Mr. Chairman?

CHAIRMAN DAVIS: All right. I think Commissioner Murray got -- I think Commissioner Murray got to most of my questions here, but...

QUESTIONS BY CHAIRMAN DAVIS:

Q. All right, Mr. Traxler, now, I was listening upstairs, and there was some discussion, I believe, between you and Mr. Fischer.

Did I hear you say earlier that if Staff's proposed amortization was adopted, which would be -- which would include the ROE, and I guess the depreciation recommendation, that it would not have any impact on earnings per share? Is that -- did I hear that correctly?

A. If our position was adopted on depreciation and return on equity --

Q. Uh-huh.

A. -- it wouldn't have an impact on earnings per share?

Q. Would not?

A. Is that your question?

Q. Yes.

A. Certainly the -- the decision on return on equity would have an impact on earnings per share.

Q. Okay. So it does -- so the proposed amortization, then, you'd have the impact on earnings per share because of the lower ROE, and you'd also have an impact on future earnings per share because of the reduction in rate base, correct?

A. Yes. A Regulatory Plan amortization is treated just like additional book depreciation. There's a reduction in rate base for, you know, additional money provided by the ratepayer. It's certainly true for the Regulatory Plan amortization.

CHAIRMAN DAVIS: No further questions, Judge.

JUDGE PRIDGIN: All right, Mr. Chairman, thank you.

I have just a few questions.

QUESTIONS BY JUDGE PRIDGIN:

Q. Do I understand, Mr. Traxler, that you agreed with Mr. Fischer that regardless of whether the Commission granted the ROE that KCP&L wants or the ROE that Staff wants, that for the first year, that the revenue requirement that Staff and KCP&L

want will be the same?
A. That's correct.
Q. In that the effect on ratepayers will be the same for that first year?
A. That's correct.
Q. And if KCP&L comes back and files another rate case next year, then the ratepayers will see no difference for that one year regardless of if the Commission picks KCP&L's position on ROE or Staff's position on ROE; is that true?
A. Simply -- strictly for the year that the existing rates for this case are in effect. There is an impact after -- given all subsequent rate cases.
Q. But for the one year, the impact to the ratepayers would be the same; is that true?
A. Based on the cash flow metrics, that's true.
Q. And I think you testified that there's a certain return on equity that would eliminate the need for the additional amortization; is that true?
A. Yes.
Q. Do you know what that ROE is?
A. I haven't calculated that, but it's extremely high. It's in the 12 and a half and up range, at least.

JUDGE PRIDGIN: All right. I don't believe I have any further questions. Thank you. Any recross? Mr. Mills?

MR. MILLS: I have just a few, just a few questions.

RECROSS-EXAMINATION BY MR. MILLS:

Q. Commissioner Murray asked you about the discount rate that S&P used in the off-balance sheet obligation calculation. Do you recall those questions?

A. Yes, I do.

Q. Does the Regulatory Plan require us to use the same discount rate that Standard & Poor's uses?

A. I believe that the -- from the Staff's perspective, I think that the obligation to meet the CreditMetrics required by the rating agencies also includes an obligation to make those calculations consistent with the way the rating agencies make those calculations. So, the answer is yes.

Q. Do you think that's a requirement in the Regulatory Plan?

A. I believe -- I believe -- I believe it's an obligation. Once you accept the obligation of the parties to maintain cash flow based on those

CreditMetrics, then it just follows, in our view, that the rating agencies are the ones who are calculating the CreditMetrics, so the calculation has to be consistent.

Q. If the rating agencies change the way they calculate those CreditMetrics, does the Regulatory Plan require us to follow along with those changes?

A. If I recall, I believe the language is such that, with regard to any change, that the parties will work together and attempt to reflect those changes. I think that's my recollection of what that language is in the Stipulation and Agreement.

Q. It doesn't, to use your word, obligate us to automatically follow those changes that the rating agencies make?

A. I don't think it does. If there's a significant change, no, I don't think it does.

Q. And your belief that we have an obligation to use the same discount rate for off-balance sheet obligations is based -- is that based on specific language in the agreement, or is it based on your view that the agreement, as a whole, requires us to try to follow their methods?

A. It's based on -- from our perspective, it's based on an obligation to make those calculations consistent with the way the rating agencies make those calculations. And I don't consider this to be, you know, a significant change in the way that the ratios are calculated.

Q. And if we were to look through the Regulatory Plan Stipulation and Agreement and search for how -- specifically how to calculate the discount rate for off-balance sheet obligations, we wouldn't find any specific language on that point, would we?

A. You are correct.

Q. And the same is true for the risk factor to be applied to those?

A. You are correct.

Q. Now, you were asked some questions about the amortization and its purpose from Commissioner Murray. Do you recall those questions?

A. Yes, I do.

Q. If the only purpose was to just provide cash flow, couldn't the parties have just agreed to increase ROE as necessary?

A. Certainly wouldn't advise that, but that's an accurate statement.

Q. I'm not asking if you would advise it.

I feel quite certain that you wouldn't, but it could have been done; we could have achieved the same short-term result by simply increasing ROE; is that correct?

A. True.

Q. Okay. Does the amortization mechanism that the parties ultimately agreed to benefit customers and the company in a way that simply increasing ROE does not?

A. There's a -- in our view, there's no question that the -- the first premise that I discussed with Commissioner Murray, the first premise from the Staff's perspective is that the recommended ROE is not impacted by the regulatory amortization. A fair rate of return is required and expected, and we think we've recommended that for any rate case. So, the benefit of the amortization as opposed to a higher ROE, if you're already recommending a fair rate of return, and you increase that for the regulatory amortization, you're, in effect, using an excessive ROE.

That's our position, because the regulatory amortization should be used once a fair rate of return is found to be what it is and there's still a need for cash, but you certainly should not approve an excessive rate of return to avoid a Regulatory Plan amortization.

Q. And, in fact, doesn't the Regulatory Plan require that ROE depreciation -- all the other ratemaking questions being decided first, and then the amortization is determined after that?

A. Yes. The language is clear in that the expectation on the revenue requirement under traditional rate of return approach is to be done first without any consideration for Regulatory Plan amortization.

Q. And didn't KCPL sign that agreement?

A. Yes, they did.

Q. Didn't this exercise that you went through with Mr. Fischer on the easel and then the two exhibits that he provided and were admitted into the record, doesn't that run counter to the way the agreement is set out in that they determine ROE sort of as a tradeoff for amortization, and depreciation as a tradeoff for amortization?

A. My characterization of the exercise I went through with Mr. Fischer was nothing more than the cash impact of different scenarios, not whether or not any of those changes are -- should be recommended. It's just, he asked me questions about what's the cash impact, assuming A or B, and that's the answer he received.

Q. So you wouldn't recommend that the Commission take into account that that sort of mathematical calculation, the tradeoffs that you illustrated, when they're trying to decide what the proper ROE is?

A. Well, I think that the fair rate of return should be done completely independent of the Regulatory Plan amortization. No additional ROE should be allowed simply to allow the company to avoid Regulatory Plan amortization.

Q. And the same with depreciation and other issues in the case?

A. I would agree, yes.

Q. Now, are you familiar with the Commission's Report and Order that approved the Regulatory Plan Stipulation and Agreement in Case Number EO-2005-0329?

A. Yes, I am.

Q. And do you have a copy there with you?

A. Yes, I do.

Q. Can you look at page 27?

A. I'm sorry, did you say the Report and Order or Stipulation and Agreement?

Q. The Report and Order itself to approve the Stipulation and Agreement.
A. I'm on page 27.
Q. What's the heading in bold in about the middle of that page?
A. "The Proposed Regulatory Plan Should Result in Lower Rates."
Q. And can you read the first paragraph in that section?
A. "The Commission finds that the proposed experimental Regulatory Plan provides a framework that should lead to reasonable rates during the expected five-year duration of the construction period for the projects included in the experimental Regulatory Plan. The Commission also agrees with Mr. Schallenberg and Mr. Trippensee that the stipulation contains provisions that facilitate lower rates for customers in the future that would not exist absent the Stipulation.
Q. So in the Report and Order in which they approved the Regulatory Plan, the Commission recognized the kinds of benefits from amortizations that you've been talking about?
A. Yes.
MR. MILLS: I have no further questions.

Thank you.

JUDGE PRIDGIN: Mr. Mills, thank you. Any further recross? Mr. Fischer?

MR. FISCHER: Just briefly.

RECROSS-EXAMINATION BY MR. FISCHER:

Q. Mr. Traxler, you were asked by the Chairman about the effect of ROE and the depreciation issue, and I think the equity cash earnings, and I believe you cleared it up.

Isn't it true that the ROE issue does have an effect on the level of the cash earnings of the company, but the depreciation issue does not; is that --

A. When defining cash earnings, it's return on equity.

Q. Yes.

A. Okay. The answer to that question is yes.

Q. And the main difference on the depreciation issue is if KCPL would win the depreciation issue that Rosella Schad had proposed in this case, then the alleged over-earnings would decrease by the amount of that depreciation adjustment, but the rate increase would still be the same; is that the effect?

A.     Based on the numbers we have now, to meet the cash flow requirements of the metrics, that's true.

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

JUDGE PRIDGIN:  Mr. Fischer, thank you. Further recross?  Any redirect?  Mr. Dottheim?

MR. DOTTHEIM:  Yes, thank you.

REDIRECT EXAMINATION BY MR. DOTTHEIM:

Q.     Mr. Mills asked you a number of questions which eliminates some that I otherwise would have asked.

At the end of Mr. Mills's questions, he directed you to the Commission's Report and Order. He, I think, directed you to page 27, and I'd like to direct you to that very same section, but page 29.

A.     Yes.

Q.     And if you could read the first two sentences in the first full paragraph on page 29, which, again, is in the same section which -- and the section is titled "The Proposed Regulatory Plan Should Result in Lower Rates."

A.     Yes.  "Based upon the testimony of KCPL witnesses Giles and Cline, the Commission finds and concludes that the Stipulation should also positively affect KCPL credit ratings. Thus, KCPL should have lower debt cost that it will pass on to consumers in the form of lower future rates."

Q. Mr. Traxler, based on some questions in particular that Mr. Fischer asked you, why does it matter long-term whether the Commission adopts the Staff's case or KCPL's case, as opposed to the first year?

A. The company's case at this point in time includes no Regulatory Plan amortization, and basically, because of a combination of the 11 -- of the recommended ROE by Dr. Hadaway and the additional return on equity being requested because of the allocation of profit from interchange sales to shareholders, this company doesn't need a Regulatory Plan amortization if those two adjustments are -- and probably some -- and probably the depreciation -- but they've eliminated the need by adjustments which we consider completely inappropriate, and certainly the impact in all years after year one will be higher revenue requirement if they're allowed to substitute an excessive rate of return for a Regulatory Plan amortization.

Q. Mr. Traxler, if you know, is the Staff's return on common equity determination in this case, has that been made independent of any additional amortization calculation?

A. Yes, it has, and we had that discussion with Mr. Barnes, you know, before today.

Q. Mr. Traxler, are you aware as to whether the KCPL case presently, as opposed to as it was filed, would entail an additional amortization?

A. I believe and am almost certain that based on the number that's in the reconcilement right now, I think that would generate an additional amortization in the, you know, 10 million dollar range.

Q. Mr. Traxler, as the Staff's and the company's present cases are situated, the company's case and the Staff's case with the additional amortizations, the revenue requirements, are they approximately the same or within the same range?

A. I'm sorry, could you repeat that question?

Q. Yes. The company's and the Staff's revenue requirement determinations, that is, the Staff's case with the additional amortization, are they approximately within the same range?

A. Yeah, they're within $10 million.

Q. Although within $10 million, are there any significant differences between the two cases?

A. Well, you mean from a traditional -- the differences due to the traditional revenue requirement?

Q. Yes. I mean, if one would just look at the revenue requirement itself and -- and -- and think that the cases or position close or relatively close as far as -- as rate cases go, what would -- are there actually, even though the revenue requirements are what some might say within an approximate close range, are there substantive differences, again, even though the revenue requirements are -- are not massively different?

A. Yes, from a -- absent the Regulatory Plan amortization, the parties would be, you know, we are 76 and a half million dollars apart from a traditional revenue requirement calculation. And the issues that make that up, the large issues, ROE is 22 million, off-system sales is 14 million, depreciation is 13, the AAO issue is worth another 2, and just in those four, that's about 51 million. And then we have another approximately 20 million that's related to a difference at this time that's going to go away with the true-up. In other words, the Staff anticipates having additional revenue requirement on the new plant that's installed as of 9/30 of approximately 14 million, and additional depreciation on that plant of another five, so -- and that accounts for about $70 million of the $76 million difference.

Q. Okay. Is there a substantive difference also because of the additional amortization itself?

A. Well, the difference of opinion on the amortization is a result strictly of the fact that we're so far apart on traditional revenue requirement. I mean, it's just a function of the fact that under a traditional revenue requirement approach, we don't not only see a need for an increase, but there would be a rate reduction, the company sees a need for a 41 million dollar increase.

Q. The additional amortization, though, also involves an offset to rate base?

A. In future rate cases, that's true.

Q. Okay. So long-term, as I started off asking you about, there is a substantive difference between the two cases --

A. Well, long-term, the impact is on the -- yes, it's certainly gonna have a -- the revenue requirement is gonna be increased -- or higher for ratepayers in all subsequent rate cases if the amortization is substituted by a higher return on equity, for example.

Q. So -- and you have in front of you Exhibits 51 and 52, what Mr. Fischer had marked as Exhibits 51 and 52?

A. Yes, I do.

Q. Okay. And in both instances, even though with the scenarios that were set out where it is shown on both the last line that the rate increase remains the same, that there are, in the long-term, substantive differences, even though the rate increase remains the same under those two scenarios?

A. Right. The -- in all rate cases after year one, rates are going to be higher for ratepayers if the regulatory amortization is eliminated by my other example, my previous example of a higher return on equity, for example.

Q. Mr. Traxler, are there -- you've been asked about the Regulatory Plan metrics and KCPL maintaining an investment-grade status. Are there benefits only to debt investors from KCPL maintaining its investment-grade credit rating through the Regulatory Plan additional amortizations?

A. No. There's a benefit to both shareholders and bondholders from maintaining an investment-grade credit rating.

Q. Could you explain that?

A. Well, number one, it's -- you know, it's just common sense that an investment rate -- grade credit rating is seen more favorable by equity investors than one that doesn't have an investment-grade credit rating. And secondly, because of the amortization, there are two CreditMetrics that are -- that are required for consideration under the Regulatory Plan amortization. One of those is the funds available from operations as a percentage of interest, interest coverage ratio. Any informed investor is going to find it favorable if the cash -- if that metric is higher than what's required for the bond indenture. Under the Regulatory Plan amortization the Staff's recommending in this case, the -- the funds from operations coverage for interest is 5.1. The requirement is 3.8. That's a 53 million dollar difference in additional cash flow that's over and above the interest coverage ratio that any equity investor would see in a favorable fashion.

MR. DOTTHEIM: One moment, please.

JUDGE PRIDGIN: Certainly.

BY MR. DOTTHEIM:

Q. Mr. Traxler, I think you have addressed this, but again, the additional amortization calculation that the Staff performs, is that a fallout of the Staff's case from all the other adjustments that the Staff witnesses --
A. Yeah, certainly. Yeah, the final amortization, as I've testified, the final amortization will be strictly a fallout of the Commission's decisions on all the other issues.
Q. Okay. Mr. Traxler, do you serve or have you served in a supervisory role in the presently pending Staff's audit of Kansas City Power & Light?
A. Yes, I have.
Q. Okay. And in the Staff's case, the Staff's adjustments, as filed, are based on ratemaking principles that the Staff has applied in other cases of longstanding, or if it's a new adjustment, they have been made based upon ratemaking principles?
A. Just like any other rate case, from the Staff's approach, each issue is looked at independently of any other issue in the case, and only when the findings have been made correct for what we consider to be reasonable for that specific issue does a final revenue requirement result. But

all issues are looked at independently.

MR. DOTTHEIM: Thank you. I have no further questions at this point.

JUDGE PRIDGIN: Mr. Dottheim, thank you. Any further questions from the bench? I think I have one or two more, and I'll open it back up for recross if needed.

QUESTIONS BY JUDGE PRIDGIN:

Q. Mr. Traxler, if the Commission adopts Staff's position on amortization, what impact, if any, would that have on KCP&L's earnings per share?

A. It's reflected as an expense in the income statement as book depreciation, so it would have no impact on earnings per share. In other words, you're recovering -- in effect, what you're seeing on the financial statements is a recovery of $86 million in revenue, $86 million in expense, zero impact on net income.

JUDGE PRIDGIN: Okay. Thank you. Commissioner Murray?

QUESTIONS BY COMMISSIONER MURRAY:

Q. Mr. Traxler, you were asked earlier about the Stipulation and Agreement and the Order of this Commission approving that Stipulation and Agreement recognizing that future rates would be lower because of the Stipulation and Agreement; KCP&L would have lower debt cost that it will pass on to consumers in future rates. Do you recall that?

A. Yes, I do.

Q. Now, isn't it true that when a company is allowed favorable -- and by that, I mean reasonable ratemaking treatment by the regulatory body, and they maintain their credit rating, that the ratepayers benefit from that regardless of whether there's a Regulatory Plan amortization in place or not?

A. I --

Q. Let me ask it this way: The ratepayers benefit by the company maintaining a good credit ratio, do they not?

A. Well, certainly that has an impact on the -- on the risk associated with return on equity, but I think any rate of return expert, which I am not, would argue that there's a certain point that it becomes, from a ratemaking perspective, it's probably not advantageous to have, you know, like a triple A rating. There's a difference in cost.

Q. Okay. But if you talk about maintaining an investment-grade rating, when a company falls below investment-grade rating, their costs of borrowing rise significantly, do they not?

A. Yes, and I think my statement was in agreement with that. I agree with that statement.

Q. And that is detrimental to the ratepayers --

A. It --

Q. -- generally?

A. I would probably agree with that statement, yes.

Q. So that it does behoove the regulatory bodies to look at regulating in a way that does not create a reduction in a company's CreditMetrics based purely on the regulatory treatment; would you agree to that?

A. Well, certainly the intent of all the parties that signed the Stipulation and Agreement was that it is beneficial and will be beneficial to maintain a credit rating of the company, so I think I've answered that question.

Q. Okay. But by recognizing that in its Order approving the Stipulation and Agreement, by recognizing that lower debt cost passed on to consumers would benefit consumers in future rate cases, you don't think, do you, that the Commission was saying that it was approving the Stipulation and

Agreement because the customers would receive lower rates in the future based on the fact that the company had to reduce their rate base, offset their rate base by something that was put into a regulatory amortization plan?

A. Well, I think that the -- the understanding of the parties is that any cash that's provided up front of these investments becoming in service, that's what the Regulatory Plan amortization represents, that they're in agreement, including the company, so that should be an offset to rate base.

So, to answer your question, is that the understanding of all the parties is that the ratepayers should be compensated at a reduction of rate base for any amortization that results from a rate case.

Q. But you would agree, would you not, that it is possible to maintain, and it was contemplated in the Stipulation and Agreement, that traditional ratemaking, traditional cost-of-service calculations, could result in maintaining the credit rating without going to regulatory amortization?

A. The answer to that question is that because of the significant increase in debt that's going to occur, because of all this construction activity, certainly in this case, I don't believe that you can avoid a Regulatory Plan amortization without approving a very extremely high rate of return.

Q. Okay. And the regulatory amortization that you're recommending here is basically for everything, you're recommending rolling everything into the amortization; is that correct?

A. On a stand-alone basis, on a traditional revenue requirement approach, if this company was not involved in a Regulatory Plan amortization, the numbers -- the fallout of the numbers is an excess revenue requirement. So --

Q. So, is the answer to my question yes?

A. Well, I have to talk about the true-up, that's what I was getting in to.

Q. Okay.

A. If we're still negative after the true-up, the answer to your question is yes.

COMMISSIONER MURRAY: All right. Thanks.

JUDGE PRIDGIN: If there's nothing further from the bench, any recross? Mr. Mills?

RECROSS-EXAMINATION BY MR. MILLS:

Q. Mr. Traxler, you were asked some

questions about the relationship between status as an investment-grade company and the cost of borrowing. Do you recall those questions?

A. Yes.

Q. And I think you agreed that if a company is downgraded below investment grade, its cost of borrowing goes up; is that correct?

A. That's -- yes.

Q. By how much?

A. I have no idea. I mean, there's no way to -- you'd have to -- I don't think you could make that assumption or calculation, certainly, before the fact.

Q. Okay. So it varies by company by company, from time to time, from the purpose of each borrowing, and a lot of factors, right?

A. It certainly would.

Q. Well, just for hypothetical purposes, assume that we have a Missouri utility who -- which is downgraded below investment grade, and this drop costs the company $50 million a year in added borrowing costs, okay? That's my hypothetical.

A. Due to higher interest cost; is that what you're saying?

Q. Due to higher interest cost, right, on an annual basis, that costs the company $50 million --

A. Okay.

Q. -- okay? Would the ratepayers be better off if their rates are raised by $75 million a year in order to avoid this downgrade?

A. No.

MR. MILLS: Okay. I have no further questions.

JUDGE PRIDGIN: Mr. Mills, thank you. Any further recross?

Mr. Fischer?

MR. FISCHER: Yes.

RECROSS-EXAMINATION BY MR. FISCHER:

Q. Mr. Traxler, you were asked some questions by Commissioner Murray regarding traditional regulation and the stipulation and the investment-grade rating.

A. Yes.

Q. Let's assume for a minute that the Regulatory Plan did not include the Regulatory Plan amortization.

Does it follow from what you've said to Commissioner Murray that if the Staff's position was accepted in this case, that KCPL would not meet the financial metrics to stay investment-grade rated and it would be downgraded under traditional ratemaking?

A. My answer to that question would be yes, in terms of where the case is right now before the true-up, that there wouldn't be sufficient cash flow to -- one of the metrics would be met, one of them would not.

Q. And would you agree that the Commission's Report and Order accepting the Regulatory Plan also indicated that the Commission also finds that KCPL's experimental Regulatory Plan should include the construction of a coal-fired base load plant at Iatan 2? And I'm reading from page 22 of the Report and Order.

A. Yes.

Q. As I understood your answer to the Commissioner, at present, the Commission Staff's position is that all of the rate increase should be in the Regulatory Plan amortization.

My question to you is, if and during the next four rate cases, all of the increases are in the Regulatory Plan amortization as it is proposed in this case, would you expect that the shareholders and the Board of Directors at Kansas City Power & Light would propose to go forward with the coal-fired plant

at Iatan 2?
A. Well, I don't -- I don't think that's a reasonable expectation for every revenue requirement to be made up of a regulatory amortization between now and 2010. As we add plant, which we -- for these other projects, the return on equity requirement is going to be reflected in the case.
Q. Even though in the next rate case, there will be an offset to rate base if the Staff's position is accepted?
A. Well, the -- let's talk about the impact of that. We're talking about roughly $5.2 million. I mean, that's not a -- it's a -- it's not a insignificant amount, but it's certainly not an amount which erases a need for rate relief in a major rate case.
Q. But I think you did indicate that the offset before deferred taxes would be 86 million, and then I think after deferred taxes, it might be in the $52 million range?
A. I'm saying with certainty that it's going to be in the $52 million range, not probably.
Q. Okay.
A. It's not gonna be 86, it's gonna be a lot less than that.

Q. Okay. But even with a $52 million offset to rate base, you'd expect that in future cases, there might be some equity earnings associated with the increase?

A. Well, certainly with the additional plan. I mean, the only reason a company would file for additional rate relief is because the additional plan additions that are being put in service. And with that, you have additional equity return plus additional book depreciation.

Q. Let's go back to my hypothetical. If we assume that in future cases the Commission Staff recommended like it is here that all of the increases be funded by the Regulatory Plan amortization, would you expect the Board of Directors that represent the shareholders to want to continue to build a coal-fired plant at Iatan 2?

MR. DOTTHEIM: I object. The question is asking for speculation on the part of Mr. Traxler.

MR. FISCHER: I'm just asking his opinion as an expert accountant that's been around the industry for a long time.

MR. DOTTHEIM: And I object on the basis that the question is asking for Mr. Traxler to speculate. I had asked the question earlier today, and -- in regards to the Kansas City Power & Light rate of return witness as to what the company's capital structure might be for purposes of the true-up, and that elicited an objection that was sustained.

JUDGE PRIDGIN: All right. I'll sustain that. It does seem to be calling for speculation.

MR. FISCHER: That's all I have. Thank you very much.

JUDGE PRIDGIN: All right. Thank you. This looks to be a -- after we get some redirect, if you have any, Mr. Dottheim, this looks to be a good time to break. So, Mr. Dottheim, any redirect?

MR. DOTTHEIM: Yes.

REDIRECT EXAMINATION BY MR. DOTTHEIM:

Q. And Mr. Traxler, I think you may even have read from the Stipulation and Agreement. The Stipulation and Agreement still requires prudent action on the part of Kansas City Power & Light, does it not?

A. Yes, it does. It's very clear in the Stipulation and Agreement.

MR. DOTTHEIM: Thank you.

JUDGE PRIDGIN: All right. Thank you. All right. Mr. Traxler, you may step down. Let's take a -- I see 2:45 or so on the clock at the back of the wall. Let's break until about three o'clock, and then Mr. Trippensee will be on the stand also to testify on cost of capital. Thank you. We're off the record.

(A RECESS WAS TAKEN.)

JUDGE PRIDGIN: All right. Let's go back on the record if you're ready, Pam. We'll have Mr. Trippensee testify on cost of capital.

MR. MILLS: This will be Mr. Trippensee's first time on the stand in this proceeding.

JUDGE PRIDGIN: Thank you, Mr. Mills. I was going to say, I was checking, and as the days go by, I lose track as to who's been up and who hasn't. So Mr. Mills, thank you.

Mr. Trippensee, if you'll raise your right hand to be sworn, please, sir.

RUSSELL TRIPPENSEE testified as follows:

JUDGE PRIDGIN: Thank you very much. If you would please have a seat. And Mr. Mills, anything to clear up before he's tendered for cross?

MR. MILLS: No, I don't believe there are any corrections. I will just advise Mr. Trippensee that his rebuttal testimony has been marked as No. 213 and surrebuttal as No. 214.

JUDGE PRIDGIN: Okay. Mr. Mills, thank you. Cross-examination?

(NO RESPONSE.)

JUDGE PRIDGIN: No takers?

All right. Let's see if we have any questions from the bench. Commissioner Murray, do you need a moment?

COMMISSIONER MURRAY: I wasn't expecting there to be no cross.

MR. MILLS: If it would help, I could volunteer cross.

QUESTIONS BY COMMISSIONER MURRAY:

Q. Mr. Trippensee, I don't remember where it is in your testimony, but somewhere you addressed the same issue that I asked Mr. Traxler about with the S&P's discount rate.

Let me see if I can find it. It's on page 4 of your rebuttal testimony. Your answer at the top of that page regarding discount rate and risk factors associated with long-term purchase power contracts that the rating agencies classify as a debt equivalent transaction, and you concur with Mr. Traxler's use of the 6.1 percent rate.

Do you have anything more to add to that issue?

A. With regard to the use of the 6.1 percent?

Q. Yes.

A. No, I do not believe I do. I believe that simply ensures that the calculation will generate sufficient cash flows after traditional regulatory total revenue requirement has been determined to ensure that adequate cash flows are available to meet these metrics, because as I discussed back in the Stipulation and Agreement presentation in the Regulatory Plan case, we no longer are able to meet cash flows during construction -- major construction projects by utilization of normalization and flow-through income tax differences. The only place available now is through some sort of amortization or depreciation to provide additional cash flows.

Q. Okay. What are you referring to there with the 30 and 50 percent risk factor?

A. There's -- in the calculation of the debt equivalent, there are two steps: First, you discount the expected cash flows under the purchased power agreement, and then under Standard & Poor's methodology, they discount it first, and then they apply what they call a risks factor to that final -- that net present value to get the balance of what they call assumed debt -- that's not the exact term -- but additional debt that they -- an amount for the purchased power contract that they add to the actual debt on the capital structure of the company before they develop their cash flow metrics.

These debt factors range anywhere from 5 percent up to 57 -- or 70 percent. It's an arbitrary assessment by Standard & Poor's of what factor they utilize. Public Counsel did not utilize the same risk factor as Staff proposed with the 30 percent.

Q. Did Staff propose the S&P factor?

A. They -- Staff -- the 30 percent is a factor that S&P utilizes, I believe, on KCPL, although I think a recent -- some recent publications indicate that S&P is re-evaluating those. And I'm not sure if that is the current one as of the August 1st report. I think it may have gone up even.

Q. And what is Office of Public Counsel proposing?

A. Public Counsel is proposing a 10 percent risk factor because of the fact that Kansas City Power & Light, unlike -- Kansas City Power & Light is a regulated utility unlike a significant majority -- or a significant number of other electric companies. S&P talked also about, in their publications, with respect to third-party provider of the power, of failure to perform and the uncertainties of regulation.

Well, having talked with S&P, they don't look, in my opinion, strictly at Missouri, what we do in Missouri. And if the company's unable to provide power and -- because of the third-party fault, I will have basically no doubt that this Commission will be able to address that through an accounting authority order, emergency rate relief, or other mechanisms this Commission has to address that potential obligation the company might incur to incur -- in order to provide safe and adequate service.

Q. Okay. Do you have any idea what this issue of the use of the 6.1 percent or the use of the 10 percent versus 30 percent, what that translates into in dollar differences?

A. I was unable to -- I kind of anticipated that question because I'd heard you address it in that, and unfortunately during lunch hour, MIS usurped my computer, and for a five-minute job, it turned into an hour and a half, but, quite honestly, the dollars in revenue requirement, I think Mr. Traxler talked about it in being in terms of an additional debt component in the amortization calculation.  It would be added to what is already the capital structure of the company.

I do not gonna believe -- believe it's gonna that be significant in the ultimate value of the revenue requirement.

And when I talk about significant, I'm talking about a company with an excess of $500 million total revenue requirement.  I would imagine it will be at a million dollars or under.  And I'm just going through mathematical calculations in my head.

The additional debt equivalents here would not rise to the level to generate significant additional debt that required coverages, but I would -- I think Mr. Traxler's indicated he's gonna provide you that calculation, and I will ask him to let me review it before he provides it.

Q.     All right.

COMMISSIONER MURRAY:  I think that's all I have.  Thank you.

JUDGE PRIDGIN:  Commission Murray, thank you.

Commissioner Appling?

QUESTIONS BY COMMISSIONER APPLING:

Q. Sir, I'm gonna go back to a textbook question, okay?

A. Be happy to try and answer that.

Q. Yeah, I know. I'm just trying to get educated on this issue of T accounts. So you might want to do a little drawing if you feel the need --

A. I learned them in a room with windows, so I may be in trouble also.

Q. Well, if I ask a question you think you're gonna be in trouble, we'll skip it and we'll go to a coffee shop someplace and you can draw it on a piece of paper for me later.

But how about telling me, using a T account, where KCP&L will record the $80 million amortization when they receive it and also when they later reverse that to send it out, if you can give me some kind of explanation. I'm just -- I'm trying to understand. I've been out of town for a few weeks here, but it's an issue that I'm no clearer today than I was about it.

Can you do that for me?

A. Yes, I can.

Q. Because I know you like to talk.

A. Thank you, I think. The additional amortization would be recorded on the company's books and records essentially like depreciation expense. It represents a return of the company's investment that they have already made into the rate base of their company.

Q. Uh-huh.

A. The depreciation expense, you debit depreciation expense, which flows through to the income statement, and it causes a revenue requirement.

You also credit accumulated depreciation reserve, which is used to accumulate all the dollars from the beginning of time that the ratepayers have paid in revenues to the company to pay the company back for the investment they made.

That is why the accumulated -- or the additional amortization is -- in the future would be used to offset rate base because the customer will have already paid for the investment that the company has made to that point in time. That's what depreciation represents.

The additional amortization is effectively additional depreciation over and above the normal depreciation rates that are built into the traditional regulatory model.

So the entry that they will make will be accumulated depreciation -- or accumulated -- let me -- pardon me, let me start again. Additional depreciation --

Q. Uh-huh.

A. -- additional amortization expense will be debited and flow through on their income statement. And accumulated depreciation will be credited to reflect that the customers have paid for investments of the company that the company had already made.

This process provides the company cash flow to fund new investments, i.e., this $1.2 billion projects that they are doing on a going forward basis.

As I indicated earlier in response to Commissioner Murray's question, it was anticipated in the Regulatory Plan that they were going to need cash flow. During the 1970s and the early '80s when companies were under a construction plan, cash flow was needed over and above traditional regulation.

It was fully anticipated, at least by Public Counsel, and I think by every other party that signed the Stipulation and Agreement, but I'll let them speak for themselves, that cash flow over and above traditional regulation was going to be required during this construction.

In fact, we spent almost a year looking at the plan, developing ways to meet that within the confines of the law, within the confines of fair and equitable treatment to ratepayers and stockholders and the debt holders of this company.

COMMISSIONER APPLING: That's helpful. Thank you.

THE WITNESS: Thank you, sir.

JUDGE PRIDGIN: All right. Thank you. And I don't believe I have any questions for this witness. Any recross?

(NO RESPONSE.)

JUDGE PRIDGIN: Seeing none, any redirect?

MR. MILLS: No, I don't think so. Thank you.

JUDGE PRIDGIN: All right. There's nothing further for this witness then. All right. Mr. Trippensee, thank you, sir. And if I'm not mistaken, we don't have any further witnesses scheduled for today?

MR. ZOBRIST: That's correct.

JUDGE PRIDGIN: Mr. Mills, I don't recall, did you offer Mr. Trippensee's testimony?

MR. MILLS: No, I have not. I would like to do so at this time. I would like to offer Exhibits 213 and 214, Mr. Trippensee's rebuttal and surrebuttal testimony.

JUDGE PRIDGIN: Any objections?

(NO RESPONSE.)

JUDGE PRIDGIN: Hearing none, Exhibits 213 and 214 are admitted.

(EXHIBIT NOS. 213 AND 214 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

JUDGE PRIDGIN: Looking at tomorrow, it looks like we have Dr. Hadaway, Mr. Schnitzer, and Mr. Woolridge all to testify on cost of capital or closely-related issues; is that correct?

MR. WOODSMALL: Mr. Schnitzer's not cost of capital.

MR. ZOBRIST: Right. Off-system sales. He will be here, Dr. Hadaway will be here.

JUDGE PRIDGIN: And Mr. Woolridge?

MR. PHILLIPS: Yeah, Dr. Woolridge.

JUDGE PRIDGIN: Or Doctor, excuse me.

MR. PHILLIPS: He's expected to arrive here about three a.m., so I'm not sure how early in the morning we could have him available.

JUDGE PRIDGIN: I think he should be the 8:30 witness.

MR. MILLS: I think we should be here at three.

JUDGE PRIDGIN: I mean, we can certainly take him last obviously.

MR. PHILLIPS: Thank you.

JUDGE PRIDGIN: Will there be any other witnesses? It looks like Mr. Camfield's not available until Thursday, the 26th, and that the other witnesses won't be available until Friday; is that correct?

MR. ZOBRIST: That's correct.

JUDGE PRIDGIN: Okay. And I certainly don't have a preference. I don't know if counsel has -- excuse me -- a preference on Dr. Hadaway or Mr. Schnitzer going first.

MR. ZOBRIST: KCPL does not, and I don't know their particular travel arrangements, so either is fine. We'll have one of those up first.

JUDGE PRIDGIN: If I'm hearing no preference from counsel, we may see if there's any preference from the bench later this afternoon or anything from counsel in the morning, but either one of them it sounds like will be on the stand at 8:30 in the morning. Okay?

Anything further from counsel before we adjourn for the day?

MR. PHILLIPS: Do we have an idea how much time Mr. Schnitzer will take?

JUDGE PRIDGIN: Counsel have any idea who's interested in cross-examining Mr. Schnitzer on off-system sales?

MR. MILLS: I've got five minutes.

JUDGE PRIDGIN: Looks like it will take a little time, not a lot.

MR. PHILLIPS: Okay. Thanks.

JUDGE PRIDGIN: Sure. Okay. Anything further from counsel?

(NO RESPONSE.)

JUDGE PRIDGIN: All right. I'm sorry. Mr. Dottheim? All right. If there's nothing further before we need to go off the record?

(NO RESPONSE.)

JUDGE PRIDGIN: All right. Hearing nothing further, we will adjourn for the day. We will resume at 8:30 in the morning.

Thank you very much. We are off the

record.

(WHEREUPON, the hearing of this case was recessed until October 25, 2006, at 8:30 a.m.)

INDEX

(COST OF CAPITAL ISSUE CONTINUED)

EXHIBITS INDEX

| | MARKED | REC'D |
|---|---|---|
| Exhibit No. 203<br>Surrebuttal Testimony of<br>Richard A. Baudino | ** | 1125 |
| Exhibit No. 206<br>Direct Testimony of<br>Barbara A. Meisenheimer | ** | 1067 |
| Exhibit No. 207<br>Supplemental Direct<br>Testimony of<br>Barbara A. Meisenheimer | ** | 1067 |
| Exhibit No. 208<br>Rebuttal Testimony of<br>Barbara A. Meisenheimer | ** | 1067 |
| Exhibit No. 209<br>Surrebuttal Testimony of<br>Barbara A. Meisenheimer | ** | 1067 |
| Exhibit No. 213<br>Rebuttal Testimony of<br>Russell W. Trippensee | ** | 1221 |
| Exhibit No. 214<br>Surrebuttal Testimony of<br>Russell W. Trippensee | ** | 1221 |
| Exhibit No. 701<br>Direct Testimony of<br>Joseph A. Herz | ** | 1035 |
| Exhibit No. 702<br>Surrebuttal Testimony of<br>Joseph A. Herz | ** | 1035 |
| Exhibit No. 703<br>Data Request-Set<br>TRIG_20060621<br>Case: ER-2006-0314<br>Date of Response: 07/18/2006<br>Information Provided by<br>Tim Rush<br>Requested by:  Herz, Joseph | 1026 | 1027 |

CERTIFICATE OF REPORTER

STATE OF MISSOURI )
)ss.
COUNTY OF COLE )

I, PAMELA FICK, RMR, RPR, CSR, CCR #447, within and for the State of Missouri, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by me; that the testimony of said witness 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 to which this deposition 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.

PAMELA FICK, RMR, RPR, CSR, CCR #447