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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

February 22, 2017
Jefferson City, Missouri
Volume 11

In the Matter of Kansas City)
Power & Light Company's Request) Case No. ER-2016-0285
for Authority to Implement a)
General Rate Increase for)
Electric Service)

JUDGE RONALD D. PRIDGIN, Presiding
DEPUTY CHIEF REGULATORY LAW JUDGE

COMMISSIONERS PRESENT:

DANIEL Y. HALL, Chairman
STEPHEN M. STOLL,
WILLIAM P. KENNEY,
SCOTT T. RUPP,
MAIDA J. COLEMAN,
COMMISSIONERS

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1 P R O C E E D I N G S

2 JUDGE PRIDGIN: Good morning. We're back
3 on the record. We're resuming the KCP&L hearing In
4 File No. E-2016-0285.

5 According to my updated witness list, I
6 believe we have Dr. Woolridge as the first witness
7 to be heard today, and we will then proceed
8 accordingly go onto FAC, rate design and revenues.
9 Anything from the Bench before Dr. Woolridge takes
10 the stand? Mr. Chairman?

11 CHAIRMAN HALL: Yeah. Good morning. I
12 would like -- I guess I'd ask staff for this,
13 though. And if the company can access it more
14 expeditiously, that would, of course, be fine as
15 well.

16 I would like to get copies of the current
17 EDR tariff and, also, the current line extension
18 tariff. Don't need that, obviously, for the first
19 couple of witnesses, but I would like it by the
20 time we get to Ms. Miller. Is that doable?

21 MR. THOMPSON: Current EDR tariff and
22 current line extension tariff?

23 CHAIRMAN HALL: Correct.

24 MR. THOMPSON: Yes, sir. We'll have it.

25 CHAIRMAN HALL: Thank you so much.

1 JUDGE PRIDGIN: Anything else from the
2 Bench or from Counsel before Dr. Woolridge takes
3 the stand?

4

5 MR. STEINER: Your Honor, we're still
6 talking about some settlement items that we might
7 take a short break after FAC to -- maybe a
8 half-hour break or so to do that --

9 JUDGE PRIDGIN: Okay.

10 MR. STEINER: -- if that -- if that would
11 be okay.

12 JUDGE PRIDGIN: Any -- any response? And
13 what I'm hearing is we will go on and try, return
14 on equity and FAC. That would be Dr. Woolridge,
15 Roos and Dauphinais, if I'm pronouncing that name
16 correctly.

17 MR. DOWNING: Yes.

18 JUDGE PRIDGIN: And then the parties would
19 like to take a 30-minute break to discuss settling
20 some other issues. So we'll just kind of play it
21 by ear to see when some of those other witnesses
22 are gone and what witnesses we'll resume. Okay.
23 thank you. Anything further before Dr. Woolridge
24 takes the stand?

25 Okay. Hearing nothing, Dr. Woolridge, if

1 you'll come forward to be sworn, please, sir. If
2 you'll raise your right hand to be sworn, please,
3 sir.

4 J. RANDALL WOODLRIDGE,
5 being first duly sworn to testify the truth, the whole
6 truth, and nothing but the truth, testified as follows:

7 DIRECT EXAMINATION

8 BY MR. THOMPSON:

9 JUDGE PRIDGIN: Thank you, sir. Please
10 have a seat. And, Mr. Thompson, when you're ready,
11 sir.

12 MR. THOMPSON: Thank you very much, Judge.

13 **Q (By Mr. Thompson) State your name,**
14 **please, sir.**

15 A My name is the initial J. Randall --
16 that's initial J. Randall Woolridge,
17 W-o-o-l-r-i-d-g-e.

18 **Q Thank you, sir. And how are you employed?**

19 A I'm a Professor of Finance at the
20 Pennsylvania State University.

21 **Q And are you appearing in this case on**
22 **behalf of any party?**

23 A I'm appearing on behalf of Staff.

24 **Q And that's pursuant to a contract?**

25 A Yes.

1 **Q** And are you the same Dr. J. Randall
2 **Woolridge** who prepared or caused to be prepared a
3 **contribution** to the Staff revenue requirement cost
4 **of service report rebuttal testimony** marked as
5 **Staff Exhibit 232** and surrebuttal testimony HC and
6 **NP** marked as Staff Exhibit 233?

7 A Yes.

8 **Q** Do you have any changes or corrections to
9 **that report -- or to those pieces of testimony?**

10 A No.

11 **Q** If I were to ask you those same questions
12 **today, would your answers be the same?**

13 A Yes.

14 **Q** And the contents of those items are true
15 **and correct to the best of your knowledge and**
16 **belief?**

17 A Yes.

18 MR. THOMPSON: At this time, Judge, I
19 would offer Staff Exhibit 232 and 233 HC and NP.

20 JUDGE PRIDGIN: Any objection? Hearing
21 none, Exhibit 232 is admitted. Exhibit 233 HC and
22 NP is admitted.

23 (Staff Exhibit 232 and Staff Exhibit 233
24 HC and NP were offered and admitted into evidence.)

25 MR. THOMPSON: Thank you, Judge. I tender

1 the witness for cross-examination.

2 JUDGE PRIDGIN: Mr. Thompson, thank you.

3 Cross, Public Counsel?

4 MR. OPITZ: No, thank you, Judge.

5 JUDGE PRIDGIN: MIEC?

6 MR. DOWNING: No thanks, Judge.

7 JUDGE PRIDGIN: MECG? Try too speed

8 things. KCP&L, will you have cross?

9 MR. ZOBRIST: Definitely.

10 JUDGE PRIDGIN: Any other parties wishing

11 to go? Okay Mr. Zobrist, when you're ready, sir.

12 MR. ZOBRIST: Thank you, Judge.

13 CROSS-EXAMINATION

14 BY MR. ZOBRIST:

15 Q Good morning, Doctor.

16 A Good morning. How are you?

17 Q Okay.

18 A Good.

19 Q Okay.

20 A In your surrebuttal testimony, if you have

21 that before you, take a look at Page 2.

22 A Yes.

23 Q Around Line 20. Am I correct that you
24 noted the economy in recent months and as of the
25 time that you filed this at the end of January 2017

1 **that the economy has experienced lower employment**
2 **and improving economic growth and corporate**
3 **earnings?**

4 A Yes. I -- yeah. That's relative to the
5 August 16th period when interest rates kind of
6 bottomed out in 2016.

7 **Q And in recent days, in fact, the stock**
8 **market has not only gained almost 10 percent. It's**
9 **gained over 10 percent, correct?**

10 A It's -- up about 10 percent or a little
11 bit more since the election.

12 **Q And 30-year treasuries have also increased**
13 **to about 50 basis points?**

14 A They increased about 50 basis points since
15 last summer. They're currently at 3.04 percent,
16 which is -- they've been hovering around 3 percent.

17 **Q And they've been trading over 3 percent**
18 **for the last couple of weeks, correct?**

19 A Yes. But they kind of go up and down
20 every day. Some days, they go up. Some days, they
21 go down.

22 **Q But the overall trend is up, correct?**

23 A Well, the trend -- you can look at a
24 couple days or couple weeks. Trends are -- are --
25 you know, it doesn't mean they're going to continue

1 to go up. You know, just because they go up one
2 day or one month doesn't mean they're going to go
3 up the next six months.

4 **Q But you've testified that the 30-year**
5 **treasury yield has increased about 50 basis points**
6 **to its current level of about 3.0 percent?**

7 A I agree.

8 **Q Since August, correct?**

9 A Yes. It bottomed out in August and it's
10 increased about 50 basis points.

11 **Q And the Dow Jones industrial average, top**
12 **20,000 for the first time in history, correct?**

13 A Yes, it did.

14 **Q And what's it trading at today?**

15 A 21 -- 21, something like that. I don't
16 know. I didn't -- I don't know the exact number.

17 **Q It's well over 20,000 today, correct?**

18 A Yes.

19 **Q Okay. And you noted on Page 3 of your**
20 **surrebuttal that the Federal Reserve Board had**
21 **increased interest rates in December, true?**

22 A They did.

23 **Q Okay. But you did not change your GDP**
24 **growth rate in your constant growth model, correct?**

25 A I didn't use a GD growth rate in my

1 constant growth.

2 **Q Did you use a growth rate of 1.7 percent?**

3 A No. I -- what I did was in my --

4 **Q No, no. My question is, did you use a**
5 **growth rate of 1.7 percent?**

6 A Not in my DCF model.

7 **Q Now, are you familiar with a recent**
8 **issuance by the Bureau of Economic Analysis that**
9 **stated that the average GDP growth rate for 2016 is**
10 **now 1.9 percent?**

11 A It was initially 1.6 percent. They might
12 have updated that. They update that occasionally.

13 MR. ZOBRIST: Would you mark that? I
14 think it's 159.

15 (Exhibit 159 was marked or
16 identification.)

17 **Q (By Mr. Zobrist) Dr. Woolridge, I've**
18 **handed you what the court reporter has marked as**
19 **Exhibit 159. Do you have that before, sir?**

20 A I do.

21 **Q And is that a release by the Bureau of**
22 **Economic Affairs, Department of Commerce that came**
23 **out on January 27th, 2017?**

24 A Yeah. It's a Bureau of Economic Analysis.
25 In fact, the graph here looks a lot like the graph

1 I have on page 6 of my surrebuttal testimony,
2 except that they -- it includes the -- the updated
3 one, which was after my testimony, includes the
4 fourth quarter of 2016 and -- which -- where the
5 GDP growth rate declined from a 3.5 percent on a
6 quarterly basis to, I believe it was, 1.9 percent.
7 And it turned out to be 1.9 percent for the year
8 2016.

9 **Q Fine. And this is the type of -- this is**
10 **the type of Government information that you rely**
11 **upon in conducting your analyses, correct?**

12 A Well, I -- certainly, I look at this, yes.

13 MR. ZOBRIST: Okay. Judge, I move the
14 admission of Exhibit 159.

15 JUDGE PRIDGIN: Any objection? Hearing
16 none, once 159 is admitted.

17 **Q (By Mr. Zobrist) And as you quoted, the**
18 **first paragraph here, it says, The real gross**
19 **domestic product increased at an annual rate of 1.9**
20 **percent in the fourth quarter according to the**
21 **advanced estimate released by the Bureau of**
22 **Economic Analysis, and in the third quarter, real**
23 **GDP had increased 3.5 percent, correct?**

24 A Yes.

25 **Q Okay. And based upon this quarterly**

1 report, the annual gross domestic product for 2016
2 was also an increase of 1.9 percent, correct?

3 A Yes.

4 Q Now, are you aware that the U.S. Census
5 Department of the -- pardon on me. The U.S. Census
6 Bureau of Department of Commerce also reported
7 stronger than expected retail and food sales for
8 January 2017?

9 A Yes. And as I said, I mean, one month or
10 one quarter doesn't create a trend. I mean, it may
11 be an indication.

12 And a lot of times, these things are
13 revised. So like this GDP number could be revised.
14 But I'm just saying one -- sort of like you looked
15 at this -- your -- your GDP growth rate. Yeah.
16 Third quarter was 3.5 percent. Fourth quarter was
17 1.9 percent.

18 So I'm not saying that there's necessarily
19 -- if you have one observation a quarterly or
20 monthly figure, it doesn't mean there's a long-term
21 trend.

22 Q Dr. Woolridge, I've handed you -- handed
23 you what I've marked as Exhibit 160, which is an
24 advanced monthly sales report for retail and food
25 services for January 2017 issued by the Census

1 Bureau of the Department of Commerce, correct?

2 A Yes.

3 Q Okay. And that's what you were describing
4 in response to my previous question?

5 A No. I was referring to the GDP report.

6 Q Okay. Am I correct that the Census Bureau
7 of the Department of Commerce issued last week on
8 February 15th an advanced estimate of U.S. retail
9 and food sales for January 17th that showed an
10 increase of .4 percent from the previous month and
11 an overall year increase of 5.6 percent about
12 January 2016?

13 A Yes.

14 Q Okay. And, again, this is the type of
15 Government information that you survey and rely
16 upon in preparing you analyses in return on equity
17 and cost of capital in cases like this, correct?

18 A Well, I review general economic
19 indicators. But, obviously, in computing cost of
20 capital, I look at dividend yields, growth rates,
21 interest rates, that sort of thing. And,
22 certainly, these are reflected in -- in -- in those
23 numbers as well.

24 MR. ZOBRIST: Okay. Your Honor, I'd move
25 the admission of Exhibit 160.

1 JUDGE PRIDGIN: Any objections?

2 MR. THOMPSON: I'm going to object on
3 grounds of foundation. I don't think the witness
4 said he'd ever seen this before.

5 MR. ZOBRIST: Judge, it's a Government
6 report. It's self-authenticating. The -- it's
7 indicated that it comes from the U.S. Department of
8 Commerce. The witness has stated he relies upon
9 Governmental data in preparing his analyses. I
10 believe it should be admitted.

11 JUDGE PRIDGIN: Objection is overruled.
12 160 is admitted.

13 (KCP&L Exhibit 160 was offered and
14 admitted into evidence.)

15 **Q (By Mr. Zobrist) Now, Dr. Woolridge, is**
16 **it also true that -- well, are you aware that the**
17 **Bureau of Labor Statistics also issued its report**
18 **indicating that the consumer price index for all**
19 **urban consumers increased .6 percent in January?**

20 A I -- I am aware of that. And, again, just
21 because it's a one-time event doesn't mean it's a
22 -- a trend.

23 **Q Well, no. But you follow all these**
24 **reports as they come out on a periodic basis to**
25 **make certain that you're informed as to these**

1 **trends, correct?**

2 A Well, I do. And -- and in my analysis,
3 these are reflected in the capital market data that
4 I use.

5 Q Okay. I'm going to show you what I've
6 marked as Exhibit 161, which is a news release from
7 the Bureau of Labor Statistics of the U.S.
8 Department of Labor dated February 15th, 2017. Is
9 Exhibit 161, Dr. Woolridge, a copy of that news
10 release that I just referred to?

11 A Yes, it is.

12 Q Okay. And am I correct, then, the first
13 paragraph, it indicates that over the last 12
14 months, the All Items Index rose 2.5 percent for
15 seasonal adjustment?

16 A Yes, it is.

17 Q Okay. And at the bottom paragraph, just
18 before the graph, am I correct that this states the
19 all items index rose 2.5 percent for the 12 months
20 ending January, the largest 12-month increase since
21 March 2012; is that correct?

22 A Yes.

23 MR. ZOBRIST: Okay. Judge, I also move
24 the admission of Exhibit 161.

25 JUDGE PRIDGIN: Any objections? Hearing

1 none, Exhibit 161 is admitted.

2 (KCP&L Exhibit 161 was offered and
3 admitted into evidence.)

4 **Q (By Mr. Zobrist) Now, Dr. Woolridge, in**
5 **your surrebuttal filed at the end of January, you**
6 **took note of the fact that the Federal Reserve**
7 **Board had raised interest rates in December of**
8 **2016, correct?**

9 A I did.

10 **Q Okay. And how -- how sizable was that**
11 **rate increase?**

12 A 25 basis points.

13 **Q And are you aware that the Chair of the**
14 **Federal Reserve Board, Janet Yellen, testified last**
15 **week before Congress that the committee will**
16 **evaluate at upcoming meetings whether employment**
17 **and inflation are continuing to evolve in line with**
18 **these expectations, in which case a further**
19 **adjustment of the Federal funds rate would likely**
20 **be appropriate?**

21 A Yes. There are a couple things. I
22 commented yesterday that the notes came out from
23 the January meeting of the Federal Reserve.

24 Afterwards, the markets indicated there's
25 about a 43 percent chance of a rise in the -- the

1 discount rate in -- in March.

2 I'll go back to December of 2015, the
3 first time the Fed raised rates. You look over the
4 next six months, long-term rates went down. They
5 didn't go up.

6 Again, in this analysis, we're using long
7 term-rates, not short-term rates. So, certainly,
8 the Fed directly controls short-term rates through
9 the discount rate.

10 In my testimony, I laid out that the --
11 the fact that the Fed doesn't correctly control
12 long-term rates. The market's really determining
13 those.

14 **Q Thank you. I think you've responded to my**
15 **question that was -- that you were aware of what**
16 **Chair Yellen had said, correct?**

17 A And I updated from yesterday's meeting.

18 **Q Thank you. Thank you. Well, let me show**
19 **you 162 and ask you to confirm, if you can, if this**
20 **is a copy of the testimony that Chair Yellen**
21 **offered to the Banking Committee of the U.S. Senate**
22 **last week. Does that appear to be a copy of her**
23 **testimony?**

24 A Yes, it does.

25 **Q And am I correct that she also surveys**

1 **that Fed's view -- or at least her view as the**
2 **Chair of the Fed of the current economic situation,**
3 **correct?**

4 A Yes.

5 MR. ZOBRIST: Okay. I move for the
6 admission of Exhibit 162.

7 JUDGE PRIDGIN: Any objections? Hearing
8 none, Exhibit 162 is admitted.

9 (KCP&L Exhibit 162 was offered and
10 admitted into evidence.)

11 **Q (By Mr. Zobrist) Now, Dr. Woolridge, you**
12 **just mentioned, I think, the percentage that the**
13 **market had predicted as far as a future Federal**
14 **Reserve Board interest rate hike at 43 percent; is**
15 **that correct?**

16 A That's -- that's what I read last night.
17 Yes.

18 **Q And is that from the CME group?**

19 A Yes.

20 **Q Okay. Let me show you --**

21 MR. ZOBRIST: And this may be a little
22 awkward, Judge. You have to print these off the
23 Internet, and I've got a report that's got a bunch
24 of blanks. But I'm going to ask the witness if he
25 can identify this. And if he can, then I'll

1 provide the Commission with sort of summary
2 information. 160 --

3 A Three.

4 MR. ZOBRIST: 163, Judge?

5 JUDGE PRIDGIN: That's correct.

6 (KCP&L Exhibit 163 was offered and
7 admitted into evidence.)

8 Q (By Mr. Zobrist) Now, Dr. Woolridge, it
9 may just be my inability to figure out how to
10 print. But when I took a look at the CME group
11 yesterday, I got this blank page. And then page 2
12 shows the percentages for the March meeting, and
13 then there's a dot chart in the second -- pardon me
14 -- in the third page and then another blank page on
15 the fourth page. Is this a copy of what you see
16 when you got to the CME Group Fed Watch to look for
17 these percentages that you referred to?

18 A Yes.

19 MR. ZOBRIST: Okay. Judge, I'm going do
20 move the admission of Exhibit 163? Is that what it
21 is?

22 JUDGE PRIDGIN: Correct. Exhibit 163 has
23 been offered. Any objection?

24 MR. THOMPSON: Well, is this another
25 Government report, Karl?

1 MR. ZOBRIST: No. This is the -- this is
2 the firm that issues the percentages that
3 Dr. Woolridge mentioned when I was questioning him
4 just a few minutes ago. And I've got a better copy
5 of the percentages in a graph form right now that
6 I'll pass out.

7 MR. THOMPSON: So it's not
8 self-authenticating?

9 MR. ZOBRIST: No. It's what Dr. Woolridge
10 referred -- he just testified that he referred to
11 these percentages that the CME group issues and
12 that he looked at it, I think, this morning or
13 yesterday.

14 MR. THOMPSON: May I voir dire, Judge?

15 JUDGE PRIDGIN: You may.

16 VOIR DIRE EXAMINATION

17 BY MR. THOMPSON:

18 Q Dr. Woolridge, have you ever seen this
19 before?

20 A I've gone on the web site and seen it. I
21 haven't seen the current one.

22 Q You have not seen this particular one?

23 A No. But I'm aware of --

24 MR. THOMPSON: In that case, I would
25 object.

1 MR. ZOBRIST: Excuse me. He interrupted
2 his own witness, Judge. I think Dr. Woolridge
3 ought to be permitted to finish his answer.

4 JUDGE PRIDGIN: I'm sorry, Mr. Thompson.
5 What was your objection?

6 MR. THOMPSON: My objection is foundation.
7 The witness said he has not seen this particular
8 item before. And it's not a Government report
9 that's self-authenticating.

10 JUDGE PRIDGIN: The objection is
11 overruled. 163 is admitted.

12 (KCP&L Exhibit 163 was offered and
13 admitted into evidence.)

14 CONTINUED CROSS-EXAMINATION

15 BY MR. ZOBRIST:

16 **Q And, Dr. Woolridge, let me show you**
17 **Exhibit 164, which is an actual picture of the**
18 **chart.**

19 MR. ZOBRIST: Judge, did I provide the
20 Bench with these charts?

21 JUDGE PRIDGIN: Not. 164? No.

22 **Q (By Mr. Zobrist) Now, Dr. Woolridge, if**
23 **you were to look at that CME Group Fed Watch chart,**
24 **are these the types of bars that you see?**

25 A I'm -- I'm aware of these. Yes.

1 Q Okay. Now, did you look at -- when is the
2 last time you looked at this chart?

3 A A month ago.

4 Q Okay. When you said that you looked at
5 the percentages recently that indicated a 43
6 percent chance of a rate increase, when did you
7 look and see that?

8 A Either last night or this morning.

9 Q Okay. Well, this is dated --

10 A It was after the release of the Fed
11 minutes from yesterday.

12 Q Okay. Well, this is dated February 21st
13 at 9:45 a.m. And it indicates that as of that day
14 and time yesterday at a quarter to ten, the current
15 probability of a 50 to 75 basis point rate increase
16 was 73.4 percent, and the previous day, which would
17 have been Friday, it was 82.3 percent. Do those
18 probabilities sounds accurate based upon your
19 survey of the CME Group web site?

20 A No. The -- the target --

21 Q Excuse me. Yes or no? Do they seem to be
22 accurate based upon your review of the CME Group
23 web site?

24 A No. Not the way you stated it.

25 Q Okay. What is -- what is wrong with this

1 **here?**

2 A The way you stated it, it's not a target
3 rate increase. It's -- the target rate, the
4 probability of it being 50 to 75 basis points as of
5 the March meeting is 73 percent.

6 The probability of it going up to 75 to a
7 hundred basis points is 26 percent. That's -- I'm
8 sorry. That's just how that's interpreted. It's
9 not an increase. It's -- it's the probability of
10 the target rate being at one level or the other
11 level.

12 **Q It being at the 50 versus the 75?**

13 A 50 -- no. As a range. That's a range.
14 Their range is 50 to 75.

15 **Q Okay. And -- and you're saying that the**
16 **probable -- that the market is assessing the**
17 **current probability of an increase to 50 to 75**
18 **basis points at 73.4 percent as of yesterday?**

19 A Well, it's there now. It's -- the
20 probability of an increase to 75 to 100 is 26
21 percent.

22 **Q Okay. And -- and these market increases**
23 **or -- or decreases in terms of probability occur on**
24 **a daily basis, correct?**

25 A Yes, they do.

1 MR. ZOBRIST: Okay. Judge, I move the
2 admission of Exhibit 164, I believe it is.

3 JUDGE PRIDGIN: 164 is offered. Any
4 objection? Hearing none, 164 is admitted.

5 (KCP&L Exhibit 164 was offered and
6 admitted into evidence.)

7 Q (By Mr. Zobrist) Now, as a result of
8 these generally recent trends, these positive
9 economic trends, Treasury yields continue to
10 increase as you testified; is that correct?

11 A Treasury yields have gone up. They've
12 gone down. They're currently at 3.04 percent. The
13 market is projected to go down today. They'll be
14 lower today.

15 Q As of the last three months, the trend has
16 been uniformly upward, correct?

17 A The trend is it goes up. It goes up. It
18 goes down. I mean, in the end, no one can forecast
19 interest rates.

20 Q I'm asking -- pardon me. I'm asking,
21 historically, over the last three months, has the
22 universal trend been upward?

23 A The rates have gone up.

24 Q Thank you. Thank you.

25 A But that doesn't mean they're going to

1 continue to go up.

2 Q Okay. Now, is it generally true that
3 higher interest rates and gross domestic product
4 growth indicate that the financial community sees
5 strong growth prospects in the economy?

6 A Well, certainly, it sees better. I don't
7 know if it would be strong.

8 Q Is it reasonable, given these recent
9 trends, to expect higher dividend yields and higher
10 growth rates?

11 A No.

12 Q Do you think these developments indicate
13 that increases in the cost of equity are
14 appropriate and reasonable?

15 A No. I mean, the cost of equity is a
16 function of dividend yields, which have been --
17 they've been relatively stable recently.

18 Q Okay. Thank you.

19 A And expected growth rates. No. That is
20 the question.

21 Q Well, no. My question was a yes or no
22 question. You're testifying as if Mr. Thompson
23 were asking you questions. You stated in your
24 surrebuttal that as capital market costs decline,
25 ROE should decline, correct?

1 A And capital cost are a function of
2 dividend yields and growth rates. Yes.

3 **Q And when they increase, returns on equity**
4 **should increase as well, correct?**

5 A Yes. If -- if the dividends yields and
6 growth rates are going up.

7 **Q So if inflation is going up and we're**
8 **seeing increased growth rates, those are pressures**
9 **-- upward pressures upon the cost of capital and,**
10 **therefore, return on equity?**

11 A And -- and they're reflected every day in
12 the stock prices we see. I agree with that.

13 **Q And they're reflected in Treasury yields**
14 **and in bond yields, correct?**

15 A Yes, they are.

16 **Q And they're reflected in the economic data**
17 **that we've talked about here this morning, correct?**

18 A Yes.

19 **Q Okay. Now, let me ask you about the --**
20 **the analysis that you prepared in this case. You**
21 **prepared a constant growth study using the**
22 **discounted cash flow model, correct?**

23 A I did.

24 **Q And you prepared a capital asset pricing**
25 **model, correct?**

1 A I did.

2 **Q Okay. You did not prepare a risk premium**
3 **analysis?**

4 A Well, the capital pricing model is a
5 version of the risk premium. So it's -- it's a
6 risk free rate plus a risk free premium. And in
7 this case, Mr. Hevert, obviously, did another risk
8 premium analysis.

9 **Q And so did Mr. Gorman on behalf of one of**
10 **the other Intervenor, correct?**

11 A Yes.

12 **Q So you did not prepare an independent risk**
13 **premium analysis?**

14 A I did a capital asset pricing model, which
15 is a risk premium model.

16 **Q And in terms of updates, Mr. Gorman**
17 **prepared an update of his analysis as did**
18 **Mr. Hevert in this case, correct?**

19 A Yes.

20 **Q And you did not. True?**

21 A No, I did not. I was not asked to, and I
22 didn't update it.

23 **Q Okay. And, in fact, the -- the update**
24 **that Mr. Gorman prepared resulted in a discounted**
25 **cash flow ROE recommendation moving from 8.8**

1 **percent to 9.0 percent, correct?**

2 A I -- I think -- yes. I believe the lower
3 end of his range was a little higher. And I think
4 if I did mine today, the higher end of my -- higher
5 end of the range may go up a little bit. It
6 doesn't necessarily mean my recommendation would
7 change.

8 **Q Well, in fact, you're not making a change**
9 **to your recommendation, are you?**

10 A That's correct.

11 **Q And Mr. Gorman's risk premium rate**
12 **recommendation, the recommendation based upon his**
13 **risk premium analysis went up 30 basis points from**
14 **9.20 to 9.50, correct?**

15 A I believe so. Yes.

16 **Q Okay. Now, Mr. Woolridge, would you turn**
17 **to -- it's in the Staff report. It's Exhibit**
18 **JRW10, page 4. And I've got pages, individual**
19 **pages, if that would speed up the process for you**
20 **to look at. Do you have that before you, sir?**

21 A I do.

22 **Q Okay. This -- this Exhibit JRW10, page 4**
23 **indicates the value line investment data for**
24 **projected return on equity for your proxy group and**
25 **for Mr. Hevert's proxy group, correct?**

1 A It does.

2 **Q Okay. And at the bottom there under the**
3 **column -- it's about the fourth one over.**

4 MR. ZOBRIST: And, Judge, pardon me. I've
5 got copies for the Bench here I can give so you can
6 follow along.

7 **Q (By Mr. Zobrist) Am I correct that at the**
8 **bottom, where you have the mean and median returns**
9 **on equity, they are 10.5 percent mean and 10.0**
10 **percent median for what you call the electric proxy**
11 **group, which is your proxy group, correct?**

12 A Yes.

13 **Q Okay. And then under Mr. Hevert's proxy**
14 **group, the equivalent figures are 10.2 percent and**
15 **10.0 percent, correct?**

16 A Yes.

17 **Q Okay. And yet your recommendation to the**
18 **Commission is to award an ROE of 8.65 percent; is**
19 **that correct?**

20 A Yes.

21 **Q And that's 190 basis points between the**
22 **mean or average ROE and your proxy group?**

23 A Well, first of all, let me -- yeah. These
24 are projected based on value line numbers. They
25 include their unregulated operations, which include

1 about 20 percent of their numbers.

2 You know, includes things like dominion
3 with an 18.5 percent ROE. I mean, that's not their
4 regulated ROE. That includes a lot of their
5 commercial generation. They get 35 percent of
6 their revenues from unregulated operations.

7 The current ROEs for these companies in
8 terms of their current returns on equity are about
9 9 percent.

10 **Q Well, and the point is you've got a whole**
11 **list of ROEs, not only from that high you pointed**
12 **but, also, from lows of 8.0 percent for DTE and 8.5**
13 **percent for Allete, A-l-l-e-t-e, correct?**

14 A Yes. Yeah. And I said these are the
15 projections -- the current numbers are about 9
16 percent.

17 **Q Okay. Now, Dr. Woolridge, do you follow**
18 **the Regulatory Research Associate reports that are**
19 **issued on a periodic basis as far as authorized**
20 **returns from other State Commissions?**

21 A Yes, I do.

22 **Q Okay.**

23 A I used them in my report.

24 **Q Okay. Let me show you a copy of -- it's**
25 **Exhibit 155. It was previously admitted. I -- do**

1 you have a copy of that in front of you, by any
2 chance? I tell you, you may not but I've got an
3 extra copy for your Counsel, and I'll show it to
4 you, as well it's already been admitted into
5 evidence.

6 A I do not.

7 Q Woolridge, I'll represent to you that this
8 is the January 18th, 2017, Regulatory Research
9 Associates report that was admitted into evidence
10 two weeks ago as Exhibit 155. Are you familiar
11 with this report?

12 A Yes, I am.

13 Q Okay. Now, am I correct that it states in
14 the first paragraph that the average return on
15 equity for all electric utilities in 2016 was 9.77
16 percent?

17 A Yeah. And that -- as it states further
18 down, that includes the -- the special Virginia
19 cases.

20 Q Right. And if you exclude those limited
21 issue rider cases, the average ROE is 9.60 percent,
22 correct?

23 A That's correct.

24 Q Okay. And in this case, your
25 recommendation is almost a hundred basis points

1 **below the overall average; is that correct?**

2 A I would agree with that. And, in fact, if
3 you look at my report, I discuss that issue.

4 **Q And --**

5 A On -- I discuss that issue.

6 **Q Well, and, again, Mr. Thompson can ask you**
7 **about your discussion of that. You have made no**
8 **adjustments since filing your rebuttal testimony in**
9 **November, and you have made no adjustments in your**
10 **recommendations since filing your surrebuttal**
11 **testimony as you come here today in Jefferson City**
12 **and testify as to your recommendation, correct?**

13 A That is correct. And if you look at it, I
14 -- for example, in my -- in my --

15 **Q Thank you. Thank you. I think you've**
16 **answered -- I think you've answered my question.**
17 **Now, let me ask you this. Do you ever download the**
18 **reports that periodically come out from Research**
19 **Regulatory Associates that appear as this flow**
20 **chart that I'm going to mark as --**

21 MR. ZOBRIST: Exhibit 164, Judge? Or 165?

22 JUDGE PRIDGIN: I -- excuse me. I have
23 the -- I have 164 as the last exhibit admitted. It
24 was the chart.

25 (KCP&L Exhibit 165 was marked for

1 identification.)

2 Q (By Mr. Zobrist) Okay. Dr. Woolridge,
3 does 165 appear to be the kind of spreadsheets that
4 are issued periodically by Research Regulatory
5 Associates?

6 A I believe so. I -- I don't download them,
7 but -- I did -- it looks familiar.

8 Q Okay. But you look at these from time to
9 time, correct?

10 A Well, when other witnesses provide them.

11 Q Well, happy to do so. Now, the last case
12 that's listed on Exhibit 165 is a Delmarva,
13 D-e-l-m-a-r-v-a, Power & Light Company case
14 recently decided by the Maryland Public Service
15 Commission. Are you familiar with that case?

16 A I am.

17 Q Okay. And you testified in that case,
18 right?

19 A I did.

20 Q And this was a fully litigated
21 distribution energy case that resulted in an ROE of
22 9.60 percent, correct?

23 A That's correct.

24 Q So the information there at the bottom of
25 this Exhibit 165 is correct as far as that case

1 **that you participated in?**

2 A Yes. But this is not an up-to-date
3 analysis. This is -- I mean, I'm looking at dates
4 of the rate cases. It doesn't -- I mean, it
5 doesn't go to -- I mean, I look at -- for example,
6 I think when Mr. Hevert was testifying, he
7 referenced a Virginia case that he and I were in.
8 And it was Virginia Electric Power.

9 For some reason, it's not in here. But
10 the decision there was 9.4 percent. So I -- I
11 don't know if that was missing or whatever. But
12 that decision was in January. Mr. Hevert
13 recognized he had testified in that case when he
14 was cross-examined.

15 **Q You talk about the North Carolina case,**
16 **the Virginia Electric Power company case?**

17 A No. The Virginia case that Mr. Hevert
18 referred to on cross-examination.

19 **Q Okay. My recollection is that he**
20 **mentioned Florida, South Carolina and North**
21 **Carolina. I don't remember a Virginia case. Is**
22 **that what you heard?**

23 A I read it in the transcript.

24 **Q Okay. Then I stand corrected. The**
25 **Virginia cases are these limited rider cases,**

1 correct?

2 A Yes.

3 Q Okay. And those cases were not included
4 in the 9.60 overall average rate of return for
5 electric utilities that I mentioned. And that's in
6 the second sentence of the ROA report that I asked
7 you to take a look at, correct?

8 A No. But they do reset the ROE, and they
9 -- they move it from 9.6 to 9.4 in January.

10 Q Okay. Well, let me ask you about that
11 Maryland case. What was your recommendation for
12 the ROE in the Maryland case that you testified in?

13 A I do not remember.

14 MR. ZOBRIST: Judge, is it 165?

15 JUDGE PRIDGIN: I have what you just
16 handed me as 165, the rate case history.

17 Q (By Mr. Zobrist) I'm going to hand the
18 witness another exhibit, which I'll mark as Exhibit
19 166. Does Exhibit 166 appear to be a copy of the
20 report and order of the Maryland Public Service
21 Commission in Case No. 9424 regarding Delmarva
22 Power & Light Company?

23 A Yes.

24 MR. ZOBRIST: Judge, instead of putting
25 the whole report and order or offering it into

1 evidence, I've excerpted pages just dealing with
2 the return on equity section, which I'll hand
3 Counsel, and I'll also let Mr. Thompson take a look
4 at the full report and order because I don't think
5 we need to burden the record with about 40 extra
6 pages.

7 MR. THOMPSON: What is it that the witness
8 has?

9 MR. ZOBRIST: He's got the whole thing.

10 MR. THOMPSON: Okay. Thank you.

11 MR. ZOBRIST: Judge, I'm -- I've got
12 excerpts just on the return on equity portion of
13 Exhibit 166. Is that what it is?

14 JUDGE PRIDGIN: Right.

15 MR. ZOBRIST: And that's been admitted
16 into evidence?

17 JUDGE PRIDGIN: I don't think 166 has been
18 offered or admitted.

19 MR. ZOBRIST: Okay. Let me offer it at
20 this time since the witness stated that this is the
21 opinion of the Maryland Commission in that Delmarva
22 case.

23 JUDGE PRIDGIN: 166 has been offered. Any
24 objections? Hearing none, 166 is admitted.

25 (KCP&L Exhibit 166 was offered and

1 admitted into evidence.)

2 MR. ZOBRIST: Judge, let me provide the
3 Bench with copies of just the ROE excerpt.

4 Q (By Mr. Zobrist) Mr. Woolridge, would you
5 turn to page 20 of Exhibit 166?

6 A Yes.

7 Q At the bottom paragraph, it says, OPC
8 argues that the Chief Judge erred in adopting
9 Staff's recommended ROE, which OPC witness
10 Woolridge criticized as results oriented. Are you
11 the Witness Woolridge that is referred to in here?

12 A Oh, yeah.

13 Q Okay. And OPC also objects that the
14 proposed order gave less credence to
15 Dr. Woolridge's analysis and testimony that
16 authorized ROEs for distribution only electric
17 utilities (like Delmarva) have been about 20 basis
18 points below those for integrated electric
19 utilities. Did I read that correctly?

20 A You did.

21 Q Okay. And KCP&L is an integrated electric
22 utility, correct?

23 A Yeah. And they also have the same bond
24 rated rating as -- as Delmarva. So, I mean, I
25 would assume -- you know, bond rating take into

1 account whether integrated or just distribution.
2 So I'd assume they -- they're relatively close in
3 risk.

4 **Q Well, do you agree with the argument or**
5 **the point made by the Office of the Public Counsel**
6 **in Maryland that retained you that authorized ROEs**
7 **for distribution only electric utilities are**
8 **typically 20 basis points below those for integrate**
9 **electric utilities?**

10 A They -- they have been. And to some
11 extent, that can be reflected in their -- their
12 credit ratings.

13 **Q Now, on the next page, page 22 of this**
14 **excerpt, it indicates that your recommendation was**
15 **8.6 percent for a return on equity, correct?**

16 A I'm sorry. I'm missing that. Oh.

17 **Q The box on page 22.**

18 A Oh, yes. Yes.

19 **Q And the Commission reconsidered the**
20 **decision of the Chief Judge in that case, and it**
21 **found that an ROE of 6.0 percent was both adequate**
22 **and appropriate for Delmarva, correct?**

23 A It did. And on page -- on line -- near
24 the bottom, they -- they recognize that they
25 disagree with the Judge, that they believe

1 gradualism was -- should be their policy, which
2 means we're not -- we're not so concerned about the
3 results. We just want to have a gradual change in
4 ROEs. And that's -- that was a big factor in this
5 reconsidering the Judge's decision.

6 **Q And as a result, the Commission took the**
7 **Chief Judge's recommendation of a 9.48 percent ROE**
8 **and, instead, authorized an ROE of 9.60 percent,**
9 **correct?**

10 A Yes.

11 **Q Now, Dr. Woolridge, do you remember being**
12 **in Jefferson City in about nine years ago for**
13 **another KCP&L rate case?**

14 A Yes. I -- I barely remember.

15 **Q You gave testimony in Kansas City Power &**
16 **Light Company's rate case ER-2006-0314 that**
17 **resulted in a report and order that was issued on**
18 **December 21st, 2006. Let me show you an excerpt**
19 **from that opinion.**

20 MR. ZOBRIST: I believe it would be,
21 Judge, 166?

22 JUDGE PRIDGIN: This would be 167.

23 (Exhibit 167 was marked for
24 identification)

25 MR. ZOBRIST: Thank you.

1 Q (By Mr. Zobrist) Dr. Woolridge, Exhibit
2 120 -- pardon me. 167 refers -- few opening pages
3 from that report and order and then it jumps to the
4 revenue requirement discussion on page 17 and goes
5 to page 22 after the Commission made certain
6 findings with regard to your opinion; is that
7 correct?

8 A I'm sorry. Can you tell me again which
9 pages?

10 Q Sure. Sure. This is an excerpt from that
11 report and order in Case No. ER-2006-0314 that when
12 you get beyond the opening pages that show the
13 Table of Contents that begins at page 17 at the
14 bottom of the revenue requirement and then the
15 return on equity discussion that actually begins on
16 page 20. Do you see that?

17 A Yes.

18 Q Okay.

19 MR. ZOBRIST: Judge, I would ask that the
20 Commission take official notice of this report and
21 order in Case No. ER-2006-0314.

22 JUDGE PRIDGIN: Any objections? The
23 Commission will take notice.

24 Q (By Mr. Zobrist) Now, Dr. Woolridge,
25 let's look at Commission's report and order on page

1 21 of this exhibit. Am I correct that the return
2 on equity recommendation that you made on behalf of
3 the U.S. Department of Energy was 9.0 percent?

4 A Yes.

5 Q And the recommendation of Staff was a
6 range of 9.32 percent to 9.42 percent?

7 A Yes.

8 Q And the range from OPC, the Office of the
9 Public Counsel, was 9.9 percent, correct?

10 A Yes.

11 Q And the company recommended an 11 percent
12 ROE and also requested 50 basis point added --
13 adder for construction of risk at the time. Do you
14 recall that?

15 A I don't recall that. But I -- I do see
16 that on top of page 22.

17 Q Okay. Now, on page 22, Footnote 21, it
18 states that, Dr. Woolridge has impressive
19 credentials being a Professor of Finance at Penn
20 State University how in contrast to Dr. Hadaway,
21 who was the company's ROE expert, Dr. Woolridge who
22 has never worked for or even testified for a public
23 utility. Do you see that?

24 A I do.

25 Q Okay. Is that statement still true?

1 A Yes. And I'm -- I'm pretty sure
2 Dr. Hadaway has never testified for anybody other
3 than electric utility. I mean, a public utility.

4 **Q Now, am I correct that the Commission in**
5 **this case found that the zone of reasonableness ran**
6 **from 100 basis point figure, 9.37 percent to 9**
7 **point -- pardon me. Let me start that again.**

8 Looking at -- back on page 21, the
9 Commission found a zone of reasonableness between
10 9.37 percent and 11.37 percent based upon average
11 ROEs that had been issued for the past three
12 quarters prior to the decision in this case,
13 correct?

14 A Yes. That was the decision of the
15 Commission.

16 **Q Okay. And because your recommendation**
17 **fell outside that zone of reasonableness, the**
18 **Commission discarded it and found that it merited**
19 **no further discussion; is that correct?**

20 A I believe they -- I was outside of their
21 zone the way they calculate that number. I think
22 in a subsequent Ameren case, it came out that that
23 number was calculated in a kind of erroneous
24 fashion.

25 **Q Okay.**

1 MR. ZOBRIST: I have nothing further,
2 Judge. Thank you.

3 JUDGE PRIDGIN: Mr. Zobrist, thank you.
4 Any Bench questions? Chairman?

5 CHAIRMAN HALL: Yeah. Just a few.

6 CROSS-EXAMINATION

7 BY CHAIRMAN HALL:

8 Q Good morning.

9 A Good morning.

10 Q What is your ROE recommendation in this
11 case?

12 A 8.65 percent.

13 Q And do you -- do you recommend a -- a
14 range as well?

15 A Oh, I have a range, and I picked a number
16 out of that range. It was 8.9 -- no. 7.9 to 8.75,
17 I believe. And I -- I used 8.65. So it was the
18 upper end of the range.

19 Q And -- and what was the date that you made
20 that recommendation initially?

21 A Well, the data was as of October 21st.

22 Q October 21st of 2016?

23 A Yes.

24 Q Mr. Zobrist presented you a great deal of
25 information data analysis after that date of

1 **October 21st, 2016; is that correct?**

2 A Yes.

3 **Q But none of that data changes your**
4 **recommendation in this case; is that correct?**

5 A It -- it does. I mean, if you looked --
6 and I think I started to answer this question. I
7 think the top end of the range would go up by maybe
8 10 basis points.

9 So my recommendation could change, if you
10 look at the numbers and bring them forward, maybe
11 ten basis points. But it's not going to be more
12 than that.

13 **Q So as we sit here now, your range would be**
14 **7.9 to 8.85?**

15 A Probably in that range. And -- and,
16 remember, you know, part of this discussion is
17 based on interest rates. Interest rates have gone
18 up.

19 But I use an interest rate of 4 percent in
20 my -- my Cap M study. So I'm using an interest
21 rate which is still almost a hundred basis points
22 above where the 30-year Treasury is today.

23 I use a normalized interest rate, which is
24 common among valuation people. You have a risk
25 free rate and risk premium. A normalized rate is

1 kind of the -- what you expect a norm to be over an
2 extended period of time.

3 **Q So what -- what do you expect to happen to**
4 **interest rates over the next two to three years?**

5 A I've learned one thing. In my testimony,
6 I have a study that shows -- you know, they've been
7 predicting interest rates to go up for ten years,
8 and they haven't gone up.

9 You know, the bottom line, in my opinion,
10 is if you can forecast interest rates, you run a
11 hedge fund and you live on a yacht. No one can
12 forecast interest rates.

13 You know, they're going up. They go down.
14 A year ago, December 2015, the Fed increased rates,
15 the short-term rate. The long-term rate fell by 50
16 basis points.

17 **Q So --**

18 A So, I mean, it's -- there's a lot -- I
19 mean, there's a lot of fundamental data that, you
20 know, suggests that, you know, interest rates, you
21 can't predict them.

22 **Q So you never try to predict interest**
23 **rates?**

24 A No, I don't.

25 **Q So you've never provided testimony before**

1 **this Commission or any other Commission where you**
2 **have made a recommendation based upon -- you made**
3 **an ROE recommendation based upon your -- your**
4 **analysis that interest rates are going to go down?**

5 A No. And, I -- I explained that in my --
6 in my report about I use a normalized number, which
7 is kind of an average over an extended period of
8 time because you estimate a market risk premium
9 based off of a risk free rate.

10 And I looked at 30 or 40 different studies
11 of the market risk premium, and they're done at
12 different points in time. So the market risk
13 premium is relative to the risk free rate.

14 I use a normalized rate of -- of 4
15 percent. It's very similar -- I mean, in the
16 report -- and I know previously in this hearing,
17 there's a -- there's an investment firm of --
18 investment valuation firm that publishes a lot of
19 stuff, and they use a normalized rate. I'm sorry.
20 I'm -- they --

21 **Q That's okay. I wasn't really asking about**
22 **that anyway.**

23 A Okay.

24 **Q Okay. So your -- your recommendation in**
25 **this case is based upon a normalized rate of 4.0**

1 **percent?**

2 A Yes.

3 **Q Have you -- have you provided testimony or**
4 **a recommendation to any other Commission in the**
5 **last five years or so with a different normalized**
6 **rate?**

7 A I don't know. It might have been lower.
8 I don't -- I don't believe so. But I don't know.
9 It's -- the last several years, I've been using 4
10 percent very similar to what, you know -- you know,
11 I look at the range. It's been 2 and a half or 2.2
12 to 4 percent over the last three years, and I use
13 the top end of that range.

14 **Q So you -- you were monitoring data and**
15 **analysis related to the economy, Treasury yields,**
16 **interest rates, GDP, et cetera, since October 21st**
17 **of --**

18 A Oh, yes. And as I said --

19 **Q Okay. So the answer is yes. I appreciate**
20 **that. So what would have had to happen for you to**
21 **modify your recommendation that you made in October**
22 **of 2016. I assume that if something -- things**
23 **could have happen that had would have caused you to**
24 **modify your recommendation.**

25 A Yes. Well, I -- I look at dividend

1 yields. Now, they've gone up maybe 10 basis points
2 since I've prepared this. I look at expected
3 growth rates. They've -- pretty much the same. I
4 monitor these things on an ongoing basis. Again, I
5 use a risk free rate of 4 percent.

6 **Q So those two things, dividends and growth**
7 **rate?**

8 A Yeah. And I used the upper end of my
9 range. I didn't use the lower end of my range, but
10 the middle. I used the upper end of my range.

11 **Q Okay. So you were looking at dividend**
12 **yields and growth rate. And if -- if those had**
13 **changed after October 21st, 2016, you would have**
14 **modified your -- your recommendation here?**

15 A Yeah. And I -- I think -- I used slightly
16 -- in the Ameren case, I used slightly different
17 data and the number is a little bit high, maybe
18 five or ten basis points.

19 **Q But it wouldn't have been 30 basis points**
20 **or 40 basis points?**

21 A Maybe 5 to 10.

22 **Q So -- so your recommendation in this case**
23 **is -- is 8.65, correct?**

24 A Correct.

25 **Q Has any other Commission awarded that ROE,**

1 an ROE that low that you're aware of?

2 A No, they have not. And --

3 Q Okay. Well, then let me ask about that
4 for a second. So -- and -- and, in fact, a number
5 of Commissions have awarded ROEs significantly
6 higher than that in the last year or so, correct?
7 You can -- you can see that on a couple of the
8 exhibits that -- that Mr. Zobrist provided you.

9 A Yeah. And I -- I addressed this issue in
10 my report.

11 Q I understand. Please answer my question.

12 A Yeah. I agree.

13 Q Thank you. Okay. So what -- what -- what
14 is the value -- or what is the importance of -- of
15 awarding an ROE somewhere close to the range of
16 other ROE awards? I mean, is there -- is there
17 danger to a company, in your view, if -- if -- if
18 it's ROE is substantially outside of the mainstream
19 awarded to other companies by other Commissions?
20 Or is that an irrelevant concern for you?

21 A Well, I think it could be -- there could
22 be some negative news effect. I agree. I'm just
23 -- you know, in my process, I'm trying to estimate
24 what is the required rate of return.

25 And you're right. I think there could be

1 negative news if it was both significantly below
2 what other returns --

3 **Q Aren't there dangers beyond negative news**
4 **in terms of access to capital?**

5 A Well, that -- no. And I answered that in
6 my testimony. You look at electric utilities are
7 earning 8 and a half to 9 percent. That's what
8 they're earning right now.

9 Their stock prices are up 16 percent last
10 year. They are -- their bond, all you have to --
11 look at EEI and, I think, Mr. Gorman. Their bonds
12 are being upgraded. They're earning 8 and a half
13 to 9. They're not earning 10 to 12. There --
14 there have been acquired left and right, especially
15 by Canadian utilities, where they're allowed to
16 earn 8 percent.

17 They are raising 50 to 60 billion dollars
18 a year in capital. I mean, they're earning 8 and a
19 half to 9 percent. And they are clearly meeting
20 Hope and Bluefield standards. So my numbers are
21 not that far off the mark.

22 Take a look at, I mean, Great Plains.
23 Great Plains is earning an ROE of 5 to 6 percent.
24 They raised 1.6 billion in equity and 2 -- 4 point
25 -- a range for 4.4 billion in debt for their -- I

1 mean, that's off of 5 to 6 percent ROE.

2 So, I mean, it's lower. I agree. I'm
3 just saying does it meet Hope and Bluefield
4 standards? And that's -- that's where I would say
5 I think it does.

6 **Q Okay. So -- so you -- you don't believe**
7 **that an ROE for one utility that's a hundred to 150**
8 **basis points below the ROEs awarded other utilities**
9 **would impose any access to capital concerns?**

10 A No. Utilities are earning 8 point -- 8
11 and a half to 9 percent. They're having no
12 problems raising capital.

13 I mean, a big factor is that they're the
14 least risk industries, you know, if you look at
15 betas and other measures at risk. And so they're
16 low risk. And as a result, they have access to
17 capital.

18 I mean, Great Plains, six -- 5 to 6
19 percent ROE. They can raise a lot of capital, as
20 they've demonstrated.

21 CHAIRMAN HALL: Okay. I have no further
22 questions. Thank you.

23 JUDGE PRIDGIN: Thank you. Any further
24 Bench questions?

25 COMMISSIONER STOLL: I have no questions.

1 Thank you.

2 JUDGE PRIDGIN: Thank you. Mr. Kenney,
3 when you're ready.

4 CROSS-EXAMINATION

5 BY COMMISSIONER KENNEY:

6 Q Welcome to Jefferson City, Dr. Woolridge.

7 A It's great to be back.

8 Q Yeah. Has it been a while? Nine years?

9 A It was -- actually, I was here for an
10 Ameren case after that KCP&L case when I was
11 working for the State of Missouri and Mr. Mikeel
12 was my attorney.

13 Q Again, welcome. I'll be very brief.
14 We've established that the average ROE in 2016 was
15 9.6 percent, right?

16 A That's correct.

17 Q And you're about 95 basis points below
18 that?

19 A That's correct.

20 Q And average gas ROE was 9.5 percent.
21 Would you agree?

22 A I think it was a little below that. But
23 it's around -- it's --

24 Q I think it's 9.5 percent. Are you aware
25 of the Michigan PSC decision with DTE Gas that just

1 **took effect on February 15th?**

2 A No.

3 **Q That was the 10.1 percent ROE?**

4 A No. I'm not aware of that.

5 **Q What about the California PSC with**
6 **Southern California Edison, Pacific Gas & Electric**
7 **and San Diego Gas & Electric February 8th with a**
8 **Memorandum of Understanding at 10.3 percent --**

9 A I'm not aware of that.

10 **Q -- a forward-looking rate case? Okay.**
11 **Has any Commission in 2016 accepted your ROE**
12 **recommendation?**

13 A No.

14 **Q No. Okay. So when I looked at it, I**
15 **thought it was an outlier. I really did. I looked**
16 **at that, and I thought, That's got to be an**
17 **outlier. Where did that come from? And there's**
18 **nothing that's been said today that's convinced me**
19 **otherwise.**

20 A I mean, my point is being it's what
21 utilities have been earning and they haven't had
22 any access to the capital. Their stocks were up 16
23 percent. They're earning 8 and a half to 9 percent
24 ROE. I mean, I'm just -- the market data suggests
25 that's an adequate return on equity.

1 **Q** Okay. So it's an adequate return under
2 your calculations, but that doesn't meet the
3 industry standard or industry averages?

4 A Well, it's below the industry authorized
5 returns. But if utilities could earn that return,
6 they are raising capital. They are --

7 **Q** They could earn those returns?

8 A They're earning 8 and a half to 9 percent.
9 I put that in my testimony.

10 **Q** And you know that I think KCP&L is, other
11 than the last several years standing, have failed
12 to meet their ROE?

13 A I do. I think the last 12 months they're
14 doing pretty well.

15 **Q** But prior to that, they've had a difficult
16 time meeting their ROE?

17 A I agree.

18 **Q** One last question. And Chairman Hall
19 brought it to attention. If we accepted your ROE,
20 if the Commission approved an 8.65 ROE, do you
21 think that would provide negative results towards
22 KCP&L?

23 A Well, it possibly could. But I -- as I
24 say and I present the result, I think it's adequate
25 because utilities, that's what they're earning and

1 they're not having any trouble raising capital. I
2 mean, Great Plains --

3 COMMISSIONER KENNEY: That's good. Thank
4 you. I appreciate it. Thank you, sir.

5 A Okay.

6 JUDGE PRIDGIN: Commissioner Rupp?

7 COMMISSIONER RUPP: Thank you.

8 CROSS-EXAMINATION

9 BY COMMISSIONER RUPP:

10 **Q Good morning, sir.**

11 A Good morning.

12 **Q You -- you used the capital asset pricing
13 model to come up with this?**

14 A I -- I did.

15 **Q Did you use any other models when you came
16 up with your recommendation in -- and if not or if
17 so, why did you rely on the Cap M?**

18 A Oh, I relied primarily on the DCF. So I
19 -- you know, the cap pricing model is one version
20 of the risk premium. There's various risk premium
21 models. I used the DCF and the Cap F pricing
22 model.

23 **Q And did you use any the other of the DCF
24 with the constant growth, or did you look at them
25 all? Or did you just use this one?**

1 A I used constant growth.

2 **Q And what is your reasoning for that?**

3 A I -- I explained it in my report. I mean,
4 utilities in terms of their product life cycle are
5 mature. And in the mature stage, you tend to use
6 that, the constant growth DCF.

7 **Q Okay. Thank you.**

8 JUDGE PRIDGIN: All right. Thank you.
9 Let's me see if we have any recross based on Bench
10 questions. Mr. Zobrist, will have you recross?

11 MR. ZOBRIST: I have no questions, Judge.

12 JUDGE PRIDGIN: Anybody have recross based
13 on Bench questions? All right. Seeing none,
14 redirect?

15 MR. THOMPSON: Thank you, Judge.

16 REDIRECT EXAMINATION

17 BY MR. THOMPSON:

18 **Q You were explaining it to Mr. Zobrist**
19 **about how the Fed does not control long-term**
20 **interest rates when your answer was cut off. Do**
21 **you recall that?**

22 A Yes.

23 **Q What was it that you wanted to say?**

24 A Well, actually, if I can refer to my
25 report, I think former Fed Chairman Bernanki

1 explains it well.

2 And that's on page 20 of my report where,
3 basically, long-term -- you know, it's going to
4 economic growth, inflation, that sort of thing.
5 And as he says in his blog, he says, Low interest
6 rates are not a short-term operation.

7 This has kind of been going on for some
8 time. And, you know, the Fed doesn't directly --
9 like they do with the short-term discount rate,
10 they don't directly affect -- they don't -- they
11 can't change -- suddenly change the long-term rate.

12 That can be influenced, you know, by
13 long-term economic growth and -- and inflation.
14 And I explained in my testimony or my report kind
15 of why long-term with lower population growth, with
16 declines in productivity, you know, we're not going
17 to see GDP growth of 7 percent anymore. We're
18 looking at 4 to 5 percent.

19 And that's what every long-term forecast
20 of GDP is 4 and a half percent. Whether you're
21 talking about Social Security Administration or the
22 EIA, that sort of thing, it's -- they have a
23 forecast for long-term growth. And it's because of
24 lower population growth, that sort of thing. It's
25 not what it used to be.

1 **Q** Now, you were asked some questions by the
2 Chairman having to do with your recommendation and
3 it being significantly lower than the current
4 average of PSC awarded ROEs. Do you recall that
5 line of questioning?

6 A Yes.

7 **Q** Can you tell me, is there any negative
8 effect of a Commission awarding a company an ROE
9 that is too high?

10 A Well, I -- I mean, obviously, if it's too
11 high, then the customers are paying higher rates.
12 You know, it's -- you know, in this exercise, I'm
13 trying to find what return does the market require?

14 And, in fact, there's a reference I make
15 in my surrebuttal testimony, which is confidential
16 which basically I won't talk the numbers because
17 it's confidential, but it suggests this is the same
18 sort of thing Wall Street would use.

19 But I -- I'll keep -- I won't mention the
20 number, sir. But it's -- it's a reference point
21 about this is how Wall Street looks at this stuff.

22 **Q** And it's your opinion that what the market
23 requires is 8.65%?

24 A Yes. And as I said, this is the return
25 these utilities are earning. They're earning 8 and

1 a half to 9 percent. On Schedule -- page 3 off
2 JRW7, I show this is what they're earning is 8 and
3 a half to 9 percent.

4 And, again, their stocks are doing fine.
5 Their -- their credit -- you look at credit the
6 upgrades. Mr. Gorman talked about it. Percentage
7 -- most of the credit downgrade for utilities are
8 when they go out and try and to buy another utility
9 and borrow a lot of money, sort of like dominion.
10 So --

11 COMMISSIONER RUPP: Thank you. I have no
12 further questions.

13 JUDGE PRIDGIN: All right. Thank you.
14 Dr. Woolridge, thank you very much. You may step
15 down. The next witness will be Staff witness Roos.

16 JUDGE THOMPSON: I wonder if we could have
17 a short break, Judge, while I vacate the Counsel
18 table and make way for the next Staff Counsel.

19 JUDGE PRIDGIN: Sure. Five, ten minutes,
20 Mr. Thompson?

21 MR. THOMPSON: Five minutes would be
22 adequate.

23 JUDGE PRIDGIN: Five minutes. Thank you.
24 We will go off the record. We'll be back on in
25 about five minutes.

1 MR. THOMPSON: Thank you, Judge.

2 JUDGE PRIDGIN: You're Welcome.

3 (Break in proceedings.)

4 JUDGE PRIDGIN: Good morning. We are back
5 on the record. Before we go to the next witness, I
6 think I needed to rule on a Motion to Appear Pro
7 Hoc Vice. And I'm sorry. Is it Mr. Garg?

8 MR. GARG: Yes, your Honor.

9 JUDGE PRIDGIN: Yes, sir. I believe that
10 was filed some time ago, and I -- I scanned the
11 docket sheet briefly, and I don't see that I ruled
12 on it.

13 I may have ruled on it from the Bench and
14 I don't recall. But to be safe, let me -- let me
15 rule on it now. Any objection to that motion?
16 Hearing none, that motion is granted. And my
17 apologies if I were tardy granting that motion.

18 MR. GARG: Thank you.

19 JUDGE PRIDGIN: Thank you. Anything
20 further from Counsel or from the Bench before
21 Mr. Roos takes the stand?

22 MR. OPITZ: Yes, Judge. I have one issue.

23 JUDGE PRIDGIN: Yes, sir.

24 MR. OPITZ: Since we're -- last time we
25 talked about FAC two Wednesdays ago, the chairman

1 had requested some information, each cost and some
2 dollar figures there. We had Mr. Riley from our
3 office put together some documentation about what's
4 in the FAC.

5 It -- I'm happy to provide that as an
6 exhibit. I don't know if he -- if you'd require
7 him to get back on the stand and -- and talk about
8 what he did to create it, this document.

9 So if you'd like -- like that at -- at I
10 guess before we begin or after the other FAC
11 witnesses, that's -- I guess I'd inquire about your
12 preference if you're interested in that.

13 MR. BERLIN: Judge, I also have a hand-out
14 that's responsive to the Chairman's questions. And
15 it shows what Staff looked at, account by account,
16 line item with dollar figures to determine its base
17 factor for the FAC. So I have that right here.

18 And it ties directly into, actually,
19 Sarver's direct report in the cost of service
20 report.

21 JUDGE PRIDGIN: Okay. I guess -- I'm
22 sorry. Go ahead.

23 MR. STEINER: Judge, we also are preparing
24 a document. We don't have that here today, but
25 we're getting it ready. I believe the Chairman

1 also asked about how much transmission was used to
2 sort native load, and we're also putting that
3 together. But I don't have that here -- I don't
4 have that here today.

5 JUDGE PRIDGIN: I think my preference
6 would be to ask parties to confer and see if
7 anybody has any objections to those being offered
8 and admitted or if you want testimony and the
9 opportunity to cross anybody who may have put those
10 reports together.

11 So you don't have to do that right now. I
12 mean, if you want to do that during break. If you
13 know now, that's great. If not, I understand. We
14 can figure that out later.

15 MR. STEINER: I'd like a chance to look at
16 it. Counsel for OPC did provide it yesterday, but
17 I haven't had a chance to look at it.

18 JUDGE PRIDGIN: Okay. Maybe the better
19 might be to go ahead and -- and let parties talk
20 and see if you can -- if we can kind of shorten the
21 process if we actually need witnesses back on the
22 stand to explain what's been prepared.

23 MR. BERLIN: Judge, I think I can explain
24 the hand-out pretty well.

25 JUDGE PRIDGIN: Okay.

1 MR. BERLIN: Because it ties directly to
2 her direct report.

3 JUDGE PRIDGIN: Okay. Okay. Hearing that
4 -- and I don't know. Mr. Berlin, you wanted to
5 offer that as an exhibit?

6 MR. BERLIN: I will.

7 JUDGE PRIDGIN: And do you -- I think I
8 would show the next Staff exhibit as being 237.
9 Let me verify that. And if somebody has a
10 different exhibit, please let me know.

11 MR. OPITZ: Judge, just so I'm clear, I
12 have copies of -- of the exhibit that we created.
13 Are you asking us to provide those to you now?

14 JUDGE PRIDGIN: Again, I'm -- I mean, I
15 don't mind receiving them. I just don't know what
16 objection, if any, if there's any foundation that
17 others parties want you to relay. So I guess I
18 would ask you to confer with other parties.

19 MR. STEINER: Yeah. If I could have just
20 some time to look at these, I don't think we would
21 need foundation. I just need to review this.

22 JUDGE PRIDGIN: So we can just hold off on
23 that.

24 MR. OPITZ: Certainly.

25 JUDGE PRIDGIN: Okay. Thank you. And I'm

1 not hearing any correction. I'm going to assume
2 this is going to be Exhibit 237. And are you
3 offering that, Mr. Berlin.

4 MR. BERLIN: Yes, Judge. Let me first
5 identify exactly what it is.

6 JUDGE PRIDGIN: Sure.

7 MR. BERLIN The first two pages are
8 summary schedules s from Ashley Sarver's direct
9 report and Staff's class cost of service report
10 that summarizes the calculation of Staff's FAC
11 based factor by account, major account.

12 And behind it, you'll see some sheets with
13 some color coding. And the color coding shows the
14 detail by every subaccount line item that's looked
15 at by Staff in calculating the FAC based factor.
16 And it shows what is currently included in the base
17 factor calculation.

18 It shows, also, what is proposed to be
19 included in the base factor. And, also, the green
20 will show what is excluded. It's quite a detailed
21 report, but the color coding shows the differences.

22 JUDGE PRIDGIN: All right. Thank you.
23 Mr. Roos, I'm very sorry. You can sit if you'd
24 like. I didn't mean to make you stand there by
25 yourself. I'm sorry.

1 And, Mr. Berlin, any -- did you want to
2 offer that as 237?

3 MR. BERLIN: Yes. Yes, Judge. I would
4 offer that into evidence as Exhibit -- Staff
5 Exhibit 237.

6 JUDGE PRIDGIN: Any objection?

7 MR. WOODSMALL: Your Honor, not
8 objections, but maybe a couple questions he can
9 clarify. Is this based on Staff's true-up fuel run
10 or your direct?

11 MR. BERLIN: It is based on Staff's direct
12 report. It is not based on the true-up. And as I
13 said, the color coded account listings are part of
14 Ms. Sarver's work papers that support the schedules
15 in her direct report.

16 MR. WOODSMALL: Are you going to update
17 this for true-up?

18 MR. BERLIN: I believe Staff is working on
19 updating it. I can't -- I can't answer if she's
20 going to do a complete -- she may be doing a
21 complete run. But I -- I can't say for certain.

22 MR. WOODSMALL: Okay. And then my last
23 question, I was wondering, why is this highly
24 confidential?

25 MR. STEINER: I can probably answer that.

1 I think this is materials that came from DRs. And
2 we do disclose our fuel number as a whole, but not
3 -- we don't break it out in the different types of
4 fuel, the amounts.

5 MR. WOODSMALL: Okay.

6 MR. STEINER: Because that would be highly
7 confidential information. It would be market
8 information, competition with others.

9 MR. WOODSMALL: So when -- so typically,
10 net-based energy cost would be public information,
11 but all the background below that would be
12 confidential is what you're saying?

13 MR. STEINER: That's my understanding.
14 Yes.

15 MR. WOODSMALL: Okay. Thank you. I have
16 no objections, your Honor.

17 JUDGE PRIDGIN: Does this need to be HC
18 then?

19 MR. BERLIN: Yes, Judge.

20 JUDGE PRIDGIN: So 237 will have an HC and
21 NP.

22 MR. BERLIN: There is no NP.

23 JUDGE PRIDGIN: Hearing no objection,
24 237-HC is admitted.

25 (Staff Exhibit 237-HC was offered and

1 admitted into evidence.)

2 JUDGE PRIDGIN: Also, before Mr. Roos
3 takes the stand, if I could get Counsel maybe to
4 clarify what issues are remaining for FAC. After
5 the Non-unanimous Stipulation and Agreement, I
6 noticed there was some discussion in there about
7 FAC.

8 And I think I want to kind of get some
9 clarity on what is and what isn't before the
10 Commission to resolve on Fuel Adjustment Clause.

11 MR. ZOBRIST: Judge, I -- Judge, on behalf
12 of the company, I can say that one issue relates to
13 the Public Counsel's proposal to have Order 668
14 netting based upon the FERC order included in the
15 Fuel Adjustment Clause. We think that's still a
16 life issue and the company opposes that.

17 JUDGE PRIDGIN: Mr. Opitz?

18 MR. OPITZ: Judge, from our perspective,
19 the issues that are still at play are Public
20 Counsel's request to define certain fuel
21 categories.

22 I guess, more narrowly, we've also got the
23 proposal for a different sharing mechanism, the
24 90/10 sharing mechanism. We have a number of
25 requests for information to be provided with FAC

1 filings that's been indicated in the testimony of
2 Ms. Mantle.

3 We agree that the 668 recording issue is
4 -- is an issue still. And I believe there's also
5 an issue of a tariff sheet allowing the company to
6 add SPP added costs outside of a rate case that, I
7 believe, is currently in their tariff and Public
8 Counsel is requesting to be removed.

9 JUDGE PRIDGIN: Okay. Any further
10 comments on that?

11 MR. BERLIN: Judge, I would only add that
12 my understanding from Staff it's -- it's merely a
13 matter of updating in true-up the FAC base factor.

14 JUDGE PRIDGIN: Okay. And I certainly
15 would expect the briefs to address what issues, you
16 know, are still live under FAC, and of course, any
17 issues, but especially the FAC since it seems to be
18 kind of moving. Anything further from Counsel or
19 the Bench before Mr. Roos is sworn?

20 All right. Mr. Roos, if you'll raise your
21 right hand to be sworn, please.

22 DAVID ROOS,
23 being first duly sworn to testify the truth, the whole
24 truth, and nothing but the truth, testified as follows:

25 DIRECT EXAMINATION

1 BY MR. BERLIN:

2 JUDGE PRIDGIN: Thank you, sir. And,
3 Mr. Berlin, when you're ready, sir.

4 DIRECT EXAMINATION

5 BY MR. ROOS:

6 **Q Mr. Roos, please state your full name for**
7 **the record.**

8 A David C. Roos.

9 **Q And how are you employed?**

10 A I'm a Regulatory Economist with the
11 Missouri public Service Commission.

12 **Q How long have you been employed by the**
13 **Public Service Commission?**

14 A About ten years.

15 **Q And are you the same David Roos that**
16 **caused to be prepared Staff direct testimony on the**
17 **Fuel Adjustment Clause, which we'll refer to as the**
18 **FAC, in Staff's revenue requirement cost of service**
19 **report, which is marked as Exhibit 200?**

20 A Yes.

21 **Q And did you cause to be prepared rebuttal**
22 **and surrebuttal testimonies, which are pre-marked**
23 **respectively as Exhibits 226 and 227 that are in a**
24 **question and answer format?**

25 A Yes.

1 **Q** Do you have any corrections to any of your
2 **testimony?**

3 A I do not.

4 **Q** And if were to ask you the same questions
5 **today in your rebuttal and surrebuttal testimonies,**
6 **would your answers be substantially the same?**

7 A Yes.

8 **Q** Are all of your pre-filed testimonies true
9 **and correct to your best information and belief?**

10 A Yes.

11 MR. BERLIN: Judge, with regard to
12 Mr. Roos' direct testimony and Staff's cost of
13 service report, my understanding is, again, that
14 Staff's direct report will be moved into evidence
15 at the end of the proceeding when all witnesses
16 have testified. Is that correct?

17 JUDGE PRIDGIN: That's -- that's been my
18 understanding thus far, yes.

19 MR. BERLIN Okay. Judge, then I move to
20 admit the rebuttal and surrebuttal testimonies of
21 David Roos, which are marked as Exhibits 226 and
22 227 into evidence.

23 JUDGE PRIDGIN: Any objection? Hearing
24 none, 226 and 227 are admitted.

25 (Staff Exhibits 226 and 227 were offered

1 and admitted into evidence.)

2 MR. BERLIN: Thank you, Judge. I tender
3 Mr. Roos for cross-examination.

4 JUDGE PRIDGIN: Mr. Berlin, thank you. Do
5 we have any cross-examination? Public Counsel?

6 MR. OPITZ: Yes, Judge. Thank you.

7 JUDGE PRIDGIN: When you're ready,
8 Mr. Opitz.

9 MR. OPITZ: May I cross from my seat?

10 JUDGE PRIDGIN: You may.

11 CROSS-EXAMINATION

12 BY MR. OPITZ:

13 Q Good morning, Mr. Roos.

14 A Good morning.

15 Q Do you have a copy of your rebuttal
16 testimony with you?

17 A I do.

18 Q And if I could point you to page 4 --
19 well, let me turn -- point you to page 3 first.

20 A Okay.

21 Q Beginning at line 5, you start a
22 discussion of proposed fuel handling expenses; is
23 that correct?

24 A That's correct.

25 Q And you continue with a chart indicating

1 **some of those costs on page 4; is that correct?**

2 A That is correct.

3 **Q And these are costs that the Staff is**
4 **recommending be excluded from the company's FAC?**

5 A Yes. They have been excluded.

6 **Q Were they excluded in the current FAC?**

7 A Yes.

8 **Q When you looked at these costs to**
9 **determine that they shouldn't be included, you**
10 **looked at certain criteria; is that correct?**

11 A That is correct.

12 **Q And one of the criterion was that these**
13 **costs would have a substantial enough impact on the**
14 **revenue requirements in the financial performance**
15 **of the company between rate cases?**

16 A Yes.

17 MR. ZOBRIST: Judge, I apologize for
18 interrupting Public Counsel. But the company
19 believes this issue has been resolved in the
20 Stipulation and Agreement that was recently filed
21 and it's no longer an issue in the case, that it's
22 been resolved.

23 MR. OPITZ: I'm asking about his
24 methodology about how he went about evaluating the
25 FAC application and getting to how he looks at what

1 is included or excluded in an FAC.

2 JUDGE PRIDGIN: All right. I'll overrule.

3 Q (By Mr. Opitz) And so when you looked at
4 those categories in the chart on page 4, did you
5 evaluate whether the -- each of those costs would
6 have a material impact on the company's financial
7 performance?

8 A I did not evaluate each one separately. I
9 took the aggregate. The aggregate amount is less
10 than 2 percent.

11 Q And so when you're looking at these costs,
12 are you looking at an account level or a subaccount
13 level?

14 A These individual items are on subaccount
15 level.

16 Q And how do you determine whether to --
17 what level of costs you're going to look at when
18 evaluating these criteria?

19 A You mean as far as account or sub --

20 Q As far as whether that cost rises to the
21 level of having a material impact on the company's
22 financial performance.

23 A I looked at the aggregate. And at this --
24 I don't have a -- I don't have a limit. I looked
25 at this aggregate, and I looked at the amount

1 that's actually there and considered it not
2 material.

3 Q And so all of these accounts -- all of
4 these costs are in the same account -- all of the
5 costs on page 4 on that table are in the same
6 account?

7 A Yes.

8 Q When you evaluated those and other
9 criteria that you looked at is whether that cost is
10 beyond the control of management; is that correct?

11 A That is correct.

12 Q And so when you were looking at the cost
13 included in that table, did you look at it in the
14 aggregate, or did you look at each individual cost?

15 A I looked at the individual items.

16 Q Okay. So -- so in terms of the impact on
17 the company's revenue, you looked at the aggregate?

18 A But in -- in terms of control of
19 management, you looked at each individual cost?

20 A That's correct.

21 Q And the -- you would agree that the third
22 criteria used is whether the cost is volatile in
23 amount and causing significant swings in income and
24 cash flows? Would you agree with that?

25 A I agree.

1 Q And so when you applied that cri -- did
2 you apply that criteria to the cost included in
3 that table on page 4 of your testimony?

4 A I applied it by looking at these
5 particular items and deciding that all of these
6 could be handled by either contracts or by
7 budgeting.

8 Q So when you were looking at it, did you
9 compare the test year cost amount to prior periods?

10 A I did not.

11 Q You were -- outside of these costs listed
12 in this table, there are a number of costs that you
13 are recommending continue to be included in the
14 company's FAC. Do you agree with that?

15 A I agree.

16 Q And for each of the costs that you
17 recommend continue to be included, did you look at
18 whether it would have a material impact on the
19 revenue requirement?

20 A I did not.

21 Q Did you look at whether each cost that you
22 proposed to continue be included in the FAC,
23 whether it's beyond the control of management?

24 A No.

25 Q Did you look at -- for each cost that you

1 **proposed to continue be included in that FAC**
2 **whether that -- that dollar amount is volatile?**

3 A No.

4 **Q Do you examine each of those criteria in**
5 **the course of a prudence audit for an FAC?**

6 A We do.

7 **Q And you look at each cost that's included**
8 **in the FAC and examine whether it has a material**
9 **impact on the revenue requirement?**

10 A Not in a prudence review.

11 **Q So what is it that you do in the prudence**
12 **review when look at those -- those costs?**

13 A The prudence review, we're looking at
14 whether the company made prudent decisions, whether
15 there was harm to customers.

16 **Q So as -- as you're proceeding through**
17 **that, how do you look at those accounts? Do you**
18 **look at individual invoices?**

19 A Well, in a prudence review, it's a team
20 effort. And we have accountants that look at that.

21 **Q And so are the accountants looking at**
22 **invoices of these costs?**

23 A They can be looking at invoices. They
24 don't look at all the invoices.

25 **Q Would -- do they look at the individual**

1 **accounts or the subaccounts for each cost?**

2 A When we perform a prudence review, we
3 submit about 50 to 60 DRs, and we ask for this
4 information. It's given into account and
5 subaccount level.

6 If it's not given in the detail that we
7 require it, we send out more DRs and get that
8 information.

9 **Q Are you familiar with the information**
10 **contained in, I guess, HC Exhibit 237 enough that I**
11 **can ask you questions about it?**

12 A I'm not sure which --

13 **Q The one that your Counsel just admitted**
14 **into the record.**

15 A I need a copy.

16 MR. OPITZ: Do you have an extra copy,
17 Mr. Berlin?

18 MR. BERLIN Well, I've got my copy.

19 MR. OPITZ: Judge, may I approach?

20 JUDGE PRIDGIN: Yes, you may. Mr. Berlin,
21 if you need to use my copy, you can.

22 **Q (By Mr. Opitz) So, Mr. Roos, I guess my**
23 **question is, have you looked at this document ahead**
24 **of this hearing today?**

25 A I've looked at it, yes.

1 **Q** Okay. And the cost in orange, can you
2 **tell me what the cost highlighted in orange are?**

3 **A** Currently excluded but proposed to be
4 **included.**

5 **Q** Okay. And so yellow are costs that are
6 **currently included and proposed to be included; is**
7 **that correct?**

8 **A** That is correct.

9 **Q** And so those yellow categories, when you
10 **were preparing your testimony in this case, did you**
11 **look at the cost, dollar amounts for each of those**
12 **yellow categories and determine whether it has a**
13 **material impact on the revenue requirement of the**
14 **company?**

15 **A** I did not.

16 **Q** Did you look at each of those yellow costs
17 **and make a determination whether that cost was**
18 **beyond the control of the management?**

19 **A** No. I considered that in -- these costs
20 **that are already in the FAC were -- this was looked**
21 **at in the last rate case. And this is what was**
22 **agreed upon.**

23 **Q** And so is it your position that once a
24 **cost is included in the FAC, it should remain there**
25 **going forward?**

1 A No.

2 **Q So when would you review each cost**
3 **compared to those criteria to determine what should**
4 **belong in an FAC?**

5 A We can review them during a rate case or
6 outside of a rate case.

7 **Q But for these categories in yellow, you**
8 **did not review them in this case; is that correct?**

9 A That's correct.

10 **Q I can see in this exhibit it has the test**
11 **year and an update period. Was there any analysis**
12 **-- did you do any analysis to compare the test year**
13 **cost of each of these accounts to prior periods?**

14 A That would have been done by account --
15 accountants.

16 **Q Okay. But it -- would you agree that**
17 **that's not demonstrated here in this exhibit?**

18 A I agree that this is a summary.

19 **Q And it's a summary of what is the cost for**
20 **the current test year in the update period only; is**
21 **that correct?**

22 A No. This is a summary of -- of the
23 accounts of what's in the base factor. This is how
24 we calculate the base factor for this case.

25 **Q So -- so you're -- can you tell me what**

1 **time periods of costs you looked at for this**
2 **calculation, then?**

3 A Well, the accountants looked at -- at the
4 time periods and developed these costs. This comes
5 from the EMS run that Staff performs. And it -- it
6 coincides with the revenue requirement that Staff
7 has calculated.

8 Q If you'd look at, I guess, the -- the
9 first page with the colored comments on it, there's
10 a box that says Source. Can you tell me what that
11 source says?

12 A I'm sorry. I --

13 Q May I approach?

14 JUDGE PRIDGIN: You may?

15 A OPC DR 13 and 14.

16 Q (By Mr. Opitz) And would you -- so you --
17 would you agree that a lot of this information is
18 -- was provided as a result of Public Counsel data
19 requests?

20 A In this case, we used Public -- Public
21 Counsel's data requests.

22 MR. OPITZ: That's all the questions I
23 had. Thank you, Judge. Thank you, Mr. Roos.

24 JUDGE PRIDGIN: Mr. Opitz, thank you. Do
25 we have any other cross for this witness?

1 Mr. Woodsmall does. Thank you. When you're ready,
2 sir?

3 MR. WOODSMALL: Thank you, your Honor.

4 CROSS-EXAMINATION

5 BY MR. WOODSMALL:

6 Q I missed the earlier part of the FAC two
7 weeks ago, so I'm going to ask some questions. And
8 if I'm repetitive, just bear with me.

9 First off, it was noted that Exhibit 237
10 is based upon Staff's direct run. Is that your
11 understanding?

12 A That's correct.

13 Q Do you know what the NVEC is in Staff's
14 true-up run?

15 A I do not know.

16 Q Okay. Is that something that would you
17 handle? Or who would handle that?

18 A Ashley Sarver would do that calculation.

19 Q Okay. You don't know if it's gone up or
20 gone down from what's in this --

21 A I don't know.

22 Q Okay. Okay. Now, turning to the -- I
23 guess the second -- there were two different
24 documents paperclipped together?

25 A They're sort of a summary two-page? Is

1 that --

2 Q And I'm wanting to look at the other one
3 that has the different subaccount data.

4 A Okay.

5 Q As I look the that, I note a number of
6 things that I find a little surprising because when
7 I look at the -- the things that are in orange are
8 things that are proposed to be included in the FAC;
9 is that right?

10 A That is correct.

11 Q Okay. And when it says proposed to be
12 included, proposed by KCP&L or by Staff?

13 A That was proposed by KCP&L.

14 Q Is Staff going along with the things in
15 orange?

16 A No.

17 Q Okay. Okay. So --

18 A The --

19 Q Go ahead.

20 A The items in orange are the fuel handling
21 subaccounts, which has been agreed, that do not be
22 included in the FAC.

23 Q The items in orange have been agreed not
24 to be in the FAC?

25 A Through -- I'm sorry. From the

1 Stipulation and Agreement.

2 **Q Okay. Good. Well, then that helps with**
3 **the rest of my questions.**

4 MR. WOODSMALL: No further questions.

5 Thank you.

6 MR. ROOS: Yeah.

7 JUDGE PRIDGIN: All right. Thank you.

8 Further cross? KCP&L?

9 MR. ZOBRIST: No questions, your Honor.

10 JUDGE PRIDGIN: Any further cross? Bench
11 questions? Mr. Chairman?

12 CROSS-EXAMINATION

13 BY CHAIRMAN HALL:

14 **Q Okay. Good morning.**

15 A Good morning.

16 **Q Turning to the Staff Report Revenue**
17 **Requirement, Cost of Service, page 166, do you have**
18 **that in front of you?**

19 A Yes.

20 **Q Okay. Could you read lines 13 through 16**
21 **on that page?**

22 A Staff recommended to the --

23 **Q To -- to yourself is fine.**

24 A Oh, okay.

25 **Q If you know. It -- it could be that there**

1 is another witness could answer this more
2 appropriately. But I'm interested in either the
3 dollar amount or the percentage amount of
4 transmission in the FAC, not in the FAC based on
5 this recommendation. Do you -- do you have access
6 to these numbers or percentages?

7 A It's in this hand-out for Staff's direct.

8 Q Could you -- could you take me there,
9 please?

10 A Some of these numbers might be highly
11 confidential.

12 Q Well, I'm looking at totals, not line
13 items.

14 A Okay.

15 Q So I'll look to Counsel --

16 MR. STEINER: Which -- which page are you
17 on that you're going read from?

18 A I was going to read from the summary,
19 two-page.

20 MR. STEINER: Right. I think -- I think
21 we would -- the total amount is not HC, but the --
22 the breakdown in the total would be. So total for
23 Account 501 there, that wouldn't be. But the --
24 the things that make up that, that would be.

25 JUDGE PRIDGIN: So we're clear, I guess on

1 answering the questions, Mr. Roos, if you need to
2 get into HC, if you could let me know so we can go
3 in-camera.

4 MR. STEINER: And the Chairman was asking
5 about the transmission percentage?

6 CHAIRMAN HALL: The dollar amount and
7 percentage inside the FAC and outside the FAC based
8 upon this recommendation.

9 MR. STEINER: I think that's all okay to
10 talk in non -- in the public setting.

11 **Q (By Chairman Hall) so you're looking --**

12 A Okay. I'm looking at the second page, the
13 transmission cost, TC, and it's all on Account 565.
14 It shows an amount that's included in base rates.
15 And then it shows an amount to be -- there's a
16 column to be excluded from FAC base.

17 And then, finally, there's a column to be
18 included in the FAC base. So for total Account
19 565, the amount included in base rates is
20 \$10,826,594. And the amount -- and the amount
21 that's to be included in the FAC base is the
22 \$10,828,594.

23 **Q That's the amount included. Where is the**
24 **amount that's excluded, if it's on the page?**

25 A There is a total transmission amount of

1 \$60,732,437. That's the total amount.

2 **Q To be included?**

3 A That's the total amount in -- in base
4 rates. And there's a percentage of that, 17.83
5 percent, that's included in the FAC.

6 **Q Okay. So, again -- and I -- and I**
7 **apologize if I'm being slow.**

8 A Well, I'm looking at it. I was a little
9 confused myself looking at this.

10 **Q Okay.**

11 A What happens is -- is that there's a total
12 amount of transmission costs that are in the base
13 rates.

14 **Q Okay. And -- and where -- where on this**
15 **sheet does it show the total amount of transmission**
16 **-- transmission expense, whether inside or outside**
17 **the FAC?**

18 A That would be the transmission line,
19 Account 565, the \$60,732,000.

20 **Q So that's the total amount. Okay. And**
21 **then -- and then is the -- is the 10 million the**
22 **figure that's included in the FAC?**

23 A That's correct.

24 **Q Okay. Do you know how those particular**
25 **numbers have changed over the last -- strike that.**

1 Do you -- the -- have you looked at the amount of
2 transmission expense that -- that KCP&L has
3 incurred over the last five or ten years and how
4 that's changed?

5 A I personally have not.

6 Q Okay. Do you have any understanding as to
7 -- oh, strike that.

8 CHAIRMAN HALL: I'm good.

9 A Thank you.

10 JUDGE PRIDGIN: Thank you. Any further
11 Bench questions?

12 COMMISSIONER STOLL: I have no questions.

13 COMMISSIONER KENNEY: I have no questions.

14 JUDGE PRIDGIN: Mr. Rupp or Commissioner
15 Coleman?

16 COMMISSIONER COLEMAN: No questions.

17 JUDGE PRIDGIN: Any redirect based -- or
18 cross based on Bench questions? Public Counsel?

19 MR. OPITZ: Briefly, Judge.

20 CROSS-EXAMINATION

21 BY MR. OPTIZ:

22 Q Mr. Roos, you -- the Chairman was asking
23 you about the transmission cost percentage, and you
24 pointed to a 17.83 percent.

25 A That's correct.

1 **Q Can you tell me, I guess, where that**
2 **percentage came from?**

3 A That was an output from the fuel model,
4 Staff's fuel model. I'm sorry. Not a direct
5 output. The person that did the fuel model had to
6 do a small calculation outside of the fuel model.

7 **Q Can you tell me what that calculation was?**

8 A That calculation represents the amount of
9 true purchase power that was purchased to meet
10 native load.

11 **Q And can you tell me if that 17.83 percent**
12 **is different than what was included in the**
13 **company's last rate case?**

14 A I can tell you what's in the current
15 tariff.

16 **Q The current tariff?**

17 A 7.3 percent.

18 **Q And is it your understanding that those**
19 **were calculated using the same methodology?**

20 A Yes.

21 MR. OPITZ: Okay. Thank you.

22 JUDGE PRIDGIN: Any further recross?

23 Hearing none, redirect?

24 MR. BERLIN Yes, Judge.

25 REDIRECT EXAMINATION

1 BY MR. BERLIN:

2 Q Now, Mr. Roos, you were asked some
3 questions with regard to the color coding on what
4 is now marked as Exhibit 237.

5 And just to clarify here, the account line
6 items and descriptions for those items color coded
7 in yellow, is it correct to say that that is what's
8 currently included in the FAC base factor?

9 A That is correct.

10 Q And that is Staff's recommendation, is it
11 not, to continue on with including those items?

12 A Yes.

13 Q Okay. And so the orange color coded items
14 represent what KCP&L had originally requested; is
15 that right?

16 A That is correct.

17 Q Okay. Mr. Roos, have -- you were asked
18 some questions regarding prudence review by
19 Mr. Opitz. Do you recall those?

20 A I do.

21 Q Have you performed a prudence review for
22 KCP&L?

23 A I have not.

24 Q Do you know if Staff has performed a
25 prudence review?

1 A Staff has not.

2 **Q Okay. And is it true that KCP&L is up to**
3 **have a prudence review of its FAC?**

4 A That is correct.

5 **Q You were also asked some questions about**
6 **the items that were -- Staff proposed to exclude**
7 **that goes to your testimony. You -- you did look**
8 **at, in your testimony, whether -- did you look at**
9 **whether or not certain fuel handling requirements**
10 **were -- were substantially enough to be included in**
11 **the FAC?**

12 A I did.

13 **Q And what was your conclusion?**

14 A That they did not meet the requirements.

15 **Q And so it's your recommendation that they**
16 **not be included in the FAC; is that right?**

17 A It's my recommendation that they be not
18 included in the FAC.

19 **Q Is it your opinion that the current**
20 **account listing for the costs that are included in**
21 **the FAC, is that adequate, in your view?**

22 A It's -- I guess it depends on adequate. I
23 guess it begs the question, adequate for what?
24 It's adequate for calculating the base factor.
25 It's adequate for -- for the rate case. If we

1 needed additional information, a prudence review,
2 we would ask that information.

3 **Q And this information was determined in the**
4 **last KCP&L rate case, wasn't it?**

5 A That's correct.

6 MR. BERLIN: Okay. I have no further
7 questions. Thank you, Judge.

8 JUDGE PRIDING: Fine. Thank you.
9 Mr. Roos, thank you very much. You may step down.
10 This looks to be a good time to take a break. I
11 show the time to be 10:25 according to the clock in
12 this room. Let's resume at 10:40. So thank you
13 very much. We are off the record.

14 (Break in proceedings.)

15 JUDGE PRIDGIN: All right. Good morning.
16 We are back on the record. I believe
17 Mr. Dauphinais has taken the stand, and I will
18 swear him in momentarily.

19 We will take cross-examination from him.
20 It's my understanding after this, the parties wish
21 to break and my guess is depending on enough time
22 on the clock that will be a convenient time to
23 break for lunch.

24 The Commissioners have agenda at noon, so
25 we'll see how long cross-examination takes. But

1 this will probably be it for the morning.

2 When we resume, I assume it would be this
3 afternoon after lunch, certainly, the Commission
4 would like an update on what issues, if any, get
5 resolved with your discussions.

6 And even if you don't resolve anything, I
7 think the Commission would like a -- a brief
8 explanation of the Non-unanimous Stipulation and
9 Agreement that's already been filed.

10 I believe seven days have run, and no
11 party has objected. And I think the Commission
12 would like at least just kind of a brief overview
13 from the signatories on -- on what that has
14 resolved.

15 And, obviously, that may change once you
16 report back to the Commission depending on what
17 gets resolved, if anything, and with your
18 negotiations later today.

19 So regardless of if anything else further
20 gets settled, I think the Commission would at least
21 want an overview and a chance to ask questions
22 about what has been resolved and what remains live.

23 Anything further from the Bench or from
24 Counsel before Mr. Dauphinais is sworn in? All
25 right. Mr. Dauphinais, if you'll raise your right

1 hand to be sworn, please.

2 JAMES DAUPHINAIS,

3 being first duly sworn to testify the truth, the whole
4 truth, and nothing but the truth, testified as follows:

5 DIRECT EXAMINATION

6 BY MR. DOWNEY:

7 JUDGE PRIDGIN: Thank you very much.

8 Mr. Woodsmall, when you're ready. Excuse me. Mr.
9 Downey. My apologies.

10 MR. WOODSMALL: You scared me.

11 JUDGE PRIDGIN: I was going to say, you
12 weren't ready, were you?

13 MR. WOODSMALL: No.

14 Q (By Mr. Downey) Good morning, Jim.

15 A Good morning.

16 Q Please state your name and spell your last
17 name.

18 A James R. Dauphinais, D-a-u-p-h-i-n-a-i-s.

19 Q And, Jim, where are you employed?

20 A Employed by Brubaker & Associates, Inc.

21 Q Was Brubaker & Associates retained by my
22 law firm to represent the MIEC's interest in this
23 case?

24 A Yes.

25 Q And did you have occasion to prepare

1 testimony to file in this case?

2 A Yes.

3 Q And do you have that testimony in front of
4 you?

5 A Yes.

6 Q I'll tell you the -- the exhibit numbers.
7 Do you have those already, Jim?

8 A I do not have the exhibit numbers.

9 Q Okay. Do you have your direct testimony,
10 which is both HC and NP?

11 A Yes.

12 Q And HC is Exhibit 850, as is NP. And do
13 you have your rebuttal testimony?

14 A Yes.

15 Q Okay. And that is Exhibit 851, both HC
16 and NP. And do you have your surrebuttal?

17 A Yes, I do.

18 Q Again, that's Exhibits 852 HC and NP. Do
19 you have any corrections that you need to make to
20 your testimony?

21 A No.

22 Q If I were to ask you the questions in that
23 testimony today, would your answers be the same?

24 A Yes.

25 MR. DOWNEY: Judge, I would offer Exhibits

1 850 through 852, both HC and NP, and tender the
2 witness for cross.

3 JUDGE PRIDGIN: Mr. Downing, thank you.
4 Any objections? Hearing none, Exhibit 850 HC and
5 NP is admitted. 851 HC and NP is admitted. 852 HC
6 and NP is admitted. Cross-examination, Public
7 Counsel?

8 MR. OPITZ: Yes, Judge. Thank you.

9 CROSS-EXAMINATION

10 BY MR. OPITZ:

11 Q Good morning, Mr. Dauphinais.

12 A Good morning.

13 Q Do you have a copy of your rebuttal
14 testimony with you?

15 A Yes, I do.

16 Q On page 8, you discuss FERC Order 668.

17 A Yes.

18 Q And is it your recommendation that the
19 company -- is it your testimony that the company
20 complies with that order?

21 A It is my testimony that the two
22 adjustments that they've made, I believe they are
23 CS-24 and R-35, related respectively to purchase
24 power expenses and off systems sales revenues
25 should be rejected because it would be contrary to

1 Order 668, but, also, would misrepresent their
2 off-system sales revenues and purchase power
3 expenses.

4 **Q So is the information -- does FERC Order**
5 **668 require information be provided in a certain**
6 **manner?**

7 A Well, Order 668 requires -- yes. Order
8 668 requires that information be reported in a
9 uniform system of accounts in a particular manner.

10 **Q And what is the purpose of requiring that**
11 **reporting in that particular manner?**

12 A It goes back to, essentially, paragraph 8
13 of Order 668, which lays out the reasoning of the
14 FERC on -- on doing so. And, essentially, what
15 FERC wants done for reporting is that in each hour
16 or settlement period for RTO, and I believe we're
17 dealing with an hour for the Southwest Power Pool,
18 that the RTO have transactions for energy, they be
19 netted into either an off system sale or a purchase
20 power, depending on whether the load declares as an
21 excess of generation of the entity or vice versa.

22 **Q And so the reporting directed by 668, when**
23 **you look at that information, what does that help**
24 **you determine?**

25 A It gives you an indication of megawatt

1 hours the true purchase power off-system sales of
2 utility. The RTO, when you enter an RTO utility,
3 it's not changing its utilization for its
4 generation.

5 For its customers, what's happening is
6 you're utilizing the RTO market to supplement your
7 generation just like the bilateral wholesale market
8 was utilized.

9 But because of the way RTO market rules
10 work, you have to clear all your generation and
11 load in the RTO market. So the purpose of the
12 netting is to reflect the true utilization of the
13 RTO that is in a particular hour using it for off
14 system sale or using it for purchase power, but
15 you're never using it for both.

16 And I should say in a particular hour in a
17 particular market because the netting is done
18 separately for the day ahead market and the
19 real-time market.

20 MR. OPITZ: That's all the questions I
21 have. Thank you, Judge.

22 JUDGE PRIDGIN: Thank you. Staff?

23 MR. BERLIN No questions, Judge.

24 JUDGE PRIDGIN: Thank you. KCP&L? Any
25 other -- any other party besides KCP&L?

1 Mr. Zobrist?

2 MR. ZOBRIST: Okay. Thank you.

3 CROSS-EXAMINATION

4 BY MR. ZOBRIST:

5 Q Just a couple questions, Dauphinais. Do
6 you have any information that leads you to believe
7 that Kansas City Power & Light is not complying
8 today with Order 668?

9 A With respect to complying with what FERC
10 requires?

11 Q Correct.

12 A With respect to what FERC requires in
13 isolation, yes, I'm not aware of anything.

14 Q And am I correct that Order 668 does not
15 mention fuel adjustment clauses, correct?

16 A I do not believe it does. Order 668 is --
17 governs -- from FERC's perspective, Order 668 is
18 related to how items be treated for -- in the
19 uniform system of accounts.

20 Q And Order 668 does not refer to or discuss
21 either FERC's wholesale fuel adjustment clause or
22 any state's fuel adjustment clause, correct?

23 A To the best of my knowledge. No.

24 Q And nothing in FERC order 668 requires a
25 utility like KCP&L to report sales and purchases as

1 part of its fuel adjustment clause, correct?

2 A That's correct.

3 Q Okay. Now, you referred to paragraph 80
4 of Order 668, which is set forth in your rebuttal
5 testimony on page 6 in part, correct?

6 A Yes.

7 Q And paragraph 80 says, FERC does expect
8 utilities to maintain detailed records for auditing
9 purposes of the growth sale in a purchase
10 transactions, correct?

11 A For auditing purposes so it can trace back
12 how the netting was done, certainly, yes.

13 Q And in paragraph 84, which you quote on
14 page 8 of your rebuttal, it states that the purpose
15 of reporting gross information such as an
16 electronic quarterly report provides the Commission
17 and the public with a more complete picture of
18 wholesale market activities, which affect
19 jurisdictional services and rates, correct?

20 A Well, we should complete that whole
21 sentence.

22 Q Go ahead.

23 A Yeah. Thereby, helping to monitor for any
24 market power and to ensure that customer is
25 protected from improper contact, which I think is

1 the key to the provision. The EQR is about market
2 monitoring and monitoring proper behavior.

3 **Q And when they talk about gross**
4 **information, that's both sales and purchases,**
5 **correct?**

6 A The load and generation is cleared in the
7 RTO markets. Yes.

8 **Q And am I correct that this Commission has**
9 **never required any Missouri electric utility to net**
10 **purchases and sales in any fuel adjustment clause**
11 **that it has approved, correct?**

12 A Well, certainly, the most recent base rate
13 case order for KCP&L, there was discussion with
14 regard to true purchase power in the context of
15 which transmission expenses can be included in the
16 FAC. But beyond that, I'm not aware of anything.

17 **Q Okay. Thank you.**

18 MR. ZOBRIST: Nothing further, Judge.

19 JUDGE PRIDGIN: Mr. Zobrist, thank you.

20 Any Bench questions? Mr. Chairman?

21 CHAIRMAN HALL: I think so.

22 CROSS-EXAMINATION

23 BY CHAIRMAN HALL:

24 **Q Good morning.**

25 A Good morning.

1 **Q Are you familiar with KCP&L's transmission**
2 **expenses over the last five or ten years or so in**
3 **terms of trends?**

4 A The only trend I would be aware of is the
5 changes from the last case to the current case in
6 -- in broad terms.

7 **Q And what would that trend be that you are**
8 **aware of?**

9 A I'm aware that the -- the transmission
10 specs have grown. We -- that's part of the
11 Schedule 11, so the Schedule 11 ramp up in
12 Southwest Power Pool. They're almost at the high
13 end. They're saturated out on how much they're
14 going to grow further. So those have increased,
15 yes.

16 **Q So you don't expect them to increase**
17 **significantly going forward?**

18 A Not more than it was discussed in my
19 testimony, which I think 50 to 52 million and then
20 to maybe 55 million, and then it levels off.

21 There's a chart that KCP&L, I believe, put
22 in to be -- as an exhibit to one of the witnesses'
23 direct testimony that shows that. So --

24 **Q What exhibit is that? If you don't -- may**
25 **your Counsel can --**

1 MR. WOODSMALL: I believe it was attached
2 to the testimony of Mr. Carlson.

3 MR. ZOBRIST: I think that's correct,
4 Judge.

5 JUDGE PRIDGIN: Okay.

6 CHAIRMAN HALL: I have no further
7 questions. Thank you.

8 JUDGE PRIDGIN: Thank you.

9 COMMISSIONER STOLL: I have no questions.
10 Thank you.

11 COMMISSIONER RUPP: No questions.

12 COMMISSIONER COLEMAN: No questions.
13 Thank you.

14 JUDGE PRIDGIN: Okay. Any recross based
15 on Bench questions? Public Counsel?

16 MR. OPITZ: No, thank you, Judge.

17 JUDGE PRIDGIN: Staff?

18 MR. BERLIN: No, thank you.

19 JUDGE PRIDGIN: KCP&L or anyone else?

20 MR. ZOBRIST: Nothing further.

21 JUDGE PRIDGIN: Redirect?

22 MR. DOWNEY: No redirect.

23 JUDGE PRIDGIN: Thank you.

24 Mr. Dauphinais, thank you. You may step down.

25 Ands he's going to be the last witness before the

1 parties would like to go off the record and discuss
2 some settlement.

3 And I think I had brought up that the
4 Commission would like some sort of report back when
5 we go back on the record, whether it be simply on
6 the Non-unanimous Stipulation and Agreement as-is
7 or if there are any additional issues that settle.

8 But then that -- and I realize the
9 schedule may very well need to change. But the
10 schedule as-is, we would be going on to rate
11 design, class cost of service.

12 Ms. Miller would be the first witness
13 scheduled subject to whatever may be resolved.
14 Okay. Anything further before we go off the
15 record? Mr. Opitz?

16 MR. OPITZ: Yes, Judge. Before we break,
17 I'd like to offer the exhibits that we prepared in
18 response to the Chairman's request last week.

19 JUDGE PRIDGIN: And do you have numbers,
20 Mr. Opitz?

21 MR. OPITZ: I believe it should be 325,
22 326 and 327.

23 JUDGE PRIDGIN: And I do show 325 would
24 have been your next exhibit. I just wanted to make
25 sure that was right.

1 MR. OPITZ: Yeah. And I have copies I can
2 distribute to everybody here.

3 JUDGE PRIDGIN: Okay. Okay. Does Counsel
4 wish to look at those before we know whether you
5 object?

6 MR. STEINER: We've talked, your Honor. I
7 would like to know which is which as far as 325,
8 326 and 327.

9 MR. OPITZ: Certainly. So 325 will be
10 fuel. 326 will be transmission expense. And then
11 327 will be off system sales.

12 MR. STEINER: I guess, your Honor, I would
13 note that they are all HC and also note that there,
14 is accounts that indicate that -- that are
15 currently excluded but proposed to be included in
16 this that actually were resolved by the partial
17 Stipulation. And that would be the fuel handling
18 expenses. So we are not seeking those to be
19 included in the FAC even though it says that in
20 that exhibit. That's Exhibit 325.

21 JUDGE PRIDGIN: Okay. And do I understand
22 that these are all HC and there's no NP version?
23 These are simply HC documents?

24 MR. OPITZ: There is no NP version.

25 JUDGE PRIDGIN: Okay. Thank you.

1 MR. OPITZ: May I approach?

2 JUDGE PRIDGIN: You may. Are there any
3 objection to see those being admitted? Hearing
4 none, Exhibit 325 HC is admitted. 326 HC is
5 admitted. 327 HC is admitted.

6 MR. OPITZ: I haven't written on these,
7 but these are 325.

8 JUDGE PRIDGIN: Thank you. All right.

9 MR. BERLIN: Judge?

10 JUDGE PRIDGIN: I'm sorry. Yes.

11 MR. BERLIN: I just would like to check
12 Staff Exhibit 237 that we addressed earlier was
13 admitted. I think it is.

14 JUDGE PRIDGIN: I show 237 HC only your
15 Staff -- or your FAC explanation was offered and
16 admitted.

17 MR. BERLIN Thank you.

18 JUDGE PRIDGIN: All right.

19 COMMISSIONER KENNEY: Judge?

20 JUDGE PRIDGIN: Commissioner Kenney?

21 COMMISSIONER KENNEY: If I could ask a
22 question for KCP&L Counsel, Mr. Fischer. Is
23 someone going to get back with me with my question
24 regarding main line deposits?

25 MR. STEINER: Yes, your Honor. We have --

1 we are researching that, and we will present that
2 information to you.

3 COMMISSIONER KENNEY: I mean, I'm just
4 kind of feeling a little lonely that the Chairman
5 gets everything. I mean, everybody wants to give
6 him something.

7 MR. STEINER: We'll get that first thing.
8 We've have been looking at it. We're not going to
9 present that at the rate case. We're going present
10 that to you separately.

11 COMMISSIONER KENNEY: Okay. That's fine.
12 I just wanted to make sure.

13 JUDGE PRIDGIN: Anything further from
14 Counsel before we go off the record?

15 MS. ROBERTS: Judge, Casey Roberts for the
16 Sierra Club.

17 JUDGE PRIDGIN: Yes, ma'am.

18 MS. ROBERTS: I wanted to inquire whether
19 parties who were excused the first day of the
20 hearing will be allowed short opening statements
21 concerning the rate design, cost of service issues
22 before beginning?

23 JUDGE PRIDGIN: Yes, ma'am. We've been --
24 we've been going through mini issues as we
25 approach. So yes, ma'am. That is allowed and

1 appreciated. Thank you very much.

2 MS. ROBERTS: Okay. Okay. Thank you.

3 JUDGE PRIDGIN: All right. Anything
4 further before we go off the record? Counsel, I
5 think I asked for about 30 minutes in doing that
6 and coming back and allowing the Commission to get
7 an agenda, there's not going to be really any
8 meaningful time do anything before we simply have
9 to break again for agenda.

10 So unless Counsel or the Bench has a
11 different suggestion, I would suggest we simply
12 break, have agenda and lunch and come back about
13 1:00. Will that -- I'm seeing nods.

14 All right. I got something right. All
15 right. If there's nothing further, we will stand
16 in recess until 1:00. Thank you. We're off the
17 record.

18 (Break in proceedings.)

19 JUDGE PRIDGIN: Good afternoon. We are
20 back on the records in ER-2016-0285. As I alerted
21 Counsel before we broke this morning, I think the
22 Commission would like an overview of the
23 Non-unanimous Stipulation and Agreement that some
24 of the parties filed a few days ago as well as an
25 update on what issues, if any, you might have

1 settled during the break, and then we will go from
2 there. So let me inquire of Counsel, is there
3 anything else to report before we get kind of an
4 overview from the signatories on the Non-unanimous
5 Stipulation and Agreement?

6 MR. STEINER: I don't think so. We had a
7 good discussion. We still need to go on with the
8 hearing. Discussions may continue, but no word
9 toward -- nothing new to report there.

10 JUDGE PRIDGIN: Okay. Thank you. And is
11 there someone from -- and let me -- I've got the
12 Stipulation up here. I'm going from memory. I
13 guess KCP&L, Staff, OPC and MIEC and MECG were the
14 signatories.

15 And at least as far as I'm concerned,
16 you're welcome to do it from the podium or the
17 Bench just in that order maybe give a brief
18 overview of your perspective on the Non-unanimous
19 Stipulation and see if we have any Bench questions
20 and then we'll go on with rate design and class
21 cost of service mini openings and cross.

22 MR. STEINER: Sure. We -- we were able
23 to work with the parties. We had a lot of smaller
24 issues that -- that would have taken a lot of time
25 in the hearing. And we were able to settle about

1 20 of those revenue issues for a specific dollar
2 amount 1.4 to a million dollars.

3 In addition to those revenue issues, the
4 document also cleans up and settles several
5 non-revenue items such as the customer disclaimer
6 issue and the CAM. And so those -- those
7 non-revenue issues are spelled out in a little bit
8 more detail how they're -- how they're being
9 resolves.

10 We have -- I can answer questions or we
11 have other witnesses that can answer questions
12 about specific things in the document.

13 JUDGE PRIDGIN: Are there any Bench
14 questions? Chairman?

15 CHAIRMAN HALL: So your application sought
16 a 90 million dollar increase in the revenue
17 requirement; is that correct?

18 MR. STEINER: That's right.

19 CHAIRMAN HALL: And so you have settled
20 for a \$1.1 million increase based upon these
21 settled issues, correct?

22 MR. STEINER: That -- that dollar amount
23 would -- would -- would increase that January 11th
24 EMS run and make that at 11.802 million. And then
25 that run is going to be updated for -- not the

1 issues that are settled, but other issues such as
2 property tax extension, transmission expense, a
3 variety of issues. That -- that number will be
4 updated. Yes.

5 CHAIRMAN HALL: Is there any way of
6 determining what the settlement does to your
7 original 90 million dollar request?

8 MR. STEINER: I don't think we'll know
9 that until we have --

10 CHAIRMAN HALL: Other issues settled or
11 resolved?

12 MR. STEINER: -- the true-up, Staff's
13 true-up information.

14 CHAIRMAN HALL: So you don't need to
15 resolve other issues in the case? You just need to
16 true-up?

17 MR. STEINER: We need to true-up and we
18 need to resolve issues such as ROE cap structure,
19 depreciation. We believe revenue is largely a
20 true-up issue.

21 CHAIRMAN HALL: So in order to -- to
22 figure this -- this \$1.14 million number, you --
23 you applied staff's position on -- on ROE just for
24 these limited issues?

25 MR. STEINER: That's correct.

1 CHAIRMAN HALL: That's in no way a
2 statement about your -- your position on ROE?

3 MR. STEINER: That's correct as well.

4 CHAIRMAN HALL: And I assume the parties
5 would -- would request a -- a ruling by the
6 Commission on this Stipulation and Agreement as
7 soon as possible? Or is -- or can -- can the case
8 continue with or without that ruling?

9 MR. STEINER: I think we would need it as
10 soon as possible. I don't think it's urgent. But,
11 obviously, if there's an issue, we would need some
12 time to then try -- try these issues and if we have
13 some -- some true-up hearing available. But yes,
14 we would like a ruling on this.

15 CHAIRMAN HALL: Okay. I don't believe I
16 have any further questions. Thanks.

17 JUDGE PRIDGIN: Any further questions from
18 the Bench on the Stipulation and Agreement?

19 COMMISSIONER STOLL: I'll just have one.
20 On the AMI meter opt-out program --

21 MR. STEINER: Yes.

22 COMMISSIONER STOLL: -- so the initial
23 set-up charge of \$150, that's for the meter and the
24 installation of that meter? Is that how that
25 you --

1 MR. STEINER: It's for that -- this is -- this
2 is the exact same charge we -- we were able to come
3 to an agreement on in GMO.

4 COMMISSIONER STOLL: Yeah.

5 MR. STEINER: It's for that, and it's also
6 to start and set up the manual billing process. We
7 have about five different work groups that would
8 touch that to do a manual billing. And it's to get
9 -- to fray the cost of doing that to -- to start
10 that process.

11 Then -- then the 45 per month would also
12 then pay for that meter reader to go out there each
13 month.

14 COMMISSIONER STOLL: Okay. So the \$150
15 per initial set-up would be for those various
16 groups to work to set up the AMI?

17 MR. STEINER: To -- to install -- install
18 the meter and then to set up the procedure to go
19 read the meter, get those -- get those processes
20 started and to then manually bill that meter --
21 take the readings off the meter to get a manual
22 bill. It's not a manual bill but feed that
23 information so a bill could be rendered.

24 COMMISSIONER STOLL: I see. Yeah. And
25 \$45 a month for meter reading charge, is there a

1 charge right now if you don't have an AMI? How did
2 does that work? I mean, is there a --

3 MR. STEINER: If -- if you don't have an
4 AMI meter now, I do not believe there is a charge.

5 COMMISSIONER STOLL: Is this becoming an
6 industry standard?

7 MR. STEINER: To have an opt-out?

8 COMMISSIONER STOLL: Yeah. It -- it -- to
9 me, it -- I mean, I'm not objecting to this. But
10 it doesn't seem like it's much of a -- an opt-out,
11 really, does it?

12 MR. STEINER: I think if it's something
13 that you really don't want your meter to be read, I
14 think people would be willing to pay that \$45 a
15 month.

16 COMMISSIONER STOLL: Yeah.

17 MR. STEINER: But it is -- it is a pretty
18 hefty charge. It's --

19 COMMISSIONER STOLL: Yeah. Okay. I -- I
20 don't have any other questions -- do you have a
21 response?

22 MR. STEINER: The \$45 is based on a trip
23 charge that we have now to run a truck to go -- to
24 go check -- to read a meter.

25 COMMISSIONER STOLL: Yeah. And I guess if

1 you had an AMI, what -- what if the person had a --
2 does anybody have an AMR, the meters?

3 MR. STEINER: The old technology?

4 COMMISSIONER STOLL: Yeah.

5 MR. STEINER: No. Those have all been
6 upgraded to AMIs.

7 COMMISSIONER STOLL: Have they? I think I
8 still have an AMR. Okay. That's all. Thank you.

9 JUDGE PRIDGIN: Mr. Chairman?

10 CHAIRMAN HALL: I'm sorry to burden -- I
11 have a couple more questions. But if -- if -- if
12 Staff's position on each of these issues related to
13 the -- to the revenue requirement, if Staff's
14 position was -- if it -- if it had prevailed, would
15 -- we would be at Staff's EMS run of -- of negative
16 12.942; is that correct?

17 MR. STEINER: That's right.

18 CHAIRMAN HALL: And what -- if we had --
19 if we were going to implement the company's
20 position on each of those issues, what would --
21 what would the EMS run be?

22 MR. STEINER: Let me check. I'm not sure.

23 CHAIRMAN HALL: Is that easy to do, or is
24 it -- is it more complicated than -- than I think?
25 Or than I thought?

1 MR. STEINER: I'm not sure.

2 CHAIRMAN HALL: Not sure. Okay.

3 MR. WOODSMALL: Just as an initial matter,
4 Mr. Chairman, it's not so simple as comparing
5 Staff's position versus company position.

6 Some of these issues are issues where
7 Staff and company were in agreement, but public
8 Counsel took a different position. So you need to
9 make a comparison not only with Staff but then with
10 Public Counsel. That's a different issue.

11 CHAIRMAN HALL: Yes. And I appreciate
12 that. But I was speaking specifically about
13 Staff's position versus the company's position.
14 But we don't need to wait on that calculation. But
15 if -- if and when can you do it, I'd be interested
16 to have it.

17 MR. STEINER: Okay. Let me -- let me do
18 some more checking.

19 CHAIRMAN HALL: Okay. Thank you.

20 JUDGE PRIDGIN: Any further Bench
21 questions for the company on the Stipulation?

22 COMMISSIONER KENNEY: Just one question.

23 JUDGE PRIDGIN: Commissioner Kenney.

24 COMMISSIONER KENNEY: Unrelated, but what
25 percentage of KCP&L service territory currently

1 have AMI meters?

2 MR. STEINER: I think it's a pretty high
3 percentage. It's all -- the program has all been
4 run -- it has been rolled out to every place that
5 gets them. I think there may be some rural areas
6 that don't have them. But I don't have that number
7 to --

8 COMMISSIONER KENNEY: Are you thinking 90
9 percent? 80 percent?

10 MR. STEINER: I would hate to guess. I'm
11 hearing 85.

12 COMMISSIONER KENNEY: Okay. So it's --
13 throughout this period of this rate next case, it's
14 expected it will probably have a reach close to a
15 hundred percent as you go forward?

16 MR. STEINER: I think the program that
17 we've already rolled it out to the areas that going
18 to get it in this initial phase.

19 COMMISSIONER KENNEY: Okay.

20 MR. STEINER: I don't think it's going to
21 be rolled out -- I don't think we have plans right
22 now to roll it out to the additional 15 percent as
23 of yet.

24 COMMISSIONER KENNEY: Okay. All right.
25 That's good. Thank you.

1 JUDGE PRIDGIN: Anything for the company
2 on the Stipulation? All right. Staff,
3 Ms. Mers?

4 MS. MERS: In Staff's view, the
5 Stipulation was a good balance for all the parties
6 involved, that signed on at least.

7 We saw movement in issues such as the
8 tracking and forecasting, the FAC that moved what
9 we thought in a beneficial way to ratepayers. So
10 that's initially why Staff decided to -- to sign
11 on.

12 There's also a continuation of great
13 programs like the economic relief pilot program
14 that we thought was important. So, I mean, we echo
15 what KCP&L said about several items as well.

16 JUDGE PRIDGIN: Thank you. Any -- any
17 Bench questions for Staff?

18 CHAIRMAN HALL: No, thank you.

19 COMMISSIONER STOLL: No.

20 JUDGE PRIDGIN: Public Counsel?
21 Mr. Opitz?

22 MR. OPITZ: Thank you, Judge. Thank you.
23 Looking at all of these issues, we may take
24 different perspectives on how those dollars shake
25 out.

1 But combining them together, Public
2 Counsel was comfortable with that resolution, and
3 we were happy to get some specific language on a
4 few other issues in there that we had concerns
5 about, and so -- and so that's why we joined in the
6 Stipulation and Agreement.

7 JUDGE PRIDGIN: Thank you. Bench
8 questions?

9 CHAIRMAN HALL: No, thanks.

10 JUDGE PRIDGIN: No? All right. Thank
11 you. MECG?

12 MR. WOODSMALL: Thank you. Very briefly.
13 I think revenue requirement issues were talked
14 about, so I won't -- I won't discuss those at all.

15 Relevant to issues that we filed testimony
16 on, this reaches a good resolution. Specifically,
17 we were concerned about two groups of costs that
18 the company sought extraordinary treatment for.
19 They had transmission courses in which they sought
20 three different things, either all transmission
21 costs in the FAC, a transmission tracker or
22 forecasted transmission costs.

23 Under this resolution, company drops all
24 three of those requests and things go as they are
25 now, no tracker and only the amount of transmission

1 costs that are currently associated with pure
2 purchased power.

3 So it maintains the current status for
4 transmission costs. Property taxes, the company
5 had sought, either a property tax tracker or
6 forecasted property taxes, and both those
7 provisions have been -- or both of those requests
8 have been dropped under this settlement. So those
9 were big issues in getting us to join in the
10 agreement.

11 JUDGE PRIDGIN: Okay. Thank you. Bench
12 questions?

13 COMMISSIONER STOLL: No. Thank you.

14 JUDGE PRIDGIN: All right. Hearing none,
15 anything else from Counsel or the Bench before we
16 go to opening statement on rate design, class cost
17 of service?

18 MR. STEINER: Just one. I visited with
19 several parties. Marisol Miller is the first
20 witness. She's up on rate design, but she's also
21 up on revenues.

22 And most Counsel have said that they're
23 fine with asking both questions -- both areas of
24 questions to Ms. Miller so she'd only have to go up
25 one time.

1 JUDGE PRIDGIN: No comments or anything?
2 That's fine. Does Counsel have a preference if she
3 goes first or if we put her back towards the
4 revenues?

5 MR. FISCHER: She's the first witness on
6 rate design, so she probably just needs to go.

7 JUDGE PRIDGIN: Okay. Anything further
8 before we go on to opening statements, then? All
9 right. KCP&L?

10 MS. PAYNE: Judge, I'm sorry to interrupt.
11 But we did obtain the tariffs that Chairman
12 requested this morning. If that would be okay,
13 I'll go ahead and submit those now.

14 JUDGE PRIDGIN: That's fine. And,
15 Ms. Payne, I'll let you get back to your
16 microphone. Is this going to be admitted as an
17 exhibit?

18 MS. PAYNE: Yes.

19 JUDGE PRIDGIN: My records show Exhibit
20 238. Anyone show anything to the contrary? I'll
21 label that as Exhibit 238 then. And you wanted
22 that offered, Ms. Payne?

23 MS. PAYNE: Do I want -- no. I'm sorry.
24 I was going to offer each one as an exhibit. Yes.

25 JUDGE PRIDGIN: Okay. So just to be

1 clear, what you just handed out would be No. 238?

2 MS. PAYNE: Yes.

3 JUDGE PRIDGIN: Okay. Any objections to
4 that coming into evidence? Hearing none, 238 is
5 admitted.

6 (Staff Exhibit 238 was offered and
7 admitted into evidence.)

8 JUDGE PRIDGIN: Anything else before
9 KCP&L's opening? All right, Mr. Fischer, when
10 you're ready, sir.

11 OPENING STATEMENT

12 BY MR. FISCHER:

13 MR. FISCHER: Thank you, Judge. May it
14 please the Commission. On the rate design issue.
15 KCP&L is recommending that there should be an
16 across the board equal percentage increase to all
17 rate elements for all classes except for the
18 lighting class.

19 And for the lighting class, we believe
20 there should be no increase in the rates. This
21 would also involve the customer service charge, so
22 there would be an equal percentage increase to the
23 customer service charge.

24 The company is opposed to proposals that
25 would take steps toward adopting the declining

1 block rate structure for the residential class in
2 the summer and the winter periods at this time.

3 There are numerous rate design studies
4 going on that will address the residential rate
5 structures, including time of use rates. And we
6 believe it would be inappropriate to make
7 significant policy decisions or changes in the rate
8 design before those studies are completed and the
9 customer impacts are fully considered.

10 The adoption of an inverted rate structure
11 may have substantial unintended consequences,
12 particularly, if the inverted rate structure was
13 applied to higher usage electric space heating
14 customers in the winter or high usage residential
15 customers in the summer.

16 We have a significant concern that the
17 adoption of an inverted rate structure may
18 introduce volatility into the recovery of the
19 company's revenue requirement and the inability to
20 recover the substantial fixed costs of providing
21 electric service to our customers.

22 As I understand the Missouri Division of
23 Energy's rate design proposal, there would be an
24 inverted rate structure in the summer and a
25 flattening of the residential general use rate in

1 the winter. We don't believe that proposal should
2 be adopted at this time.

3 I also would note, though, that as I
4 understand their proposal, it would not affect the
5 electric space heating tariff.

6 With regard to time ever use rates,
7 multiple studies are underway within KCP&L and GMO
8 to explore these rates. It's unclear at this time
9 if time of use rates are the best way to address
10 people's problems or issues.

11 KCP&L believes that the Commission should
12 allow these studies to be completed before
13 requiring the company to offer time varying rates.

14 Marisol Miller, as we just mentioned, is
15 the company's witness on this issue, and she'll be
16 available to answer questions about class cost of
17 service and rate design. And I'd be happy to try
18 to answer your questions, too.

19 CHAIRMAN HALL: Good afternoon. You said
20 that the company is opposed to implementation of
21 declining block rates. I mean -- I'm sorry.
22 Inclining block rates because that would introduce
23 an element, I believe you used the word volatility?

24 MR. FISCHER: Yes.

25 CHAIRMAN HALL: So by that, do you mean it

1 could have the effect of causing conservation?

2 MR. FISCHER: No. I'm not referring to
3 that aspect of it. What I'm referring to is there
4 is a substantial number of fixed costs that are
5 associated with generation, transmission and
6 distribution, fixed charges which are fixed from
7 the company.

8 CHAIRMAN HALL: Yeah. But --

9 MR. FISCHER: Which are --

10 CHAIRMAN HALL: Go ahead. I'm sorry.

11 MR. FISCHER: Which are currently
12 recovered in the first two declining blocks of our
13 rate structure. To the extent we change that rate
14 stricture and moved those costs for purposes of
15 recovery to the tail block rate, then in the event
16 we have abnormal weather, for example, we'll have a
17 greater possibility that those fixed charges that
18 are associated with -- with the generation,
19 transmission and distribution won't be recovered.

20 For example, if we have a cool summer or a
21 very -- a warm winter, then it -- if our recovery
22 is based upon that tail block, which would happen
23 if you inverted it dramatically, then the company,
24 depending on the weather, would have volatility in
25 its recovery of its costs and, therefore, its

1 earnings.

2 CHAIRMAN HALL: How long has declining
3 block rates been around nationally as a concept?
4 Do you know?

5 MR. FISCHER: Well, I go back a number of
6 years, and they were there in 1976. So they have
7 been around for a while. We've also been tinkering
8 with different rate structures. Time of use rates
9 were also being discussed back in 1977.

10 And so the rate structures have been
11 changing and evolving. Different areas of the
12 country have different rate structures. And
13 they're probably appropriate based upon the
14 different regions and climates that we experience.

15 CHAIRMAN HALL: Okay. Thank you.

16 JUDGE PRIDGIN: Thank you. Any further
17 Bench questions?

18 COMMISSIONER STOLL: I have no questions.

19 JUDGE PRIDGIN: Thank you. Staff?

20 OPENING STATEMENT

21 BY MS. PAYNE:

22 MS. PAYNE: May it please the Commission.
23 While every aspect of a large utility rate case is
24 vital, it can be said that the heart of the case
25 lies in spreading the revenue requirement granted

1 by the Commission in the process of rate design.
2 After all, this is the final product of the hard
3 work of many parties and the Commission itself.

4 Each of the Staff members who works on a
5 rate case plays a role in producing that final
6 recommendation.

7 One witness in this matter, Mr. Brubaker,
8 states his beliefs that Staff's class cost of
9 service study does not recognize that base load
10 plans run virtually all the time, including its
11 system peaks, even though Staff's study
12 specifically accounts for this.

13 On the other hand, some witnesses in this
14 matter applaud Staff's class cost of service study
15 accurately reflecting how the plants are dispatched
16 to meet KCP&L's load requirement.

17 Staff's study reasonably recognizes that
18 the electricity requirement is met by Base,
19 Intermediate and Peaking plants and various
20 combinations.

21 It cannot be reasonably disputed that the
22 cost of plant fuel and ownership varies widely
23 cross the types of base, intermediate and peaking
24 plants.

25 Staff's study reviews the usage of each of

1 KCP&L's classes and how KCP&L's fleet as a whole
2 meets the combined peak and energy demands of the
3 classes using the Base, Intermediate, Peak or BIP
4 method to reasonably allocate cost responsibility
5 of each type of plant so that the cost of that type
6 could be properly allocated between the classes.

7 The same method of allocating costs is
8 used to reflect the differences in the fuel and
9 operations costs of the various types of plants.

10 Other studies presented in this matter are
11 based on the company's revenue and billing
12 determinants direct filing and the company's
13 initial revenue requirement request.

14 Those inputs are now completely at odds
15 with positions the intervening parties have taken
16 as this case has progressed such as the proposal
17 MEEA Cycle 1 annualization and transmission
18 expense, to name a few.

19 Staff's witness, Sarah Kliethermes,
20 determined Staff's production related allocators
21 and presented Staff's position on the Commission's
22 ordered time of use rates and the infrastructure
23 efficiency issues. She can answer any questions
24 regarding these issues.

25 Any increase in rates that the Commission

1 determines appropriate should be applied in an
2 equal percentage to all classes. This includes the
3 residential, large general service and large power
4 service classes.

5 For the larger classes, increasing the
6 rates equally avoids sending price signals to the
7 customers that cost of energy, regardless of the
8 time of consumption, is decreased.

9 Additionally, the residential customer
10 charge should be increased at a rate equal to that
11 of the increase allotted to the residential class,
12 but not to exceed \$12.62.

13 Staff is not opposed in a gradual move
14 towards flat rates in the winter months. However,
15 we do recommend that KCP&L's definition of the
16 winter months as the eight non-summer designated
17 months be evaluated prior to implementing any kind
18 of rate block design.

19 Staff witness, Robin Kliethermes, adopted
20 the original rate design testimony of Jim Busch
21 previously submitted as direct with Staff's rate
22 design and Staff's cost of service report. And she
23 can answer any questions regarding this issue.
24 Does the Commission have any questions at this
25 time?

1 CHAIRMAN HALL: No questions.

2 COMMISSIONER STOLL: No questions.

3 JUDGE PRIDGIN: Ms. Payne, thank you.

4 Anything from Public Counsel?

5 OPENING STATEMENT

6 BY MR. OPITZ:

7 MR. OPITZ: May it please the Commission.
8 Public Counsel generally supports the Staff's or
9 the company's proposal to -- to apply an equal
10 percentage increase across for any increase across
11 the different rate classes.

12 However, we diverge from the company and
13 Staff when it comes to the residential customer
14 charge.

15 Dr. Marke has been offered testimony that
16 it should remain at 11.8 and that keeping that
17 customer charge as low as possible at this level,
18 it places more control of the bill on low income
19 and fixed income households and does not penalize
20 customers who engage in efficient, conservative and
21 environmentally responsible behavior.

22 I will also point out that Public Counsel
23 witness, Dr. Marke, offers testimony that is
24 support of the inclining block structure offered by
25 Division of Energy in this case. And you can ask

1 him for more details on it.

2 But I would note that it's his testimony
3 that this gradual inclining block structure
4 proposed is beneficial for low income and low usage
5 company customers. And with that, I'm happy to
6 answer my questions.

7 JUDGE PRIDGIN: Bench questions?

8 COMMISSIONER STOLL: No questions.

9 Thanks.

10 JUDGE PRIDGIN: Mr. Opitz, thank you.

11 MR. OPITZ: Thank you.

12 JUDGE PRIDGIN: Missouri Division of
13 Energy?

14 MR. ANTAL: Five, six copies. I've got a
15 few more copies for anybody in the peanut gallery.

16 OPENING STATEMENT

17 BY MR. ANTAL:

18 MR. ANTAL: Good afternoon. May it please
19 the Commission. My name is Alex Antal. I'm
20 representing the Missouri Division of Energy.

21 There's already been some discussion in
22 the last couple openings about the Division's rate
23 design proposal, so I'll get right to it and give
24 an overview of what we are proposing for the
25 residential general use rate design.

1 So I'll use this pointer over here. If
2 you want to follow along with your sheets, that's
3 fine, too. So you'll first notice that the
4 Division of Energy is not proposing any increase to
5 the residential customer charge.

6 I'll touch upon this a little bit more
7 later, but, essentially, we propose -- we -- we
8 oppose increases to the customer charge for largely
9 the same reasons that we were proposing the rate --
10 the block rate design that we're proposing in this
11 case.

12 So currently -- in KCP&L's summer rate
13 design, they have what we call a flat block rate,
14 which is approximately 13 cents. What DE proposes
15 for the summer is that for the first 600 kilowatt
16 hours that that rate would be approximately 12
17 cents.

18 And then can you see in the far right-hand
19 column that that represents a -- a negative 6
20 percent change from what the -- that flat rate is
21 currently.

22 Then going along with the summer, kilowatt
23 hour usage over 600 kilowatts in a given month or
24 billing cycle would be charged at approximately 14
25 cents. And that change represents about an 8

1 percent increase to the current summer flat rates.

2 So this is what we've been talking about.
3 This is an inclining block rate, moving from a flat
4 rate to an inclining block rate.

5 For the winter, we're proposing something
6 slightly different. So currently, what the company
7 has is what we call a declining block rate, so the
8 rate per kilowatt hour actually decreases when you
9 use over that -- you know, these new rated
10 thresholds.

11 So currently, for the first 600
12 kilowatt hours that a customer uses in a given
13 month, they're charged approximately just over 11
14 cents. It's a very small decline, what we're --
15 what we're proposing for the first block in the
16 winter, and it comes out to be, you know, less than
17 a 1 percent decrease.

18 The second block, which is the next 400
19 kilowatt hours, is not changing at all. There's
20 zero change in the rate there.

21 And then in the third block, which is
22 usage over 1,000 kilowatt hours in a given month,
23 we're proposing to increase the tail block by just
24 over 6 percent.

25 The Division of Energy's witness, Mr.

1 Martin Hyman, will be taking the stand later and
2 can answer your questions.

3 I will briefly discuss some of the
4 analysis I have that he has performed in support of
5 this proposal.

6 Mr. Hyman has performed a bill frequency
7 analysis. He took a sample of customer bills that
8 -- and usage that the company provided to us. And
9 you can see in this -- sorry -- in this graph
10 essentially, what you would expect to see.

11 The brights -- or the blue line represents
12 monthly average use for the entire year, which is
13 just over 800 kilowatt hours. And then, you know,
14 we have essentially four data points that are above
15 that average monthly usage.

16 And as you'd expect, those above average
17 months include July, August, September. And then
18 the fourth one is January, which is just slightly
19 over average use, monthly average use.

20 Mr. Hyman also performed a bill impact
21 analysis. This table here, which is the second --
22 well, I understand the first table, the second kind
23 of picture on page 2 of the hand-out shows the
24 percent change between the company's current rates
25 and the Division of Energy's proposed rate designs.

1 I'll point out that what the Division of
2 Energy has proposed in this case is a revenue
3 neutral change to rates. So this wouldn't
4 necessarily impact any increase that the Commission
5 may authorize in this case.

6 Essentially, what -- what would happen is
7 if -- if the Commission were to order KCP&L to
8 adopt the rate design proposal that Division of
9 Energy has proposed that they would first make
10 these adjustments to their current rates and that
11 any rate increase that the Commission saw
12 appropriate to order could then be distributed to
13 the various rate elements as it saw fit.

14 So I'll briefly go through here, this
15 diagram. You know, the first column, you have the
16 months of -- of the year. The second column, you
17 have the average impact.

18 And you'll notice that for all but two of
19 the months, the average impact from Division of
20 Energy's proposal actually results in a bill
21 decrease.

22 We also -- I would point you to the fourth
23 column over, the 95th percentile. Essentially,
24 what we -- you know, what we were looking at here
25 is trying to avoid extreme outliers in our bill

1 analysis.

2 But you'll notice that even at the 95th
3 percentile that there is only one month out of the
4 year where there is a bill impact of 5 percent.
5 All the other months are below that, if not
6 negative.

7 The next table basically just presents
8 that comparison in a graphic form. As you'd
9 expect, you saw essentially ten out of the 12
10 months, average users are going to see a bill
11 decrease over -- in one month, a slight increase.
12 But as you would expect with an inclining block
13 rate design, customers who use more than average
14 are -- are going to see an incentive to use less.

15 So, you know, this isn't the first time
16 that the Commission has had before it an inclining
17 block or rate design proposal or a proposal to
18 decrease the declining block rates that a utility
19 has. I'm -- I recall the Commission's recent
20 hearing -- well, maybe not so recent, but
21 relatively recent hearing in the Empire rate case
22 where the Commission had a lively discussion at
23 hearing about inclining block rate designs, which I
24 remember from reading the transcript that every
25 single one of Commissioners on this panel showed

1 positive interest in inclining block rates and
2 encouraged the parties in that case to make
3 proposals in a subsequent case.

4 Obviously, this is a new case. It's a
5 different proposal. The Commission is going to
6 have to rely on the evidence presented in this case
7 in determining whether or not the block rate
8 proposal that DE is proposing is just and
9 reasonable.

10 I'd like to briefly go over some of the
11 policy reasons why moving away from declining block
12 rates in the non-summer months and moving towards
13 inclining block rates in the summer months is good
14 public policy.

15 These policies are expanded on in both the
16 testimony of DE witness Martin Hyman as well as
17 Mr. Douglas Jester, who has filed testimony on
18 behalf of Sierra Club and Renew Missouri.

19 So the first one is that these rate
20 designs that we're proposing will create price
21 signals to higher use customers to invest in energy
22 efficiency or to conserve energy at their homes.

23 Additionally, as was alluded to by Counsel
24 -- not alluded to, but specifically said by Counsel
25 for OPC that the -- this rate design proposal will

1 create bill relief for a lower use customers, which
2 include a large number of -- of low income
3 customers as well.

4 Another policy objective that this rate
5 design is able to achieve is that it reduces rates
6 for all customers if the long run as fewer costly
7 capital investments have to be made.

8 As the Commission is well aware, one of
9 the main driving factors of utility investments is
10 summer peak demand. And if you look back at the
11 bill frequency analysis, you can see that -- that,
12 you know, in the summer months, that's when
13 residential usage is the highest.

14 Utility has to have generation resources
15 to meet that load. When we -- when we encourage
16 customers to conserve energy and to invest in
17 energy efficiency, there is -- not only are they
18 going to see bill reductions from that savings, but
19 they're also going to relieve -- or, you know, push
20 down peak demand. That's just an added bonus of
21 this -- of this particular rate design

22 And as alluded to in the testimony that I
23 referenced that this rate design more accurately
24 allocates -- allocates costs and in terms of cost
25 causation.

1 Now, Counsel for KCP&L, as well as witness
2 for Staff and KCP&L, have raised some concerns
3 about this rate design. Those concerns are, in
4 particular, revenue sufficiency or volatility is
5 what Counsel for KCP&L called it.

6 There's also been some questions of the --
7 the bill analysis that we did, which we'll address
8 in cross-examination.

9 And it's also been alluded to that -- that
10 this rate design is not the best means of reducing
11 peak demand and that time of use rates would be
12 preferable.

13 Now, Division of Energy is a proponent of
14 time of use rates. But the fact is that KCP&L
15 isn't proposing time of use rates in this case.
16 They made it very clear in this case and in their
17 last case that their billing software is not
18 equipped yet to provide time of use rates.

19 Now, you know, we can argue about that,
20 but as far as I'm concerned, the great shouldn't be
21 the enemy of the good. Yeah. Would it be great if
22 they were proposing time of use rates for their
23 general residential use customers in this case?
24 That would be awesome. But they're not.

25 So why -- why should we kick the can down

1 the road and wait and hope that in the next rate
2 case that they propose those rates that their
3 billing software is where it need to be?

4 You know, we have the opportunity to do
5 something now to save low use customers and average
6 customers money on their average bills and to
7 encourage higher use customers to save energy.

8 And as -- as can be shown in the
9 surrebuttal testimony of Douglas Jester, the
10 concerns about rate volatility are overblown.

11 Mr. Jester has calculated that DE's rate
12 design proposal will reduce annual residential
13 energy consumption by approximately .88 percent and
14 that it will reduce August residential energy
15 consumption by 1.98 percent. Again, August in that
16 bill analysis is the month with the highest average
17 customer usage. We want to push down that usage if
18 -- you know, above all because that's what's going
19 to create value for all customers in the long run.

20 Going back to the rate volatility concern,
21 Mr. Jester calculates that -- that the shift in
22 collecting revenues from the -- from the company's
23 first block energy charge to the second and third
24 block energy charges will actually only shift
25 approximately 1.76 percent of revenue recovery to

1 those seconds and third blocks and that the
2 increase in revenue volatility will only be
3 .1 percent of KCP&L's Missouri revenues, a very
4 modest amount of increased volatility to provide
5 added benefits to customers.

6 I'd like to touch upon the legal
7 considerations. And I'd start off by saying when I
8 gave my general opening a couple weeks ago now, I
9 gave kind of an overview of the burden of proof
10 standards that the Missouri Courts have set out in
11 different types PSC issue considerations.

12 And the Chairman asked me what my purpose
13 was for providing that overview. And, you know,
14 upon further reflection, I don't know that I gave
15 the best answer that I could have given. So I'll
16 try it again.

17 The real reason -- or the primary reason
18 for me pointing out the burden of proof standards
19 that the Missouri Courts have set out for PSC
20 proceedings is that if the Commission follows them,
21 my -- my client wins. That's why I'm pointing it
22 out.

23 The other, you know, I'd say reason that I
24 point it out is I've had the opportunity to review
25 the Commission's recent report and orders in some

1 of -- you know, the last KCP&L rate case, Ameren
2 rate case and Empire rate case.

3 And while I acknowledge that the
4 Commission, you know, observes or references the --
5 these burden of proof standards that the orders
6 that -- you know, I'm reading the orders, and I
7 don't know that it's always crystal clear that --
8 that they're being applied.

9 I'm not saying that the Commission has
10 come to any wrong conclusions or unlawful
11 conclusions, but I think it could be clearer
12 whether or not these burden of proof standards are
13 being followed.

14 I think that only would, you know,
15 strengthen the Commission's order in the future if
16 it's exclusively clear that they're following these
17 burden of proof standards.

18 So going to the burden of proof. Missouri
19 Courts have found that the utility has the burden
20 of proof to show that its proposed tariffs are just
21 and reasonable, including the reasonableness of its
22 rate design. That's what we're talking about here.
23 We're talking about rate design.

24 Missouri Courts have also found that under
25 the statutory standard of just and reasonable, it's

1 the result reached, not the method employed, which
2 is controlling. I think that needs to be
3 considered by the Commission here.

4 There's been some criticism of the method
5 that the Division of Energy used to develop its
6 proposal. And it's not the method that is
7 controlling. It's the result reached.

8 And as I've shown here and Mr. Hyman has
9 shown in his direct testimony that the -- the
10 result is bill savings for low use customers and
11 for average customers.

12 So I briefly wanted to touch upon some of
13 the other rate design issues that we've raised in
14 testimony. As I said earlier, we're not in favor
15 of any increase to the customer -- the company's
16 customer charge.

17 The primary reasons for that is that
18 increased charges or fixed charge in general
19 decrease energy efficiency incentives, that a
20 they're burdensome and low use customers and
21 they're a burden on low income customers as well.

22 Also, with regard to time of use rates, in
23 the company's last rate case, they agreed to file a
24 study on time of use rates by September 15th of
25 this year. So we're looking forward to seeing that

1 study and seeing what, you know, promise it has and
2 what recommendations they put forth in it.

3 They also -- because we know this study is
4 forthcoming and the company has already, you know,
5 done this analysis or has -- is in the process of
6 performing this analysis, we think it would be
7 appropriate for the Commission to -- to order the
8 company to propose time of use rates in its next
9 general rate case.

10 So in closing, I just wanted to say what I
11 think the question is before this Commission in
12 regards to residential rate design. The question,
13 as I see it, is has the company provided competent
14 and substantial evidence showing by a preponderance
15 of the evidence or more likely than not that its
16 rate design leads to more just and reasonable
17 results in this case? Or, conversely, has Division
18 of Energy provided competent and substantial
19 evidence showing more likely than not that its
20 proposed rate design leads to more just and
21 reasonable results in this case? I'll leave my
22 prepared remarks at that. And I'm happy to answer
23 any questions.

24 JUDGE PRIDGIN: Any Bench questions?
25 Mr. Antal, thank you very much.

1 MR. ANTAL: Thank you.

2 JUDGE PRIDGIN: Opening from U.S.
3 Department of Energy?

4 OPENING STATEMENT

5 BY MR. GARG:

6 Thank you, your Honor. May it please the
7 Commission. My name is Rishi Garg. I'm here
8 representing the U.S. Department of Energy and the
9 Federal Executive Agencies within the KCP&L service
10 territory.

11 I very much appreciate you allowing us to
12 appear here in front of the Commission. I just
13 have some background I want to share.

14 The United States Federal Government
15 intervenes in State public utility Commission rate
16 cases across the nation and the U.S. Department of
17 Energy receives its delegation to represent Federal
18 Executive Agencies in the KCP&L service territory
19 from the United States General Services General
20 Administration pursuant to Federal Statute.

21 Federal facilities taking service from
22 KCP&L in Missouri include the Richard Bolling
23 Federal Complex, the Whitaker Courthouse and
24 Bannister Federal Complex, including come others as
25 well.

1 It is our position -- well, in fact, that
2 the Federal Government has consistently held to the
3 principle that electric rates should be cost-based
4 so that rates send accurate price signals to
5 customers, promote efficient electricity use and
6 electrical equipment investment and avoid inter and
7 intra class subsidy problems.

8 Department of Energy, DOE and Federal
9 Executive Agencies, FDA, recommend respectfully
10 that the Commission adopt the four coincided
11 peak methodology to allocate demand-related
12 production and transmission costs to the various
13 customer classes in KCP&L's class cost of service
14 study.

15 DOE, FDA further recommends the movement
16 towards cost based rates subject to the principles
17 of gradualism to avoid rate shock. Adoption of DOE
18 recommendations will reduce existing inner class
19 subsidies while ensuring that no customer is
20 unreasonably impacted.

21 Production and transmission capacity is
22 built or acquired to meet system peak demands, not
23 average demands. For reliability purposes, all
24 utilities ensure capacity to meet their peak, not
25 their average demands.

1 Customer contributions to system peak
2 should, therefore, be the principle component of
3 factors used to allocate fixed production and
4 transmission costs.

5 KCP&L is a summer peaking utility, and
6 therefore seek the methodology most that
7 appropriately allocates fixed transmission
8 production costs to the rate classes.

9 That's my opening statement. Dr. Schmidt
10 is here to answer questions, and I'll also be
11 available to answer questions. And thank you,
12 again, very much.

13 JUDGE PRIDGIN: Mr. Garg, thank you. Any
14 questions from the Bench?

15 CHAIRMAN HALL: No questions.

16 COMMISSIONER KENNEY: No questions.

17 JUDGE PRIDGIN: Thank you, sir. No
18 questions. Opening from MIEC?

19 OPENING STATEMENT

20 BY MR. DOWNEY:

21 MR. DOWNING: Good afternoon. My name is
22 Ed Downey. I represent the MIEC. Our witness on
23 this issue will be Morris Brubaker. Mr. Brubaker
24 has a superb academic set of credentials and
25 unparalleled experience.

1 Unfortunately, Exhibit A to his direct
2 testimony listing all that experience was left off
3 the copy that we filed, and we intend to offer that
4 later.

5 Mr. Brubaker obtained his electrical
6 engineering degree and his Master's in Electrical
7 Engineering and his MBA from Washington University
8 before many people in this room were even born.

9 Since then, he's had -- he's had 47 years
10 of experience in the public utility regulatory
11 area. So I -- I think he really truly does have
12 unparalleled experience.

13 He used the average in excess 4NCP method
14 to allocate the production plant costs between the
15 customer classes in this case. His analysis shows
16 that the residential class has rates that are
17 currently below cost of service.

18 And I would refer you to his Schedule
19 MEBCOS-R-5 in his rebuttal. That analysis shows
20 that other classes of KCP&L customers have rates
21 above cost of service to them.

22 The average in excess method, 4NCP, is a
23 generally accepted method for allocating production
24 plant costs. In fact, a form of A&E is used by
25 Ameren Missouri, Empire and West Star. And you can

1 find that in Brubaker Rebuttal, page 4.

2 The average in excess method properly
3 considers the impact of demand in determining the
4 causation of generating plant costs.

5 As Brubaker explains in his rebuttal pages
6 17 through 20, the A&E method properly considers
7 both maximum rate, the demand and the duration of
8 use energy.

9 Utilities planned power plant additions to
10 meet peak use, not average use. And I'm not the
11 first lawyer to tell you that this afternoon. Or,
12 alternatively, they consider coincident peak, which
13 is what Dr. Schmidt does.

14 This Commission explains the A&E method
15 well in it's April 29, 2015, report and order in
16 the Ameren electric case, ER-2014-0258. There, the
17 Commission said that methodology conceptually
18 splits the electric system into an average
19 component and an excess component. The average
20 component is the average -- excuse me -- is the
21 amount of capacity needed to produce the required
22 energy if it were taken at the same demand every
23 hour.

24 The excess component measures the
25 difference between average demand and peak demand

1 at 4 non-coincident peak.

2 The Commission has accepted the
3 reasonableness of this methodology in past Ameren
4 Missouri rate cases, and that's in the report and
5 order, page 70, paragraph 3, and the Commission
6 cited Mr. Brubaker for that statement.

7 Now, Dr. Schmidt testifies on behalf of
8 the U.S. Department of Energy. He also provided
9 cost of service testimony. Like Mr. Brubaker, he
10 rejects the Staff's use of the BIP method and
11 Kansas City Power & Light's use of the A&P method.

12 Although he uses a different allocation
13 method, 4CP, than Mr. Brubaker does, both his
14 method and Mr. Brubaker's allocate generating plant
15 cost based upon the measure of demands.

16 Both his methods and Brubaker's method
17 achieve similar results, and they're in the
18 mainstream. And I would refer you to Brubaker
19 Rebuttal, page 18, schedule MEB-COS-R-5.

20 Now, the Staff has its BIP method. The
21 BIP methods allocates too little production plants
22 costs for low load factor customers who contribute
23 to peak demand, but may not use as much energy.

24 Both Brubaker and Schmidt roundly
25 criticize the use of the BIP method because it

1 misallocates costs and consequently leaps to rates
2 that send the wrong pricing signals.

3 All plants are used to meet peak demand,
4 and so all classes of customers should pay their
5 share of meeting that demand.

6 The BIP allocation method is not
7 mainstream and it's not widely accepted, if it is
8 accepted at all. As Mr. Brubaker noted in his
9 rebuttal testimony, pages 15 and 16, the Staff's
10 cost allegation lacks symmetry.

11 High load factor customers pay an above
12 average share of the plant's fixed costs while also
13 paying a slightly above average share of the energy
14 cost.

15 Also, as Mr. Brubaker notes, the BIP
16 method indicates below average capital costs and
17 below average fuel costs to the residential class.

18 Mr. Brubaker noted, quote, It is
19 counter-productive that this low load factor class,
20 the lowest of all, would have not only below
21 average capital costs, but, also, below average
22 fuel costs, closed quote.

23 The staff did file surrebuttal testimony
24 in this case, but that testimony utterly fails to
25 address this criticism.

1 Mr. Brubaker also noted that Staff's
2 allocation of base load plants is not only the
3 basis of demand, but, rather, energy use of the
4 classes.

5 Table 1 on page 13 of his rebuttal shows
6 that the BIP allocation of base load plants exactly
7 -- exactly matches what the allegation would be
8 based solely upon energy usage. Judge, is this set
9 up?

10 JUDGE PRIDGIN: Well, I see that it's on,
11 but I think I can flip that screen over for you.
12 Or do you -- do you have a remote up there?

13 MR. DOWNING: Never mind. I don't want to
14 get involved in technology. I -- I will refer you
15 to page 13 of his rebuttal testimony. And on page
16 13, he -- he includes a table.

17 And you'll see that the way the Staff
18 allocates base load plant, it exactly corresponds
19 to energy usage.

20 Now, Ms. Kliethermes of Staff, in her
21 surrebuttal, page 5 attempts to deflect this
22 particular criticism. But she incorrectly
23 characterizes what the criticism was. She refers
24 to it as, quote, production capacity when
25 Mr. Brubaker was pretty clear when he was talking

1 about base load plant.

2 And rather than really addressing it, she
3 simply states his claim is simply inaccurate.
4 She made no attempt, utterly no attempt to
5 discredit the figures in Table 1 on page 13 of his
6 testimony.

7 So three different methods for allocating
8 plant weren't enough. We had to have a fourth.
9 And Kansas City Power & Light offered that in its
10 A&P method.

11 The other Missouri utilities use the A&E
12 method. So in this regard, Kansas Power & Light is
13 an outlier. The A&P method is disfavored because
14 it has the effect of double counting average
15 demand.

16 This Commission, in Case No. ER-2014-0258
17 -- it says 59 in my slide. I'm sorry about that.
18 The Commission addressed that particular method.
19 And I quote, The weakness with the P&A methodology
20 is that after dividing the average in excess
21 components, instead of ever allocating just the
22 excess average demand to the cost cause in classes,
23 it allocates the entire peak demand to the various
24 classes.

25 That has the effect of double counting the

1 average demand and allocates more costs to the
2 large industrials that have a steady but high
3 average demand that does not contribute as much to
4 systems peaks.

5 That method works to the benefit of the
6 residential class whose usage varies more by time
7 of day and by time of year. And that's the April
8 19, 2015, report and order I referred to earlier,
9 pages 70 through 71. And, again, this Commission
10 cited Mr. Brubaker.

11 So in summary, the class cost of service
12 report of Mr. Brubaker uses the mainstream A&E
13 method of allocation, the method used by Ameren
14 Missouri, Empire and by West Star.

15 The A&E method fairly allocates production
16 plant costs to cost causers by factoring in their
17 contribution to peak demand. The A&E method, thus,
18 results in rates that send the right price signals
19 to the cost causers.

20 The Department of Energy -- U.S.
21 Department of Energy's CP method is also mainstream
22 and leads to similar results to those of
23 Mr. Brubaker with his A&E method.

24 The commission should reject Staff's BIP
25 method and Kansas City Power & Light's A&E method

1 for the reasons stated.

2 I would also indicate that we seek to have
3 the Commission adopt Mr. Brubaker's proposed class
4 shifts and intra class rate impacts and rate design
5 in his direct, which you'll find on pages 31
6 through 32. Any questions?

7 JUDGE PRIDGIN: No Bench questions. Mr.
8 Downey, thank you.

9 JUDGE PRIDGIN: MEGC opening?

10 MR. WOODSMALL: Okay. Let's see if I can
11 get it up on the screen. Like Mr. Garg, who is
12 scared of technology.

13 MR. DOWNEY: I'm not afraid of it. It
14 just never works.

15 OPENING STATEMENT

16 BY MR. WOODSMALL:

17 MR. WOODSMALL: Good afternoon. Thank
18 you. David Woodsmall appearing on behalf of the
19 Midwest Energy Consumers Group.

20 As I go through this, you're going to
21 wonder whether I agree with Staff on anything. And
22 just to show you how reasonable I am, I will tell
23 you that I do agree with Staff on one thing, that
24 nothing is more important in my mind in this case
25 than this issue.

1 Suffice it to say, this is where the
2 rubber meets the road. This is where rates are
3 set. This is where many of your issues will affect
4 customers. So given the importance of this issue,
5 I'm going to spend some time talking about it so
6 you understand it thoroughly.

7 Several things that I want to do, Slide 2.
8 I'm going to talk about background and what are the
9 actual results of the various studies in this case.
10 I'm going to then spend some time going through
11 Staff's flawed BIP methodology, and I'm going to
12 spend some time on that.

13 You're going to hear what other states,
14 what other utilities and what other customers think
15 about this flawed method. I'm then going to talk
16 about KCP&L's methodology, which is also flawed and
17 has been rejected by this Commission in the past.

18 I'm then going to talk about the A&E
19 methodology and show you why it's best and why it's
20 in the mainstream and why it's been adopted by so
21 many different Utility Commissions.

22 Finally, I want to talk about the LGSLP
23 rate design put forward by MIEC. So Slide 3, just
24 to put in perspective where we are in this case,
25 there's really three parts of a rate case. There's

1 the revenue requirement, how much does the utility
2 get. \$50 million, let's say.

3 Then the second part is revenue
4 allocation. Once you've decided that they get that
5 50 million, how do you divide that up? How do you
6 decide that residential customers get 15 million of
7 it? That's revenue allocation, and that's one of
8 the things we're going to talk about today. And
9 those are issues 21-A and 21-B in the issues list.

10 The third part is once you've used rate
11 design, once you've decided that the large power
12 class gets a \$10 million increase, how do you
13 design the rates, the energy charge, the customer
14 charge, the demand charges to collect just that
15 amount of revenue requirement?

16 So there's the revenue requirement, the
17 revenue allocation and then the rate design. The
18 first part I'm going to talk about is revenue
19 allocation.

20 In order to determine the revenue
21 allocation, what you do is you rely on class cost
22 of service studies. And there's four of them in
23 this case, one by KCP&L, one by Division of Energy,
24 the Staff and the industrials.

25 Noticeably, there's no OPC study in this

1 case. That's because the Staff's study is so
2 beneficial to them that they didn't even do their
3 own.

4 But the revenue allocation -- or the class
5 cost of service study goes in and it looks at every
6 item of the company's finances. It looks at their
7 revenues. It looks at their investments. It looks
8 at their -- all their costs and tries to allocate
9 those to all the various classes.

10 Given the amount of investment in
11 production and the power plants, that's always the
12 biggest issue, and that is what separates the
13 parties in this case.

14 So are the implications of your decision?
15 This step is the most immediate way that you
16 determine the competitiveness of KCP&L's industrial
17 rates.

18 I have here a quote from an Empire case.
19 As you said there, Nothing that -- these
20 competitive rates are very critical. If you put
21 too much cost on industrial rates, industrial
22 customers will leave. You won't be able to attract
23 any other industrial customers.

24 What this has the effect of doing, it
25 narrows the number of kilowatt hours you can spread

1 cost around and causes everybody's rates to go up.
2 So be very mindful of the decisions you make here
3 because if you put too much cost on industrial
4 customers, industrial customers will leave and
5 everybody will suffer for that.

6 So what are the results in this case? As
7 mentioned, there were four studies performed in
8 this case, and I've given you the results of these
9 studies here. And you'll see -- I hope you'll see
10 and I'll point out later that Staff's methodology
11 is certainly the outlier. You see a KCP&L study, a
12 DOE study, an MIEC study. And all of them show
13 that residential rates are below cost, that
14 residential service is being subsidized.

15 Staff's methodology, though, completely on
16 the opposite end of the spectrum. And this is why
17 I say OPC didn't do their own study. They're
18 perfectly happy with the Staff's study. So those
19 are the results of the study.

20 So how do you -- how do you decide which
21 study is best? Let's take them in order. First, I
22 want to talk about Staff's flawed BIP method.

23 Staff stated in its opening statement that
24 some party applauded its BIP method. That one
25 party that applauds it is OPC, as I mentioned.

1 I'll show you that no other party uses this. No
2 other State Utility Commission uses this
3 methodology. No other utility uses this
4 methodology. And every customer other than OPC in
5 this case has rejected this methodology.

6 So how does the BIP method work? What the
7 BIP method tries to do, and it's very complex, it
8 tries to look at every production plant. So Wolf
9 Creek, Montrose, Lacine, every plant that KCP&L
10 has, and it tries to say, this is purely a base load
11 plant, this is purely an intermediate plant, and
12 this is purely a peaking plant.

13 And then it says for all the base loads
14 plants, we're going to allocate that purely on the
15 basis of energy. Intermediate plants purely on the
16 basis of 12 CP demand and peaking plants
17 differently. So it attempts to look at every
18 different methodology.

19 And here's a quote from Mr. Brubaker's
20 testimony talking about how that's done. The
21 problem we see, one of the problems is it attempts
22 to say that all base load plant is allocated on the
23 basis of energy. Well, if this was true, wouldn't
24 all future generation be wind generation if the
25 only thing you're looking at is the ability to

1 produce energy that demand is not important, all
2 you would build is wind?

3 And we know that's not the case. We know
4 that demand is important. So you can't use just
5 energy for base load plants. There has to be some
6 consideration of demand.

7 So why is Staff's model flawed? In
8 reaching this conclusion, I want you to know that
9 this is a universal conclusion. As I said, State
10 Utility Commissions, other parties and other
11 utilities have all rejected it.

12 Here are the results. Just look at the
13 residential results. And as I said, the Staff's
14 methodology leads to it's own unique position.

15 In the Ameren case, this happened as well.
16 And what did Ameren say? Ameren's own witness
17 said, quote, It is clear Staff's analysis is an
18 outlier when compared to the other studies.

19 So here's a utility company saying Staff's
20 methodology is an outlier. What did Empire say
21 when faced with the same thing? Quote, The Staff
22 also uses a method that is arbitrary and suffers
23 from incorrect assumptions and arbitrary
24 weightings.

25 Two utilities saying this thing is flawed.

1 And you can see here by the results, by the
2 outlying nature of the results, it's flawed.

3 Second, Staff's BIP methodology is flawed
4 because it's no longer applicable in this day and
5 age. Previously, power plants may have been built
6 for being base load, intermediate and peaking
7 plants. That is no longer truly the nature of
8 generation anymore.

9 Perhaps now, power plants are -- are
10 dispatched into the SPP and all power that KCP&L
11 needs is bought from the SPP. So you don't know
12 when you turn on your lights whether you're getting
13 energy from a base load plant, an intermediate
14 plant or peaking plant.

15 This energy with the SPP IM, energy is
16 truly fungible. So it's not appropriate to say
17 that we're going to allocate certain types of power
18 plants and certain types of methods. And a lot of
19 parties have said this.

20 Here's a DOE statement from Mr. Schmidt --
21 or Dr. Schmidt's testimony saying that the BIP
22 methodology isn't applicable in the SPP Integrated
23 Marketplace.

24 KCP&L, who used to do this same
25 methodology and has since rejected it, says the

1 same thing. It's no longer applicable. Quote, The
2 recent transition of the SPP to an integrated
3 marketplace with centralized dispatch has raised
4 some concerns about the BIP allocator.

5 I believe the integrated marketplace
6 change impacts the suitability of BIP method as
7 production allocator.

8 So I told you Ameren and Empire have
9 rejected this methodology. Here's KCP&L that
10 previously used it, and now they're rejecting it.

11 KCP&L of Kansas said the same thing. It
12 has become increasingly difficult to make this
13 assignment to base load, intermediate and peak
14 given the way we expect to utilize and plan our
15 generation assets in light of the SPP integrated
16 marketplace. It doesn't work anymore. Third
17 flaw, it fails to recognize demand. And this is a
18 critical part of the case. In order to understand
19 this issue, you have to understand the distinction
20 between energy and demand.

21 If you don't understand that, you're not
22 going to get this issue. Production plants are
23 built to meet the instantaneous peak. What is the
24 highest peak at that moment in time? That's
25 demand.

1 Energy is how much do you use over a
2 period of time? How much electricity are you using
3 in kilowatt hours over the course of a hour? It's
4 kind of like a garden hose. How much water can you
5 put there through at a period of time. How much
6 can blast through at a moment.

7 Production plants are built to meet the
8 peak, not how much energy is used over a month. So
9 Staff's methodology is overwhelmingly reliant on
10 energy usage. It doesn't look at peak. And that's
11 one of the biggest flaws. And that's been stated
12 by everybody.

13 DOE in this case, Peak demand should be
14 used to allocate demand related production and
15 transmission costs.

16 Empire again, The BIP method incorrectly
17 assumes that all the capacity costs of base load
18 plants are incurred solely to meet the base load
19 energy requirements; that is, all capacity has some
20 component of cost that is caused by the need to
21 meet peak load reliably. The BIP method does not
22 reflect this cost causation principle.

23 And Mr. Brubaker for MIEC, All plants
24 contribute to meeting peak demands, and the failure
25 to allocate the fixed costs associated with base

1 load plants on a measure of peak demand is faulty.
2 So that's the third problem with the BIP.

3 Fourth problem, it penalizes efficiency.
4 Large commercial -- large industrial customers use
5 the system in an efficient manner. They get more
6 energy for every -- every kilowatt of demand they
7 put out -- they require so that they're using the
8 system in an efficient manner.

9 Staff then turns around and uses this
10 methodology to penalize them for using it
11 efficiently. They help the residential customers
12 that use it inefficiently, cause peaks with air
13 conditioning to the detriment of the large
14 industrial customers that use it efficiently.

15 So what does this all lead to? Given all
16 of these flaws, you shouldn't be surprised to find
17 out that virtually every state has rejected this.

18 I was realizing during KCP&L's cross to
19 Dr. Woolridge that the Commission is very cognizant
20 of what other states do with return on equity. You
21 apply a zone of the reasonableness and look at what
22 other states do.

23 Wouldn't it make sense if you did the same
24 thing in regard to this issue? Don't you want to
25 know what are other states doing on this?

1 To the extent you adopt Staff's
2 methodology here and cause industrial rates to go
3 up and other states don't to it, you're putting
4 Missouri at a competitive disadvantage. You're
5 killing jobs in Missouri by pushing these
6 industrial customers away.

7 So as Mr. Brubaker said, given all these
8 flaws, the BIP methodology has never caught on.
9 The BIP method never caught on and is only
10 infrequently used in regulatory proceedings. The
11 BIP method is certainly not among the frequently
12 used mainstream cost allocation methodologies and
13 lacks meaningful precedents for its use.

14 So done trashing Staff's methodology.
15 There are three more left. You see here I've taken
16 them out of the column. We're down to three. So
17 what are we going to look at now?

18 Well, KCP&L has the peak and average
19 methodology. I won't spend a lot of time on this
20 because Mr. Downey addressed it. The Commission
21 has already considered this recently.

22 The Commission said it double counts
23 energy and it doesn't account for demand. So the
24 Commission has rejected it out of hand. So we
25 think you should reject the KCP&L methodology in

1 this case, too.

2 That leads to you -- to two results with
3 two different methodology. You have the MIEC
4 method which uses the A&E, average and excess. You
5 have the DOE method which relies upon 4CP. You
6 could see here the results are pretty comparable.

7 Am I -- MI -- or MIEC has historically
8 supported the A&E methodology, and we continue to
9 do so in this case. So let's talk about the A&E
10 methodology.

11 What Mr. Downey told you is correct. Most
12 of the utilities use the A&E methodology. And in
13 this area, Ameren uses it and West Star and Kansas
14 all use the A&E methodology for allocating
15 production costs.

16 What about other states? I'm not going to
17 read you all these quotes. There's a bunch of
18 them. But I'm giving them to you so can you look
19 at them. Here's a quote from Illinois adopting it,
20 Louisiana, Oklahoma, Texas, Colorado, District of
21 Columbia, FERC and Hawaii. And that was just the
22 research that I did last night.

23 These are all states that have used the
24 A&E methodology. I couldn't find any that used
25 Staff's methodology. I couldn't even find other

1 utilities that used it.

2 So the other thing about Staff's -- or the
3 MIEC A&E methodology, it properly recognizes demand
4 and energy. I told you that's a critical
5 distinction in the MIEC methodology.

6 The name says it. Average and excess.
7 The average piece is energy. The excess piece is
8 peak. It recognizes both components of how
9 customers use the system.

10 So where does that leave us? Here's the
11 MIEC recommendation. You can see here it shows
12 that residential rates are currently subsidized.

13 Given the interest of gradualism, we're
14 not pushing to move all the way to cost based rates
15 immediately. Instead, Mr. Brubaker simply
16 proposes, Let's go 25 percent of the way.

17 The Commission did that in the Empire
18 case. It hasn't caused a big problem. So he
19 proposes to remove 25 percent of the residential
20 subsidy. That would impose 14 and a half million
21 dollars in residential rates, which is 3.7 percent
22 over and above what they would -- they would get in
23 the average system increase in this case. So
24 that's the proposal, 25 percent of the
25 residential subsidy.

1 I should tell you there's another issue
2 out there. I'm not going to spend any time on it.
3 There's an issue regarding how to allocate
4 distribution costs. Large customers, generally
5 industrial customers don't use distribution costs
6 or they don't have to use a lot of them.

7 They don't have transformers in the
8 smaller line. So to the extent that distribution
9 costs are allocated to large customers, that's
10 worrisome. Mr. Brubaker can talk about that
11 further.

12 Second part, we've talked about revenue
13 allocation. The last part is how do you design the
14 rates to recover that revenue requirement?

15 There's an issue in this case. Mr. Brubaker
16 sponsored a rate design issue for LPS and LP. And
17 all this issue is designed to do is collect --
18 collect costs in the way that costs are incurred.

19 Properly constructed rates should collect
20 all variable costs through energy charges, that is,
21 if you're using more energy, you're causing them to
22 increase variable costs.

23 So let's collect those variable costs
24 through energy charges. To the extent that energy
25 charges control fixed costs, you're penalizing high

1 load factor customers.

2 And here you can see the nature of the
3 problem. KCP&L average variable costs are 2.0 to
4 2.1 cents per kilowatt hour.

5 But if you look at the tail block for the
6 LP class, and it's collecting 2.4, 2.6 center per
7 kilowatt hour. LGS class is even worse.

8 So what you have is these energy charges
9 are collecting a significant amount of fixed costs.
10 That's backwards. And like I said, it's
11 detrimental to large industrial customers with high
12 load factor that's using the system in a productive
13 manner and in an efficient manner.

14 So how do we fix it? Collect more of the
15 revenues through the demand charges and through the
16 customer charge. And to get to that point,
17 Mr. Brubaker has a solution, pages 28 to 33 of his
18 testimony.

19 You don't put any increase on the tail
20 block. You collect more of it in the demand
21 charges. And he can tell you more about that.

22 And this isn't anything novel. I don't
23 know why it's an issue in this case. In the last
24 three KCP&L cases, we've done this. In the last
25 Empire case, we've done this. All approved by the

1 Commission.

2 So trying to fix rates so that fixed are
3 collected in demand charges and variable costs are
4 collected in energy charges isn't a novel concept.
5 I'd ask you to inquire more with him. I have
6 nothing further. Thank you.

7 JUDGE PRIDGIN: Any Bench questions?

8 CHAIRMAN HALL: No questions. Thank you.

9 JUDGE PRIDGIN: Mr. Woodsmall, thank you.

10 MR. WOODSMALL: Thank you.

11 JUDGE PRIDGIN: I don't see Brightergy,
12 City of Kansas City. Mr. Coffman, CCM?

13 OPENING STATEMENT

14 BY MR. COFFMAN:

15 MR. COFFMAN: May it please the
16 Commission. I will be brief. The Consumers
17 Council of Missouri is essentially in line with the
18 rate design recommendations of the Office of Public
19 Counsel.

20 On the cost allocations among the classes,
21 I think I -- I need to say something to disagree
22 with my friend, Mr. Woodsmall to a certain degree.
23 The BIP plan is not some discredited relic from the
24 past. It's a valid methodology.

25 You can -- you can check the -- the NARUC

1 cost allocation manual. It is -- and it is not a
2 method that has been consistently rejected by other
3 states.

4 I'm personally aware that -- that in the
5 state of Texas, BIP is increasingly adopted by the
6 Commission there. It is a method that often and
7 depending on the particulars is better for the
8 residential class and other classes.

9 And I think you have to just acknowledge
10 and you can see through the various studies here
11 that cost allocation is as much an art as a
12 science. And there are -- there are aspects of
13 these cost allocation studies that are very
14 controversial. And earnest and honest and experts
15 can pick from a wide range of choices and
16 methodologies to allocate these things.

17 The results here are not out of line and
18 do not justify doing anything other than equal
19 percentage application of any rate increase in this
20 case. So we support the Staff's study and the
21 Office of Public Counsel's perspective on this.

22 And I think, as well, on the public policy
23 aspects, certainly, undue increases on large
24 industry customers can have negative effects, both
25 for economic development and for other classes in

1 some instances.

2 But taking money away from household
3 energy users can also have a negative impact. And
4 there are a lot more residential households.
5 You're taking -- if you unjustly apply a rate
6 increase to the general body of residential
7 customers, you're taking away money that would
8 otherwise be discretionary income that would be
9 used to stimulate the economy. And a lot of folks
10 simply don't even have that. So please balance the
11 interests of the various customer classes.

12 Within the residential class, Consumers
13 Council of Missouri believes strongly in keeping
14 the customer charge, the fixed portion of the bill
15 low.

16 This may be perhaps our -- our biggest
17 issue. And it's our biggest issue because that's
18 what we hear from the members and from the public.
19 And I think you -- the record includes some of that
20 sentiment through the local public hearings that
21 you were so good to go schedule and to go and to
22 listen to people.

23 So once you have -- have debated and
24 considered the cost causation, rate design then
25 applies, you know, a variety of other public policy

1 considerations.

2 You heard earlier the compelling reasons
3 why keeping the fixed part of bill low and the
4 energy -- applying increase in the energy portion
5 encourages energy conservation, which then also is
6 good for -- for everyone.

7 It also generally protects low income
8 users, load users, super conservers, apartment
9 dwellers, a preponderance of older consumers. So
10 you're protecting vulnerable customers.

11 And I would urge you just to consider
12 public sentiment. Public acceptance is one of the
13 bond bright principles of rate making. And I think
14 it's fair for you to -- to look at the record and
15 to realize that there is importance in not
16 increasing the fixed portion of the bill.

17 And we've heard from many customers who
18 not only -- who -- who may even be better off, so
19 to speak, because they're a high end user with a
20 low fixed customer charge. But those customers
21 find the lower fixed cost type of rate-making more
22 appealing to them because they know that they have
23 more control.

24 Their bill each month is a direct result
25 of their conservation efforts, and they get a

1 greater reward for the conservation efforts that
2 they engage in.

3 So just apart from even environmental
4 interests, just the sense of customer control is
5 important. And I'll leave it at that. Thank you.
6 Any questions?

7 JUDGE PRIDGIN: Bench questions?

8 CHAIRMAN HALL: No, thank you.

9 JUDGE PRIDGIN: Thank you. Sierra Club?

10 OPENING STATEMENT

11 BY MS. ROBERTS:

12 MS. ROBERTS: Good afternoon. May it
13 please the Commission. My name is Casey Roberts,
14 and I represent the Sierra Club along with Henry
15 Robertson.

16 Sierra Club is a national non-profit with
17 nearly 9,000 members in Missouri. We regularly
18 engage in public utility proceedings to ensure that
19 utility resource planning decisions fully
20 incorporate a range of cost effective resources,
21 including energy efficiency and renewable energy.

22 The residential rate design issues that
23 Sierra Club has raised in this case are another
24 important tool that this Commission has to keep
25 utility costs from rising by encouraging

1 conservation and customer investments in energy
2 efficiency and distributed generation.

3 Sierra Club has filed both direct and
4 surrebuttal testimony jointly with Renew Missouri
5 in this case authored by our witness, Douglas
6 Jester, and offered as Exhibits 400 and 401.

7 That testimony is concerned with three
8 residential rate design issues. First, KCP&L's
9 increase to the fixed customer charge. Second, a
10 residential inclining rate block structure proposed
11 by the Division of Energy. And third, the need to
12 shift to time of use rates.

13 As you've already heard plenty this
14 afternoon about some of these issues, I'll try to
15 be brief. Sierra Club joins at least five other
16 parties who oppose any increase in the fixed
17 customer charge for residential customers.

18 High fixed charges are both regressive and
19 antithetical to encouraging energy efficiency.
20 Moreover, this Commission has previously recognized
21 that high customer charges take away customer
22 control of their billing as Mr. Coffman was just
23 describing. That is a value in rate design, public
24 acceptance that is well-established as part of the
25 things that have been recognized by this

1 Commission.

2 In addition, high customer charges reduce
3 the portion of the bill that can be used to
4 incentivize customer to consume less electricity or
5 to shift when they consume that electricity.

6 This Commission has repeatedly expressed
7 interest in exploring inclining block rates and
8 times of use rates, which Sierra Club strongly
9 agrees with. But as that portion of the bill
10 shrinks, so does the Commission's ability to
11 achieve key policy objectives using innovative rate
12 designs.

13 On declining block rates, this case is
14 certainly not the first time the Commission has
15 considered whether to move away from declining
16 winter block rates and towards summer inclining
17 block rates.

18 There's extensive testimony in this case
19 to support such a move, which we believe is long
20 overdue.

21 Sierra Club and Renew Missouri filed
22 direct and surrebuttal testimony of Mr. Douglas
23 Jester on the issue of moving KCP&L's residential
24 rates towards inclining block rates.

25 Mr. Jester notes that doing so better

1 reflects cost causation relative to flat or
2 declining block rates and that higher levels of
3 energy usage that generally come with higher energy
4 and capacity costs are charged at a higher rate.

5 Mr. Jester also describes policy benefits
6 of moving towards inclining block rates. Doing so
7 promotes fairness for low use customers and creates
8 incentives for conservation.

9 As this Commission noted back in 2012,
10 declining block rate does not send a proper price
11 signal and tends to encourage the excessive
12 consumption of electricity. And that was the
13 Commission's report and order in ER-2012-0166 at
14 pages 111 to 112. It is long past time for KCP&L
15 to move past to this rate design.

16 In his surrebuttal, Mr. Jester describes
17 the expected reductions and overall energy usage
18 and peak period energy usage that can be expected
19 as a result of the block rates proposed by Division
20 of Energy witness, Mark Hyman. And Mr. Antal had
21 those in his -- his Powerpoint and hand-out
22 earlier.

23 But, briefly, Mr. Jester calculated that
24 over the short-term. Energy usage for residential
25 customers would decline by .88 percent and energy

1 usage in the peak month of August would decline by
2 almost 2 percent.

3 These kind of energy reductions can result
4 in substantial savings for all customers by
5 reducing the amount of utility infrastructure
6 needed and the high -- the amount of high cost
7 energy generation and purchase needed in the summer
8 months.

9 Sierra Club specifically supports the
10 block rate structure as proposed by witness Martin
11 Hyman, which make a gradual transition to inclining
12 block rates in the summer and reduces the degree to
13 which rates decline in the winter.

14 These proposed rates would limit bill
15 impacts to 5 percent -- to no more than 5 percent
16 for the 95th percentile residential customers;
17 thus, avoiding rate shock.

18 The Commission has a choice in this case
19 between the company's current rate design, which is
20 flat in the summer and declines in the winter and
21 that's proposed by the Division of Energy.

22 The company's rate design does nothing to
23 incentivize customers to use less electricity while
24 Division of Energy's rate gradually budges
25 customers to conserve.

1 The company's rate design adversely
2 affects low income users while DE's rate design
3 would lessen those impacts.

4 The Commission has the opportunity to
5 choose a rate design for residential customers
6 that better reflects cost causation and will create
7 incentives for customers to incent in energy
8 efficiency.

9 In addition, the company mentioned earlier
10 that they are currently studying alternatives for
11 residential rate design. And I agree with the
12 statement of Mr. Antal that the perfect should not
13 be the enemy of the good in this case.

14 Adopting inclining block rates with very
15 gradual transition here does not prevent the -- the
16 company from coming back after it's completed its
17 studies to suggest tweaks and minor improvements,
18 to address stakeholder concerns of the residents or
19 data that's been developed.

20 But the idea that studies are ongoing,
21 there's not reason to avoid selecting what are
22 otherwise just and reasonable rates.

23 Finally, Sierra Club urges the Commission
24 to order KCP&L to propose a broadly available time
25 varying rate option for residential customers in

1 its next rate case which will provide incentives
2 for customers to chip usage away from on-peak
3 periods.

4 Mr. Jester's testimony describes how time
5 varying rates better reflect cost causation than
6 the company's current rate design, how such rates
7 can create powerful incentives for peak load
8 reduction and how low income customers are likely
9 to fair better under a time varying rate.

10 KCP&L is currently required to complete a
11 study on time varying rates by September of this
12 year, and we very much look forward to evaluating
13 the results of that study.

14 And we also heard just after the lunch
15 break that KCP&L has about an 85 percent deployment
16 of advanced metering infrastructure for residential
17 customers.

18 As such, the utility is well-positioned to
19 propose time varying rates incorporating the
20 lessons learned through that study and stakeholder
21 input into its next case.

22 The Legislature's goal in MEEA can be
23 achieved most cost effectively with rate design
24 supports rather than undermines the goal of peak
25 reduction and overall energy usage reductions.

1 As such, Sierra Club urges this Commission
2 to make sure that well-designed, broadly available
3 time varying rates for residential customers be
4 proposed without delay.

5 If the Commission determines that further
6 study or stakeholder processes would be
7 appropriate, then the parameters of such studies or
8 stakeholder processes should be detailed to ensure
9 that they produce the information needed by the
10 Commission to determine what form of time varying
11 rates are just and reasonable and will most
12 effectively create peak load reductions for all
13 KCP&L customers. Thank you, and I'm happy to take
14 any questions you may have.

15 JUDGE PRIDGIN: Thank you. Bench
16 questions?

17 CHAIRMAN HALL: Thank you.

18 COMMISSIONER STOLL: No, thank you.

19 JUDGE PRIDGIN: Thank you. Opening from
20 NRDC?

21 MR. ROBERTSON: No, your Honor.

22 JUDGE PRIDGIN: Thank you. Renew
23 Missouri?

24 MR. LINHARES: Judge, given that our
25 position is substantially similar to Sierra Club

1 and in the interest of time, I'll remit my time.

2 JUDGE PRIDGIN: Mr. Linhares, thank you.

3 And I don't see Ameren Missouri. All right.

4 Anything further before we go on, I guess, to

5 Ms. Miller?

6 All right. Ms. Miller, if you'll come

7 forward to be sworn, please. If you'll raise your

8 right hand to be sworn, please.

9 MARISOL MILLER,

10 being first duly sworn to testify the truth, the whole

11 truth, and nothing but the truth, testified as follows:

12 DIRECT EXAMINATION

13 BY MR. FISCHER:

14 JUDGE PRIDGIN: Thank you very much. You

15 may have a seat. And, Mr. Fischer --

16 MR. FISCHER: Thank you, Judge.

17 **Q (By Mr. Fischer) Please state your name**
18 **and address for the record?**

19 A Marisol Miller, 1200 Main Street, Kansas
20 City, Missouri.

21 **Q Are you the same Marisol Miller that**
22 **caused to be filed direct testimony, which has been**
23 **marked as Exhibit 136, and rebuttal testimony,**
24 **which has been marked 137, and surrebuttal**
25 **testimony, which has been marked 138 in this**

1 **proceeding?**

2 A Yes, I am.

3 **Q Do you have any contributions or changes**
4 **that we need to make to those pieces of testimony?**

5 A No, I don't.

6 **Q If I were to ask you the questions that**
7 **are contained in the written testimony, would your**
8 **answers be the same today?**

9 A Yes, they would.

10 **Q And are they true and accurate to the best**
11 **of your knowledge and belief?**

12 A Yes.

13 MR. FISCHER: Judge, with that, I would
14 move for the admission of Exhibits 136, 137 and 138
15 and tender the witness for cross.

16 JUDGE PRIDGIN: All right. Any
17 objections? 136, 137 and 138 are admitted into
18 evidence.

19 (KCP&L Exhibit Nos. 136, 137 and 138 were
20 offered and admitted into evidence.)

21 JUDGE PRIDGIN: Cross-examination,
22 Division of Energy?

23 MR. ANTAL: Yes, Judge.

24 CROSS-EXAMINATION

25 BY MR. ANTAL:

1 Q Good afternoon, Ms. Miller.

2 A Hello.

3 Q How are you?

4 A I'm doing well. Thank you.

5 Q Did I read correctly that this is your
6 first time testifying before the Commission?

7 A That's correct.

8 Q Great. Thank you. I didn't mean -- I
9 wanted to ask you some questions about your
10 testimony.

11 But before I get into that, there was a
12 statement made by Mr. Fischer in his opening
13 statement that I wanted to ask you. Maybe you
14 could provide some clarification.

15 Mr. Fischer said that there were some
16 ongoing studies that the company was performing,
17 which he said was a basis for not implementing the
18 Division of Energy's rate design proposal in this
19 case. Do you remember him making that statement?

20 A I do.

21 Q Okay. I was wondering if -- if you know,
22 was Mr. Fischer referring to the rate design study
23 that KCP&L Greater Missouri Operations agreed to as
24 a -- as a part of a Stipulation in its last general
25 rate case?

1 A I believe he was in part, yes.

2 **Q Okay. Then is it your understanding that**
3 **that study is evaluating inclining block rate**
4 **designs?**

5 A That's one of the rate design
6 considerations, yes.

7 **Q Okay. Thank you for that clarification.**
8 **If you could turn to page 6 of your direct**
9 **testimony.**

10 A I'm there.

11 **Q In particular, I'm interested in your Q**
12 **and A, lines 1 through 6. Is it your testimony**
13 **that the purpose of the company's class cost of**
14 **service study is to assign or allocate each**
15 **component of cost in order to determine the**
16 **contribution of each customer class?**

17 A That is the purpose of the class cost of
18 service. One purpose, yes.

19 **Q Okay. And did the company use a -- a test**
20 **year, 12 months ending December 31st, 2015, with no**
21 **measurable updates through December 31st, 2016?**

22 A Yes. That's correct.

23 **Q Okay. Based off those responses, is it a**
24 **fair statement that the purpose -- that a purpose**
25 **of the company's class cost of service study is to**

1 **assign test year level costs to the various classes**
2 **and rates in order to ensure the company collects**
3 **its desired revenue requirements?**

4 A During the true-up period, yes.

5 **Q Okay. Thank you. Is the company's class**
6 **cost of service study designed to achieve any**
7 **specific public policy goals?**

8 A I think I know where you're going. If
9 you're going to cost causation, then, yes, that is
10 a consideration in our class cost of service study.
11 Yes.

12 **Q Okay. Is it intended to address public**
13 **policy goals such as energy efficiency?**

14 A I wouldn't say it would exclude it.

15 **Q Okay. But it's not specifically designed**
16 **to encourage it?**

17 A In and of itself, I wouldn't say that.
18 Yeah. No.

19 **Q Okay. If you could turn to page 14 of**
20 **your testimony. I'm looking at Q&A starting on**
21 **line 10. It states that, To achieve the**
22 **jurisdictional revenue increase of 10.8 percent,**
23 **the classes should be adjusted by percentages in**
24 **the table below. Do you see that?**

25 A I see it.

1 **Q** And for the residential class, it says
2 that it should be adjusted by 20 percent; is that
3 correct?

4 **A** That is correct. That's what it says.
5 Yes.

6 **Q** Okay. And this is the result of the
7 customer -- the company's class cost of service
8 study?

9 **A** Yes.

10 **Q** Okay. However, isn't it the company's
11 position that every customer class should receive
12 an equal percentage increase of 10.8 percent in
13 this case?

14 **A** Yes. That's what we're proposing.

15 **Q** So the company is deviating from its class
16 cost of service study results?

17 **A** The class cost of service study is a data
18 point that we use for rate design purposes. One
19 data point.

20 **Q** Okay. Okay. Thank you. If you would
21 turn now to your rebuttal testimony, and if we
22 could jump to page 14. And you state there
23 starting on line 12 that, The company's current
24 class cost of service study supports an increase to
25 the monthly residential customer charge -- charge

1 of six -- to \$16.68. And that's from the current
2 customer charge of \$11.88; is that correct?

3 A That's correct.

4 Q Okay. And -- but it's the company's
5 position that the customer charge should be raised
6 to \$13.18; is that correct?

7 A Applying an across the board increase,
8 yes, that's what it would be.

9 Q So this is another instance where the
10 company is deviating from its class cost of service
11 study?

12 A And we considered more than one data point
13 in that decision. Yes.

14 Q Okay. Also, on page 14, you state that,
15 The company's rate design places fixed costs
16 associated with facilities and demand into the
17 first block energy rate so that all customers pay
18 these costs; is that correct?

19 A That's what it says. Yes.

20 Q Okay. The fixed cost that you reference
21 in that statement, are these specifically test year
22 fixed costs?

23 A Yes, they would be.

24 Q Okay. Turning now to page 15, if I can
25 find it. If I can find it. You state on page 15

1 that Division of Energy's rate design creates a
2 consumption disincentive; is that correct?

3 A Yes.

4 Q Okay. I wondered if you could tell me
5 what the difference is, if there is any, between a
6 consumption disincentive and an efficiency
7 incentive.

8 A I don't know. Why don't you define
9 efficiency incentive for me, and I can tell you if
10 they're different or not.

11 Q Well, let's say for purposes of this
12 example that efficiency incentive is a rate design
13 that encourages a customer to use less energy.

14 A Okay.

15 Q Based off that understanding of efficiency
16 incentive, is there any difference between a
17 consumption disincentive and a -- an efficiency
18 incentive?

19 A There is. From -- from my perspective,
20 consumption and disincentive, what I was referring
21 to was just less, not necessarily a -- not
22 necessarily just maybe a -- a different way of
23 using energy.

24 Q Okay. If you could turn now to your
25 surrebuttal. And if you could jump to page 6.

1 **And I'm looking at the Q&A starting on line 11.**

2 **Are you there?**

3 A I am there.

4 **Q Okay. You state in response to OPC's**
5 **recommendation that applying a customer-related**
6 **cost to the energy charge when that cost would more**
7 **appropriately be recovered through the customer**
8 **charge would violate this principle. Is that your**
9 **testimony?**

10 A I don't think that's my testimony. I
11 don't read it that way at all. Can you repeat your
12 question, please?

13 **Q Sure. I'll -- I'll read it verbatim from**
14 **your testimony. Starting on line 14, you say, An**
15 **overall principle in rate design is cost causation.**
16 **Nothing in any of the studies offered indicates**
17 **increases in costs are limited to energy and**
18 **customer related costs have remained unchanged.**

19 You then say, Applying a customer-related
20 cost to the energy charge when that cost would more
21 appropriately be recovered through the customer
22 charge would violate this principle.

23 A Yes.

24 **Q Okay.**

25 A I understand what you said. What was your

1 question again, please?

2 **Q Let me find it. Based off this response,**
3 **wouldn't you agree that the company deviated from**
4 **this cost causation principle when it proposed the**
5 **customer charge below its class cost of service**
6 **fully allocated customer charge?**

7 A No. No. My intention in saying what I
8 said here was the -- my understanding of a proposal
9 of putting any customer related costs to the energy
10 charge.

11 **Q Okay. If the -- in your opinion, is it**
12 **ever appropriate to deviate from a class cost of**
13 **service study results in order to make**
14 **considerations not included in a class cost of**
15 **service study?**

16 A I would say yes.

17 **Q Okay. Page 7?**

18 A Still surrebuttal.

19 **Q Yes. Still surrebuttal.**

20 A Okay.

21 **Q Starting on line 14, you state that there**
22 **has been no rate design effort to isolate the**
23 **demand related charges to the first energy block.**
24 **Is that your testimony?**

25 A Yes.

1 Q Okay. Now, I'm slightly confused and
2 wondering if you might be able to provide some
3 clarification because on page 14 of your rebuttal
4 testimony, lines 21 through 23, which we just went
5 over, you stated that it is a means to recover any
6 remaining fixed costs of facilities and demand
7 costs, rate designers place those costs in the
8 first blocks of the energy rate structure.

9 So was there or was there not a -- an
10 intent to place demand costs in the first block
11 energy charge?

12 A This says first block. So first two of
13 three.

14 Q All right. First two of three. Thank you
15 for that clarification. So then on page 8 -- you
16 started on the last sentence of page 7 going on to
17 page 8, you state that customers only pay for a
18 portion of their demand costs as a result of these
19 costs being comingled with all other costs in the
20 energy charge, correct?

21 A Yes. That's what it says.

22 Q All right. And referring to the energy
23 charge in that statement, did you mean the first
24 block energy charge or all block energy charges?

25 A I don't think I specified in testimony.

1 **Q** Okay. Were you -- if you didn't specify,
2 were you referring to any particular block or
3 blocks?

4 A I wouldn't have been limiting it to just
5 the first block, if that's your question.

6 **Q** Would you be referring -- limiting it to
7 the first two blocks?

8 A I would probably say the grand bulk is in
9 the first two blocks, but I probably wouldn't even
10 limit it there.

11 **Q** Okay. Also on page 8, you state that with
12 the two-part rate design and no precise way to
13 recover demand costs, demand charges are spread
14 across all customers via the energy charge. Again,
15 in that instance, are you referring to any
16 particular block or blocks?

17 A Not in that sentence, no.

18 **Q** Okay. Also, on page 8 starting on your
19 answer on line 16, you state that Mr. Hyman's bill
20 impact analysis was based on an extremely small
21 sample of residential customers.

22 A I'm sorry. I don't know where you are.

23 **Q** Okay. I'll find it for you.

24 A Are you on my surrebuttal?

25 **Q** Yes. I'm on your surrebuttal.

1 A Okay.

2 Q Line 16 and 17.

3 A And you're on what page?

4 Q Page 8.

5 A Okay. I'm there.

6 Q Okay. Okay. Do you agree that it's your
7 testimony that Mr. Hyman's bill impact analysis was
8 based on an extremely small sample of residential
9 customers?

10 A Yes.

11 Q Okay. Do you also state in that same
12 answer that Mr. Hyman's sample of residential
13 customers was not weather normalized?

14 A That's correct. That's -- as outlined in
15 his testimony, yes.

16 Q Okay.

17 MR. ANTAL: Judge, I'd like to mark an
18 exhibit. I believe I'm on 805.

19 JUDGE PRIDGIN: I'm going to have to look,
20 Mr. Antal. Just a moment, please. I'm seeing 800,
21 801 and 802 at the beginning of the hearing. And
22 I'm trying to find 803 and 804.

23 MR. ANTAL: Let's just start on 803 then.

24 JUDGE PRIDGIN: I think it would be 803.
25 If I'm wrong, we can fix the error later, but I

1 think it's 803. Thank you.

2 MR. ANTAL: That's quite all right.

3 (Division of Energy Exhibit 803 was marked
4 for identification.)

5 **Q (By Mr. Antal) Ms. Miller, I'll give you**
6 **this. It's a Data Request from the Division of**
7 **Energy to Kansas City Power & Light, if you would**
8 **familiarize yourself with that document.**

9 JUDGE PRIDGIN: And, Mr. Antal, do you
10 have any idea how much more cross you may have for
11 Ms. Miller?

12 MR. ANTAL: Five minutes tops.

13 JUDGE PRIDGIN: All right. Thank you.
14 We'll probably take a break after you're finished.

15 MR. ANTAL: Sure.

16 JUDGE PRIDGIN: Thank you.

17 **Q (By Mr. Antal) Ms. Miller, have you had**
18 **an opportunity to review the document that I've**
19 **handed you?**

20 A Yes, I have.

21 **Q Okay. Have you seen this document before?**

22 A Yes, I have.

23 **Q Okay. Then you understand that this is a**
24 **Data Request from the Missouri Division of Energy**
25 **to Kansas City Power & Light, in part, asking for**

1 the company to provide a weather normalized monthly
2 billing data in electronic format for a sample of
3 at least one-half of 1 percent for each of several
4 residential classes?

5 A Yes.

6 Q And you acknowledge that the first
7 sentence of the company's response is that weather
8 normalized monthly billing data by individual
9 customer does not exist?

10 A Yes.

11 MR. ANTAL: Okay. Judge, I'd like to
12 offer Exhibit 803 into the record.

13 JUDGE PRIDGIN: 803 has been offered. Any
14 objection? 803 is admitted.

15 (Division of Energy Exhibit 803 was
16 offered and admitted into evidence.)

17 MR. ANTAL: I would like to mark what will
18 be Exhibit 804.

19 (Division of Energy Exhibit 804 was marked
20 for identification.)

21 Q (By Mr. Antal) Ms. Miller, what I'm
22 handing you is a series of e-mails, one of which
23 includes an e-mail from you to the Missouri
24 Division of Energy. Will you please familiarize
25 yourself with that document?

1 A Okay.

2 Q Starting about halfway down the page,
3 there is an e-mail from you to a Ms. Barb
4 Meisenheimer, who I'll represent is a Manager in
5 the Missouri Division of Energy dated Thursday,
6 November 10th, 2016. Are you -- have you seen this
7 e-mail before?

8 A Yes.

9 Q Did you compose this e-mail?

10 A I wrote it. Yes.

11 Q Okay. And then you acknowledge that this
12 is an e-mail in response to a phone call regarding
13 Division of Energy's DR 600?

14 A Yes. That's correct.

15 Q Which is the data request response that we
16 just showed you earlier?

17 A That's correct.

18 Q Okay. And you state, After noting DE's
19 concern with the limited sample size of 100 to 200
20 customers and wanting to ensure a full year's
21 usage, we, meaning the company, looked into
22 alternatives outside of our UI tool. What does the
23 UI tool stand -- stand for?

24 A It's our software tool that we use to
25 analyze our billed revenues and billing

1 determinants.

2 Q Okay. You go on to say that Kim Ashbury
3 on the -- on the team was able to work with Billing
4 to identify a sample list of customers and do a
5 straight query from the CIS system that should be
6 -- that should meet your needs. Is that -- is that
7 accurate?

8 A That's what the e-mail says. Yes.

9 Q Okay. The phone call that you refer to,
10 was this a phone call that you had with Ms.
11 Meisenheimer regarding the sample size of DE's
12 requested billing data?

13 A Yes. I believe Martin Hyman was on the
14 call as well.

15 Q Okay.

16 MR. ANTAL: Judge, I'd offer Exhibit 804
17 into the record.

18 JUDGE PRIDGIN: Any objections? Hearing
19 none, 804 is admitted.

20 (Division of Energy Exhibit 804 was
21 offered and admitted into evidence.)

22 MR. ANTAL: Okay. Thank you very much,
23 Ms. Miller. I don't have any further
24 cross-examination.

25 JUDGE PRIDGIN: Mr. Antal, thank you.

1 This looks to be a good time to break. I don't
2 like to break in the middle of cross. But we've
3 been going for a couple of hours.

4 And let me just note, I think we have
5 about 15 or 16 more witnesses still set to appear
6 today, so we might be very well going into the
7 evening. I just wanted to let you know in case you
8 need to make arrangements, play some catch up this
9 evening.

10 If there's nothing further, we will go
11 back of the record. We'll call this about a
12 15-minute break, end about 3:25. Is there anything
13 further from Counsel before we go off the record?
14 All right. Thank you. We will stand in recess
15 until 3:25.

16 (Break in proceedings.)

17 JUDGE PRIDGIN: Good afternoon. We are
18 back on the record. And when we went off the
19 record, Division of Energy had just completed its
20 cross-examination of Ms. Miller. Anything from
21 Counsel before we resume cross? Hearing nothing,
22 cross-examination, CCM? U.S. Department of Energy?
23 Sierra Club?

24 MS. ROBERTS: Yes, your Honor.

25 CROSS-EXAMINATION

1 BY MS. ROBERTS:

2 Q Good afternoon, Ms. Miller. My name is
3 Casey Roberts. I'm Counsel for the Sierra Club,
4 and it's also my first time to appear before this
5 Commission, so we're in the same boat.

6 A Hello.

7 Q In your discussion with Mr. Antal a moment
8 ago, you testified that the class cost of service
9 study is one data point that the company considers
10 when deciding rates, correct?

11 A That's correct.

12 Q Likewise, the Commission can and does
13 consider factors other than cost of service and
14 cost causation when it revise rates, correct?

15 A Yes.

16 Q Okay. Are you familiar with this
17 Commission's order in KCP&L's 2012 rate case?

18 A Please refresh my memory.

19 Q Okay. I have a copy of excerpts of that
20 order, which I would like to hand to the witness if
21 that's acceptable.

22 JUDGE PRIDGIN: You may approach.

23 MS. ROBERTS: Thank you. And for
24 Counsel, this is the Commission's report and order
25 in ER-2012-0174.

1 **Q** **(By Ms. Roberts) And it is excerpts**
2 **that's just the page that we're going refer to.**

3 A Okay.

4 **Q** **Will you please read the paragraph**
5 **concerning the customer charge in that order? I'm**
6 **sorry. To be clear, will you please read it aloud?**

7 A Okay.

8 **Q** **You're very literal. You're a good**
9 **witness.**

10 A Customer charge, OPC asks the Commission
11 that any increase in residential rates not apply to
12 the monthly customer charge. AARP and CCO MO
13 concur because volumetric charges are more within
14 the customer's control to consume or conserve the
15 volumetric rate is the more appropriate to
16 increase. Therefore, the Commission will order
17 that any increase in residential rates should not
18 apply to the monthly customer charge.

19 **Q** **Thank you. So would you agree, Ms.**
20 **Miller, that another factor this Commission has**
21 **considered when reviewing rate design is the degree**
22 **of control that the customer has over his or her**
23 **bill?**

24 A Apparently, yes.

25 **Q** **Okay. Thank you very much.**

1 MS. ROBERTS: I'd ask that the Commission
2 take official notice of its report and order in
3 ER-2012-0174.

4 JUDGE PRIDGIN: Any objections?

5 MR. FISCHER: No objection.

6 JUDGE PRIDGIN: The Commission will take
7 notice of that report and order.

8 MS. ROBERTS: Thank you.

9 **Q (By Ms. Roberts) Ms. Miller, several**
10 **witnesses, including Mr. Jester for the Sierra Club**
11 **and renew Missouri, testified that higher fixed**
12 **charges and correspondingly lower energy charges**
13 **would dampen incentives for energy efficiency. Do**
14 **you recall that testimony?**

15 A I recall that testimony. Yes.

16 **Q Okay. Did you dispute in any of your**
17 **pre-filed testimony that contention that higher**
18 **fixed charges would dampen incentives for energy**
19 **efficiency?**

20 A I'm not sure I addressed that
21 specifically.

22 **Q Okay. And higher fixed charges would tend**
23 **to increase bills for customers who use less than**
24 **the average, correct?**

25 A Maybe.

1 **Q** Okay. A customer who uses less than the
2 average amount of electricity -- so the -- a high
3 fixed charge and you reduce the energy charges
4 accordingly will result in no bill change expected
5 for the average customer; is that correct?

6 A Are you assuming no change in usage?

7 **Q** Assuming no change in usage.

8 A Okay. Repeat it all again to me, please.

9 Thanks.

10 **Q** Okay.

11 A Sorry.

12 **Q** Would you agree that when you increase the
13 fixed portion of the bill and reduce the variable
14 portion of the bill that low usage consumers will
15 tend to see an increase in their bills, all else
16 equal?

17 A How much are you lowering the energy
18 charge and how much are you -- how high are the
19 pricing changing?

20 **Q** Well, let's take the difference between --
21 if KCP&L were to receive the revenue increase that
22 it has requested in this case but not change the
23 residential customer charge, the energy charge
24 would be higher for residential customers, correct?

25 A That's correct. Yes.

1 Q Okay. And so would you agree that a
2 customer who consumes less -- a residential
3 customer who consumes less than your average would
4 see a greater bill increase with KCP&L's proposed
5 customer charge compared to if the customer charge
6 remained the same?

7 A Just those factors, yes.

8 Q Thank you. Are you familiar with the
9 direct testimony of Charlotte Krull, the witness
10 for the Division of Energy?

11 A I don't --

12 Q Do you have a copy of that testimony?

13 A That would be helpful.

14 Q I can share that with you. This is my
15 copy, so I'll be flying blind here. But I think
16 we'll be okay.

17 A Thank you.

18 Q I've handed the witness a copy of the
19 testimony of Charlotte Krull, a witness for the
20 Division of Energy in this case which was direct
21 testimony. Ms. Miller, have you reviewed this
22 testimony previously?

23 A I'm not sure I have.

24 Q Will you confirm that it is -- was filed
25 in this case as direct testimony?

1 MR. FISCHER: Judge, I think the record
2 will speak for itself on that. If the witness
3 knows, she can answer. But --

4 A Yeah. I'm not sure that I have.

5 **Q (By Ms. Roberts) Okay. Will you please**
6 **turn to page 15 of that testimony? And towards the**
7 **bottom of that page, Ms. Krull references an order**
8 **of this Commission. That's starting on line 11.**
9 **Would you please read starting on page 15, line 11**
10 **and continuing through page 16, line 2?**

11 A Weatherization and through rate structures
12 that encourages conservation. In its report and
13 order for Case No. 1 -- 18,626, the Commission
14 said, Rate design should encourage the efficient
15 use of energy and recognize and reward customers
16 who -- who choose to conserve. Am I still reading?

17 **Q Yeah. Through the next page, line 2.**

18 A The Commission ordered a rate design
19 investigation, and in the order called the
20 declining block rate structure a promotional rate
21 structure that encouraged and rewarded consumption
22 and was and then an acronym which fails to
23 rationally meet the changing circumstances which
24 have substantially increased the cost of electric
25 service.

1 **Q** Okay. Thank you. Would you agree that in
2 this order as excerpted in Ms. Krull's testimony,
3 the Commission made clear that the impact of rates
4 on energy efficiency is a factor that it considers
5 in determining whether those rates are proper?

6 **A** I'd feel much more comfortable reading the
7 entire order to understand the context. But it
8 would appear so. Yes.

9 **Q** Understandable. Thank you very much. On
10 this page but still Page 15 of Ms. Krull's direct
11 testimony, at the top -- and you may want to review
12 page 14 as well for the context

13 But on that Page 15, Ms. Krull summarizes
14 data showing that low income households consumed
15 less electricity than did other households in the
16 Midwest. Is that a correct summary of the data
17 presented in Ms. Krull's testimony?

18 **A** I'm going to take your word for it. I'm
19 not sure, but that's what it says.

20 **Q** The figure at the top of page 15, will you
21 please describe what it appears to present?

22 **A** Electricity Consumption Midwest Users.

23 **Q** Okay. And does it have bars showing
24 energy consumption by different income levels by
25 households?

1 A Yes.

2 Q And does that chart tend to show a trend
3 between income and energy usage?

4 A Yes.

5 Q Okay. So there's a relationship in which
6 high income customers consume more electricity on
7 average than low income customers?

8 A That's what this says. Yes.

9 Q Okay. Thank you. Are you aware that
10 Mr. Jester, who testified on behalf of the Sierra
11 Club in his prefiled testimony also introduced
12 evidence showing that low income households tend to
13 use less electricity?

14 A Yes. I'm aware.

15 Q Okay. The company did not introduce any
16 evidence through your testimony or others disputing
17 that low income customers tend to have low energy
18 usage, correct?

19 A We did not.

20 Q Thank you. I have no further questions
21 regarding Ms. Krull's testimony. I'll get it back
22 from you later.

23 A Sure.

24 Q If you'd now turn to your surrebuttal
25 testimony at page 8, I'm going to have just a

1 question following up on your discussion with
2 Mr. Antal earlier concerning your critique of
3 Martin Hyman's analysis of the bill impacts of his
4 proposed block rate structure.

5 Do you have -- the company provided the
6 data to Mr. Hyman that he used for his bill impact
7 and bill frequency analysis, correct?

8 A Yes.

9 Q Okay. Do you have any reason to believe
10 that that sample that he used was biased?

11 A I have reason to believe that it was
12 small.

13 Q Small. Okay. And the sample that he used
14 was based on 1.5 percent of residential customers,
15 correct? I believe that's what you state on page 8
16 of your surrebuttal testimony, line 17?

17 A Yeah. But, apparently, as I'm reading the
18 DR, it looks like it's even less. It's .5, it
19 looks like.

20 Q I believe when you refer to the DR, you're
21 talking about --

22 A The one that I was just handed.

23 Q Back of my desk. It was Exhibit 803, I
24 think?

25 A We just had .5 was the original DR.

1 **Q** Yeah. Would you agree as -- is it your
2 recollection that that initial DR from the Division
3 of Energy did not yield a response and that there
4 was a follow-up supplemental DR to which the
5 company actually provided information following the
6 discussions between your staff and the Division of
7 Energy staff?

8 A Yes. The original response was that the
9 data didn't exist. And it didn't. It was not
10 readily available. Yes.

11 **Q** Okay. So are you confident today that the
12 data provided to the Division of Energy was based
13 on .5 percent rather than 1.5 percent as you state
14 here in your testimony?

15 A I actually think it's smaller than that.
16 It's .3 percent when I started looking at Martin's
17 work papers.

18 **Q** All right. .3 percent of your residential
19 customers would be how many, approximately?

20 A Well, his sample size was approximately
21 795, I believe, out of 192,000. So .3 percent,
22 about that.

23 **Q** 795?

24 A Uh-huh.

25 **Q** And the company has the ability to study

1 the bill impacts use using a data set that
2 encompasses all of its residential customers,
3 correct?

4 A Yes.

5 Q And when the company does its own bill
6 impact studies, that's the data set you would use?
7 You would look at a hundred percent of the
8 customers in that class?

9 A If we were proposing a radical departure
10 to our current rate design, we would. We would
11 probably use our US software. And -- but,
12 typically, we would use averages to determine our
13 impacts.

14 Q You would look at the average customer?

15 A For the entire class, yes.

16 Q Okay.

17 A Not a sample.

18 Q Okay.

19 A That would be weather normalized.

20 Q All right. Your testimony does not
21 contain any bill impact analysis of Mr. Hyman's
22 proposed rates, does it?

23 A It does not.

24 Q Okay. Did the company do any of its own
25 bill impact analysis of Mr. Hyman's proposed rates?

1 A We looked at his work papers.

2 **Q Okay. But you didn't do any analysis**
3 **based on that larger data set that you have**
4 **available?**

5 A No. We're performing studies in our GMO
6 jurisdiction to really evaluate that fully, so
7 we're relying on that information to do some
8 sensitivity analysis for KCP&L Missouri.

9 At that point, we would probably be
10 looking at using our UI tool to do a full impact
11 analysis, which is what would be measured in an
12 IBR.

13 **Q How long would that take to do that kind**
14 **of analysis?**

15 A A long time, probably. Extensive.

16 **Q Several months?**

17 A Potentially. But I don't know for sure.

18 **Q Okay. Earlier, you said that you would do**
19 **this kind of full impact analysis when looking at a**
20 **radical change in your rate design. Do you**
21 **consider the changes proposed by Mr. Hyman to be**
22 **radical?**

23 A Not at face value, no.

24 **Q Okay. Thank you. Let's turn to your**
25 **surrebuttal testimony at 9, lines 1 through 3. And**

1 **there you state that you do not support -- or the**
2 **company does not support inclining block rates**
3 **without more -- without more comprehensive**
4 **understanding of potential impacts to the customers**
5 **and the company. Did I read that correctly?**

6 A Yes, you did.

7 Q **Okay. Would you consider the impacts of**
8 **inclining block rates on customer energy usage to**
9 **be important to understand?**

10 A Yes.

11 Q **And are you familiar with Mr. Jester's**
12 **surrebuttal testimony, which evaluates the impacts**
13 **of Mr. Hyman's proposed rate on customer energy**
14 **usage?**

15 A Yes. I'm aware.

16 Q **Okay. Did the company conduct any**
17 **separate evaluation of the impact of Mr. Hyman's**
18 **proposed block rates on customer energy usage?**

19 A What we did is look at the inputs that I
20 used for his analysis, including the price
21 elasticities that were pulled from another utility
22 for a different purpose.

23 We also looked at his assumptions for the
24 adjustments or changes in usage and felt that the
25 results were strange.

1 **Q** But the company didn't produce its own
2 **analysis of what the impact of that rate would be**
3 **on energy usage, correct?**

4 A No. When we started looking at
5 elasticity, which probably wasn't applicable for
6 our customers and determined how some of the
7 adjustments to usage were -- were made, we kind of
8 stopped there and said, you know, we can't rely
9 upon this data set or elasticities or even the
10 proposed rates to consider IBR fully.

11 **Q** Would you believe -- would you agree that
12 **it is possible to do an accurate assessment of**
13 **estimate of what the impact of an inclining block**
14 **rate design is on customer usage?**

15 A It would take a comprehensive review, but,
16 yes, absolutely.

17 **Q** Okay. And is that the kind of review that
18 **you're doing -- the company is doing in the GMO**
19 **study that you referenced earlier?**

20 A That's the hope. Yes.

21 **Q** Okay. So when that study is produced and
22 **filed with the Commission, it will provide some**
23 **understanding about what the impacts of various**
24 **inclining block rate designs might be on energy**
25 **usage?**

1 A There's lots of rate designs that are
2 being considered as part of the study, IBR being
3 one of them.

4 **Q Okay. Great. On page 9 of your**
5 **surrebuttal testimony, beginning -- just below that**
6 **section we were discussion, so starting on line 6,**
7 **you discuss the impact on revenue volatility of**
8 **adopting an inclining block rate design, correct?**

9 A Revenue volatility as well as customer
10 bill impact, yes.

11 **Q Okay. With respect to revenue volatility,**
12 **did the company quantify -- submit any testimony**
13 **quantifying the impact on revenue volatility that**
14 **could be expected as a result of implementing**
15 **Mr. Hyman's proposed block rate design?**

16 A No. Once we saw the flaws and the
17 assumptions, we didn't go further. No. We'd have
18 to pretty much propose a whole new IBR with the
19 pricing structure and come up with the elasticities
20 specific to our utility to really understand what
21 the impact would be.

22 **Q Ms. Miller, Mr. Hyman's direct testimony**
23 **contained his inclining block rate proposal,**
24 **correct?**

25 A Yes, it did.

1 Q And that testimony was filed in the fall
2 at some point. I don't have the exact date. Is
3 that generally correct?

4 A Generally, yes.

5 Q Between that time and the time that you
6 subsequently filed testimony, did the company make
7 any effort to evaluate the revenue volatility
8 impacts of that proposed rate design?

9 A No, we did not.

10 Q Okay. Thank you. Please turn to your
11 rebuttal testimony, page 15. And I am looking at
12 lines 4 to 5. And this is a similar area where
13 Mr. Antal was asking you questions earlier about
14 your statement that there is a consumption
15 disincentive inherent in the Division of Energy's
16 recommendation.

17 Would you agree that moving from a
18 declining block rate towards a flatter rate or
19 towards an inclining block rate creates a
20 disincentive for customers to consume electricity?

21 A Yes.

22 Q Okay. And would you agree that we could
23 also describe that disincentive to consume as an
24 incentive to save electricity?

25 A To decrease electric usage more

1 specifically, yes.

2 Q In the common parlance, do we sometimes
3 call saving or using less electricity conservation
4 or energy efficiency?

5 A I wouldn't equate conservation being
6 equivalent to being energy efficient, no.

7 Q Would you equate using less electricity
8 and conservation?

9 A Yes.

10 Q Okay. Thank you. Are you familiar with
11 the report by Christiansen Associates Energy
12 Consulting called a residential rate study for the
13 Kansas Corporation Commission dated April 11th,
14 2012?

15 A I believe that Jester included that as
16 part of -- one of his work papers or -- am I right?

17 Q That's correct. It was in an exhibit to
18 Mr. Jester's testimony. And he also summarized
19 some of the findings of that study in his direct
20 testimony. Do you have a copy of Mr. Jester's
21 testimony?

22 A I believe -- I believe I do.

23 Q Okay. Great. This is his direct
24 testimony. And if you'll look in his direct
25 testimony at 17 -- page 17 starting -- starting

1 **there on line 16. Let me know when you're there.**

2 A I'm sorry. Yeah. I'm having binder
3 issues. Page 17. Direct testimony, right?

4 **Q Yes.**

5 A What page, please?

6 **Q Page 17 starting on line 16.**

7 A Okay. I'm there.

8 **Q Okay. Thank you. Mr. Jester describes**
9 **the finding of this study, the Christiansen study,**
10 **which is for the Kansas Corporation Commission, as**
11 **estimating that specific declining block rate**
12 **design for KCP&L's Kansas service territory would**
13 **reduce summer energy sales by 2.3 percent and**
14 **winter sale by 3.4 percent through near term**
15 **customer response. Did I read that correctly?**

16 A You're on page 17?

17 **Q Yes.**

18 A Okay. Yes.

19 **Q Okay. With the understanding that these**
20 **numbers are based on KCP&L's Kansas territory and**
21 **on a specific rate design that hasn't been proposed**
22 **here, would you expect that these kind of energy**
23 **usage reductions would result in overall lower**
24 **system costs for KCP&L?**

25 A I'm not sure without looking at the study

1 further. I'm not as familiar with the study.

2 Q If KCP&L's summer sales to residential
3 customers were to decline by 2.3 percent -- and
4 that is your peaking season, correct?

5 A Yes.

6 Q All else being equal, would you expect
7 that the company's overall cost of serving its
8 customers would decline as a result of those
9 reduced energy sales?

10 A The variable costs.

11 Q Okay. Thank you. And if that trend were
12 to be sustained over a number of years, would the
13 company eventually be able to reduce certain fixed
14 costs of serving customers?

15 A I'm sorry. Repeat your question, please.

16 Q If that reduction in summer energy sales
17 of 2.3 percent were to be sustained over a number
18 of years, would that eventually lead to reductions
19 in the company's fixed costs as well, all else
20 being equal?

21 A I don't think so. Our fixed costs are our
22 fixed costs. If they're imbedded in the energy
23 charge, they wouldn't go away just because usage
24 would go down. No.

25 Q So let's take an example of one fixed cost

1 perhaps in an aging gas peak plant that is used as
2 part of generation fleet for KCP&L.

3 A Okay.

4 Q If the need for that gas peaking plant was
5 reduced to lower summer energy sales, might the
6 company be able to retire that peaking plant
7 earlier than it would have otherwise?

8 A I don't know.

9 Q The company would retain generating assets
10 on its system only if they were used and useful,
11 correct?

12 A Yes.

13 Q If peak load declines and your capacity
14 requirements decrease such that they are below the
15 amount of generation capacity that you have an
16 ownership share in, would the company continue to
17 maintain that gas peaking plant despite the fact
18 that it was not being used?

19 A I'm not sure I can answer that. Again,
20 we're talking about research planning, which is
21 very different from our class cost of service study
22 and how we design rates. I'm sorry. I don't think
23 I can answer that.

24 Q You're involved in the company's resource
25 planning?

1 A Not directly.

2 Q Okay.

3 A Not directly no.

4 Q Okay. Thank you. Does the company
5 generally strive to reduce overall system costs
6 consistent with safety and the need to serve all
7 customers?

8 A I would say so. Yes.

9 Q Okay. And, therefore, utility assets that
10 are not needed to serve customers or to maintain
11 safety, the company would consider whether it could
12 decommission those; is that correct?

13 A I imagine so, yes.

14 Q Okay. Thank you. Now, going back to
15 surrebuttal testimony now, I'm sort of flipping
16 around, at page 9, surrebuttal, page 9, lines --
17 lines 20 to 22,

18 A Page 9, 20 to 22?

19 Q Uh-huh. Okay. And on those lines, you
20 state, The company agrees that if the policy
21 includes a desire to offer price signals to
22 customers to encourage efficient energy use and
23 potentially reduce costs, time differentiated rates
24 may be a better answer. Is that your testimony?

25 A That's my testimony.

1 **Q What is KCP&L doing currently to move**
2 **towards its time differentiated rates for**
3 **residential customers?**

4 A We mentioned our rate design study that
5 we're doing in our GMO jurisdiction. There was
6 conversation earlier about rolling out of our AMI
7 meters.

8 We will be rolling out a CC&B or combined
9 billing system that's going to facilitate
10 utilization of being able to bill on a dynamic
11 pricing if -- if that -- if that's what our -- our
12 studies reveal.

13 And so our hope is that while we've not
14 been able to offer the time of use tariffs yet that
15 we will.

16 **Q Uh-huh. Is the GMO study that you**
17 **referred to different from the study ordered by the**
18 **Commission in Docket No. ER-2014-0370?**

19 A Yes, it is.

20 **Q Okay. Could you describe what the company**
21 **is doing in the study ordered by the Commission in**
22 **that docket?**

23 A We've done a number of studies related to
24 other compliance filings, including our IRP as well
25 as market potential studies that are being done in

1 support of MEEA.

2 We've also done an Every studies that
3 reviewed time of use rates as it pertained to our
4 smart grid area. Our hope is that we can use the
5 GMO study to do some sensitivity analysis to
6 determine applicability in the KCP&L Missouri
7 jurisdiction as well.

8 So our hope is the whole combination of
9 those studies that will lavish the learnings of all
10 of them and be able to do something in our KCP&L
11 Missouri jurisdiction.

12 **Q Okay. Would you agree that there are**
13 **numerous other utilities in the country that offer**
14 **time differentiated rates to their residential**
15 **customers?**

16 A Yes.

17 **Q So is this an untested, radical rate**
18 **design?**

19 A I wouldn't say so, no.

20 **Q The company is capable of conducting the**
21 **analyses needed a timely manner in order to propose**
22 **such a rate design?**

23 A Depends on the kind, but yes, potentially.

24 **Q Okay. Thank you. Ms. Miller, I'd like to**
25 **refer you to the Commission's report and order in**

1 **Docket ER-2014-0370 of which I have a copy.**

2 MS. ROBERTS: May I approach the witness?

3 JUDGE PRIDGIN: You may.

4 **Q (By Ms. Roberts) And, again, Ms. Miller,**
5 **and for the record, this is excerpts of the**
6 **Commission's report and order in docket**
7 **ER-2014-0370.**

8 On page 92 of that order, the Commission
9 stated, quote, The time of use tariff is far too
10 important in meeting the goals of MEEA and
11 providing customer choices for energy efficiency
12 and bill savings to redesign at an unknown time in
13 the future. Did I read that correctly?

14 A Yes, you did.

15 **Q Okay. Would you agree that the**
16 **Commission's signaled its preference that KCP&L**
17 **implement a time of use offering sooner rather than**
18 **later?**

19 A Yes.

20 **Q Okay. Does the company plan to offer**
21 **expanded time of use offerings in its next rate**
22 **case?**

23 A It's a consideration as a result of the
24 rate design studies, yes.

25 **Q Okay. Thank you.**

1 MS. ROBERTS: I'd ask that the Commission
2 take notice of its report and order in Docket No.
3 ER-2014-0370.

4 JUDGE PRIDGIN: Any objections? Hearing
5 none, the Commission will take notice of that.

6 MS. ROBERTS: Thank you.

7 **Q (By Ms. Roberts) Ms. Miller, what is**
8 **likely my final question, in your surrebuttal**
9 **testimony on page 8, starting on line 2, you state**
10 **A three-part rate design, one that includes a**
11 **charge for demand relief costs, would be a superior**
12 **way to address demand relief coast. Did I read**
13 **that correctly?**

14 A Yes. You read it correctly.

15 **Q And -- and am I correct that the statement**
16 **was made in the context of a residential rate**
17 **design?**

18 A Yes.

19 **Q Does the company plan to ask for a**
20 **residential demand charge in future rate cases?**

21 A I wouldn't say we wouldn't. We have in a
22 previous case, yes. Well, we had a discussion
23 about it. We didn't formally request it. But I
24 wouldn't close the door on it. No.

25 MS. ROBERTS: Okay. All right. Thank you

1 very much. No further questions.

2 JUDGE PRIDGIN: Thank you. Any cross from
3 Renew Missouri?

4 MR. LINHARES: Yes.

5 JUDGE PRIDGIN: Mr. Linhares.

6 CROSS-EXAMINATION

7 BY MR. LINHARES:

8 Q Hi. Good afternoon.

9 A Hi, Andrew.

10 Q Ms. Miller, I just want to get something
11 quick out of the way here at the beginning. In
12 your capacity as Supervisor of Regulatory Affairs
13 with the company, are you fairly familiar with the
14 profile of your -- of your residential customer
15 base?

16 A Yes.

17 Q About how many residential customers does
18 Kansas City Power & light have?

19 A About 211,000.

20 Q 211,000?

21 A Yeah.

22 Q Okay. And of those, do you know about how
23 many are served under the residential space heating
24 clause?

25 A I'd have to look to be sure.

1 Q Okay. And in terms of a percentage, would
2 you be able to estimate?

3 A I'd prefer to look on the estimate.

4 Q Okay.

5 A Yeah.

6 Q Are you able to give me a ballpark? Is it
7 a majority? Is it less than a majority?

8 A It's less than a majority.

9 Q Less than a majority. Okay. Fair. So
10 turning to the proposed inclining block rate
11 structure in this case, you stated that you did not
12 do an analysis of bill impact resulting from
13 Division of Energy's proposed declining block rate
14 in that case; is that right?

15 A That's correct.

16 Q And the company did not do a bill impact
17 analysis of that rate either; is that correct?

18 A That's correct.

19 Q Ms. Miller, are you familiar with KCP&L
20 DSM potential study prepared by Applied Energy
21 Group, or AEG, the most recent one?

22 A I'm aware that there is one, yes.

23 Q Okay. And did that study look at effects
24 of demand side rates including a residential
25 inclining block rate?

1 A Yes. I'm aware that it did.

2 Q Do you remember what the study concluded
3 would be the average change in peak demand and
4 average change in energy consumption resulting from
5 an inclining block rate?

6 A I'd have to refer to the study to be sure.

7 Q Okay.

8 A I don't recall.

9 Q I can help you out there. Just a second
10 here.

11 MR. LINHARES: Judge, I'd like to approach
12 the witness with this document here. It's entitled
13 KCP&L DSM Potential Study. It's a presentation
14 prepared by AEG on behalf of KCP&L. Is that right?

15 JUDGE PRIDGIN: You may approach.

16 MR. ANTAL: Here you are. Thank you.

17 Q (By Mr. Antal) Ms. Miller, can you turn
18 to the page that says Per Unit Load Reduction
19 Detail? It should be your second page. And could
20 you read the numbers on the far right-hand side for
21 Average Change and Peak Demand, All Months and as
22 well as Average Change in Energy Consumption, All
23 Months? Are you with me?

24 A Yes. 1.02 percent.

25 Q 1.02 percent for which one?

1 A For both.

2 **Q For both. Okay. 1.02 percent. Next, can**
3 **you turn to the page that says Rattled Development**
4 **of Residential Rate Designs at the top, please?**
5 **Could you read the footnote that should be the**
6 **fourth footnote there near the bottom of the page?**
7 **Could you read that?**

8 A The fixed charge is increased to 21.88.
9 Volumetric charges for the IBR tariff are
10 calculated to maintain revenue, neutrality,
11 recurrent rates while maintaining a price ratio of
12 1.2 to 1 for Tier 2 to Tier 1.

13 **Q That's great. Thanks.**

14 A Okay.

15 **Q So a customer charge of 21.88, that's a**
16 **higher than the current customer charge, is it not?**

17 A Yes, it is.

18 **Q Okay. So, given that the inclining block**
19 **rate in this study is based on a rate with a**
20 **customer charge of \$10 more than the current**
21 **charge, would you say it's safe to assume that the**
22 **peak demand reduction in energy consumption**
23 **reduction would be even larger if the current**
24 **customer charge of 11.88 would be used instead?**

25 A I'm not sure.

1 Q You're not sure?

2 A No. I'm not sure.

3 Q Would you like to explain your reasoning
4 there?

5 A I -- I haven't done the analysis, I guess.
6 Or I haven't looked at the details of the study.
7 I'd want to see that.

8 Q Okay. Fair enough. Would you agree in
9 principle that a higher customer charge decreases
10 an incentive for conservation? All other things
11 being equal, when you've got one customer charge
12 and another one with \$10 more in it, do you agree
13 that the incentive for conservation is less with a
14 higher customer charge?

15 A I would probably say yes.

16 Q Okay. Thanks. What would you estimate
17 the capital expenditures would be for implementing
18 such a rate -- such an inclining block rate?

19 A I couldn't tell you.

20 Q Okay. Is it in the millions? Is it in
21 the hundreds of thousands? Is it in the tens of
22 thousands?

23 A I could not tell you at all.

24 Q No guess?

25 A (Witness shakes head.)

1 **Q Okay.**

2 MR. LINHARES: Judge, I'd move for
3 admission of this document, KCP&L's potential study
4 into evidence as, I believe, Exhibit 402.

5 MR. FISCHER: Judge, I'm going do object
6 to that. I don't think proper foundation has been
7 laid for that document to be introduced into the
8 record.

9 MR. LINHARES: Judge, this is a document
10 prepared on behalf of the company. It includes an
11 analysis of an inclining block rate substantially
12 similar to the one we're asking to be approved in
13 this case. I believe it's germane to the issue and
14 relevant to the very company that -- that we're
15 here discussing.

16 MR. FISCHER: Again, I don't believe the
17 witness has even seen the document or discussed it
18 and can't verify the -- the existence or importance
19 of it or what it's about. Just because it has a
20 KCP&L logo on it doesn't mean it can be introduced
21 into the record.

22 JUDGE PRIDGIN: Right. The objection is
23 noted and overruled. 402 is admitted into
24 evidence.

25 (Renew Missouri Exhibit 402 was offered

1 and admitted into evidence.)

2 MR. LINHARES: Thank you, Judge.

3 Q (By Mr. Linhares) Just -- just a few more
4 questions here for you. Ms. Miller, are you
5 familiar with KCP&L's current DSM portfolio
6 covering the years 2016 to 2018?

7 A Generally, yes.

8 Q Okay. So -- and called the Cycle 2
9 portfolio. Have you worked on that portfolio? Are
10 you generally aware of it?

11 A I'm generally aware of it. Yes.

12 Q Okay. About how much is that portfolio
13 expected to reduce peak just in terms of a percent?

14 A I don't remember. I couldn't tell you.

15 Q Okay. And about how much is that
16 portfolio expected to reduce energy consumption per
17 year? Do you -- do you have any idea there in
18 terms of the percentage?

19 A Not specifically. I'd have to go back to
20 see what the -- what our filing said.

21 Q Yeah. Okay.

22 A I can't recall.

23 Q If I provided you with the megawatt hour
24 and megawatt goals, would you be able to estimate
25 from that based on the retail sales of the company

1 the approximate percentage of peak demand
2 reduction, goal and energy consumption, reduction
3 goal?

4 A I'm sure that might be outlined in the
5 filing, but I couldn't approximate for you. No.

6 Q Okay. Would you say it's more or less
7 than 1 percent?

8 A I don't know.

9 Q And can you give us a ballpark figure for
10 the level of capital expenditure that that
11 portfolio, the Cycle 2 DSM portfolio for KCP&L --
12 what the capital expenditure, ballpark there for an
13 annual --

14 A I can't recall. I'm sorry.

15 Q Okay. Would you say that's -- it's a --
16 in the millions? In the hundreds of thousands?

17 A Maybe. I -- I don't know.

18 MR. LINHARES: Okay. No further
19 questions. Thank you very much.

20 JUDGE PRIDGIN: Thank you. Any cross from
21 NRDC?

22 MR. ROBERTSON: No, your Honor.

23 JUDGE PRIDGIN: MIEC?

24 MR. DOWNEY: No thanks.

25 JUDGE PRIDGIN: MECG?

1 MR. WOODSMALL: Yes, briefly, your Honor.

2 CROSS-EXAMINATION

3 BY MR. WOODSMALL:

4 Q Good afternoon. Turning real quick to page
5 14 of your direct testimony --

6 A Yes.

7 Q -- the second table there -- well, first
8 off, can you tell me what is meant by revenue
9 neutral changes?

10 A There is no change in the revenue
11 requirement.

12 Q Okay. And the second table there on page
13 14, tell me, does -- that is the increase necessary
14 to get each class to its cost of service assuming
15 the overall 10.8 percent increase is granted; is
16 that correct?

17 A That's correct.

18 Q So to get to the revenue neutral change,
19 no change in revenues, you would just subtract 10.8
20 percent from each of those results; is that
21 correct?

22 A I believe so. Yes.

23 Q Okay. So the revenue neutral change for
24 the residential class would be an increase of 9.2
25 percent; is that correct? Is that a yes? I saw

1 **you nodding.**

2 A I'm sorry. Yes.

3 **Q Okay. Thank you. Moving on, you were**
4 **asked some questions by Mr. Antal, and he asked you**
5 **if there's a -- if there's any public policy goals**
6 **underlying your rate design. Do you recall that?**

7 A I do.

8 **Q And you -- you mentioned cost causation.**
9 **Can you tell me what you mean by cost causation?**

10 A Making sure that the costs attributable to
11 class, for example, are allocated to these classes.

12 **Q Okay. Would it also mean that costs**
13 **attributable -- attributable to a class are**
14 **collected in a manner so that they're collected**
15 **properly?**

16 A Yes.

17 **Q Okay. Would you agree, then, that it's**
18 **better to collect variable costs through variable**
19 **energy charges?**

20 A Better?

21 **Q Better than if you were collecting them**
22 **through a fixed charge.**

23 A Yes.

24 **Q Okay. I'm going to show you a couple**
25 **documents and ask you to read a couple excerpts.**

1 MR. WOODSMALL: May I approach the
2 witness?

3 JUDGE PRIDGIN: Yes, you may.

4 Q (By Mr. Woodsmall) Okay. Can you tell me
5 who -- well, first off, does KCP&L have operations
6 in Kansas?

7 A Yes.

8 Q And do you know a man named Brad Lutz?

9 A I do.

10 Q And can you identify that as his testimony
11 in KCP&L's last case in Kansas?

12 A Yes.

13 Q Would you read the highlighted portion on
14 page 9?

15 A Out loud?

16 Q Yes, please.

17 A This method has been endorsed by the
18 company in the last two rate case -- rate
19 proceedings. The method has served us well and has
20 been generally well-received. I believe parties
21 recognize the detail and precision it brings in
22 allocating production plant.

23 However, using the BIP allocator is not a
24 simple task. At its core, the BIP allocator
25 requires the company to divide its production fleet

1 between the base, intermediate and peak levels.

2 The company believes, although the BIP
3 model is capable to model changing conditions, it
4 will become increasingly difficult to make this
5 assignment given the way we expect to utilize and
6 plan our generation assets in the future in light
7 of the SPP integrated marketplace.

8 **Q Thank you. And are you familiar with a**
9 **man named Tim Rush?**

10 A I am.

11 **Q Okay. Can you identify this as his**
12 **testimony in KCP&L's last case?**

13 A Yes.

14 **Q And can you read the highlighted portion**
15 **on page -- I think it was 16 carrying over to 17?**

16 A Out loud again?

17 **Q Yes, please.**

18 A Okay. What is your opinion concerning the
19 base, intermediate, peak method utilized by Staff?
20 The company has utilized the BIP method previously
21 in Missouri.

22 I believe the BIP method is reasonable --
23 reasonable, but I also have concerns that it is
24 difficult to use for a generation portfolio in that
25 the company has a lot of base load generation.

1 The recent transition of the SPP to an
2 integrated marketplace with centralized dispatch
3 has raised some concern about the BIP allocator.

4 To utilize the BIP allocator, one must
5 assign the generating units into base, intermediate
6 and peak groups based on their use. Prior to the
7 IM markets, the company provided its own generation
8 to meet its load requirements.

9 With the introduction of the IM market, we
10 no longer use our generation to meet the
11 condition's load requirements, but, instead, sell
12 generation into the SPP market and by our load
13 requirements for the SPP market.

14 I believe the IM market change impacts
15 suitability of the BIP method as a production
16 allocation.

17 **Q Thank you.**

18 MR. WOODSMALL: No further questions, your
19 Honor.

20 JUDGE PRIDGIN: Mr. Woodsmall, thank you.
21 Any cross? Public Counsel?

22 MR. OPITZ: No, thank you, Judge.

23 JUDGE PRIDGIN: Staff?

24 MS. PAYNE: Just a brief one, your Honor.

25 CROSS-EXAMINATION

1 BY MS. PAYNE:

2 Q Ms. Miller, Mr. Woodsmall asked you in
3 regard to your direct testimony on page -- well, if
4 you can refer to your direct testimony on page 14.
5 Let's start there. Are you there?

6 A I'm there.

7 Q Okay. He mentioned that the table that
8 you pictured on there that -- could you get to a
9 revenue neutral result by just subtracting the 10.8
10 percent from those numbers, correct?

11 A He asked me that, yes.

12 Q He did. And is there a reason why that
13 would not be possible, why that would not result in
14 a revenue neutral increase? To clarify, is it
15 possible that some classes would go negative as a
16 result of that subtraction?

17 A Yes.

18 Q And is that something that we try to
19 avoid?

20 A Yes.

21 MS. PAYNE: Thank you. No further
22 questions.

23 JUDGE PRIDGIN: Okay. Thank you. Any
24 Bench questions? Mr. Chairman?

25 CHAIRMAN HALL: Yes.

1 CROSS-EXAMINATION

2 BY CHAIRMAN HALL:

3 Q Good afternoon.

4 A Hello.

5 Q My -- my understanding is that the
6 company's fully allocated residential customer
7 charge amount is \$16 and how many cents?

8 A 68 cents.

9 Q 16.80?

10 A 16.68.

11 Q 16.68. And Staff's fully allocated
12 residential customer charge is 12.62?

13 A Yes. That's correct.

14 Q So can you explain to me what categories
15 of expenses the company is including in -- in that
16 calculation that Staff is not?

17 A We -- we would need to make an adjustments
18 for the MEEA and the RESRAM that's included in
19 there.

20 Q And that accounts for the difference?

21 A Yes.

22 Q MEEA and --

23 A The RESRAM solar rebates.

24 Q Okay. So give me the argument for why
25 those two categories should be included in the --

1 in the customer charge.

2 A We're not proposing that they -- they be
3 included.

4 Q Well, in terms of your calculation, why --
5 why should they be included in that calculation?

6 A I would say that we would remove those
7 since, historically, the Commission has ordered
8 that it's appropriate that we remove them.

9 Q So if you remove them, then -- then you
10 get down to the 13.18?

11 A No. We'd probably be in line with Staff's
12 calculation of 12.62.

13 Q Okay. Were you in the hearing room when
14 -- when Mr. Fischer explained from his -- his
15 perspective the company's position on -- on
16 inclining block rates and why -- why the company is
17 opposed to them?

18 A Yes. I was in the room.

19 Q And had to do with -- with the volatility
20 that -- that those -- that that rate structure
21 would -- would cause?

22 A Yes.

23 Q Could you explain to me how additional
24 data and analysis could mitigate that volatility?

25 A I'm not sure that additional data would

1 mitigate it. It would just help to be aware of how
2 usage changes, like impacted by weather, what the
3 true bill impact would be.

4 **Q So would the company's position on**
5 **inclining block rates change with additional**
6 **analysis? Or would the company always be opposed**
7 **to inclining block rates?**

8 A I'm not sure that I could answer that.
9 Seems like a policy question. I would need to
10 speak to decision-makers.

11 But I know that as part of our rate design
12 studies we are considering IBR as a viable rate
13 design structure. So I wouldn't say we were
14 against it just vehemently without consideration of
15 all the facts.

16 **Q Well, is it -- is it safe to assume that**
17 **the company's -- the company's opposition in this**
18 **-- in this rate case based upon volatility would**
19 **not change with the addition of additional**
20 **analysis?**

21 A Depends on the analysis.

22 **Q So it's possible that -- that -- that**
23 **analysis, which is ongoing, could result in a**
24 **change of position on -- on the inclining block**
25 **rates?**

1 A I would believe so. Yes.

2 Q If the Commission were to determine that
3 some increase in the customer charge was -- was
4 appropriate, would that mitigate your opposition to
5 inclining block rates?

6 A No.

7 Q Why?

8 A I --

9 Q Because if the -- if the --

10 A I'm sorry.

11 Q No. I interrupted you. I should
12 apologize, but I'm going to go ahead and continue.

13 A Okay.

14 Q So if your -- if your concern with -- with
15 inclining block rates is volatility and we increase
16 the residential customer charge, that which would
17 thereby decrease volatility, why would -- why would
18 the company still be opposed -- still be opposed to
19 the same extent to some kind of inclining block
20 rate structure?

21 A We're not solely concerned with revenue
22 volatility. We're concerned with bill impacts as
23 well.

24 Q I've got to process that for a second.
25 What do you mean?

1 A Well, the analysis that's been done to
2 support an IBR has not really considered any
3 impacts to weather at all.

4 So from my perspective, I think that
5 without really knowing what a bad weather year, an
6 extreme weather year, a really cold winter or
7 really hot summer would do to a customer under an
8 IBR structure, I really can't provide an opinion on
9 whether I support it because the analysis that's
10 being presented hasn't really considered it at all.

11 **Q Well, I still don't --**

12 A So solely by proposing an increase in the
13 customer charge that that would address revenue
14 volatility, it still isn't --

15 **Q Well, I didn't -- I didn't mean to imply**
16 **that it would completely address your concern. I**
17 **wondered if it would mitigate your concern.**

18 A It would mitigate one concern. It would
19 help mitigate one concern.

20 **Q Do you have Robin Kliethermes' rebuttal**
21 **testimony up there with you?**

22 A Yes, I do, somewhere. Rebuttal testimony?

23 **Q Yes.**

24 A I have it.

25 **Q Could you turn to page 7? Particularly,**

1 lines 19 down onto -- onto the next page.

2 A Yes.

3 Q If the Commission were to determine that
4 some kind of inclining block rate structure was
5 appropriate, would you agree with Ms. -- with Robin
6 Kliethermes as she sets forth here that creating a
7 -- a third group of shoulder months would further
8 mitigate the concerns that you have with inclining
9 block rates?

10 A I'm not sure that's simply looking at the
11 seasonal months and which ones would be considered
12 winter or summer would mitigate my concern with
13 IBR. So no.

14 Q So if we were to decide that -- that
15 inclining block rates are appropriate, we should
16 ignore Staff's position here and, instead, go with
17 the Division's?

18 A No. You would -- if we were to go to IBR,
19 I think your -- I understood your question to mean
20 that simply by considering Staff's proposal that
21 that would mitigate the concern with IBR.

22 Q Well, again, mitigate is just reduce. I'm
23 not saying eliminate. So I'm trying to understand
24 if -- if the Commission were to determine that
25 inclining block rate structure was appropriate,

1 would the company prefer that we take Staff's
2 position on that as opposed to the Division's?

3 A We would prefer that. Yes.

4 Q And could you explain to me why?

5 A Based on the -- based on the usages and
6 the changes across the different months. There's
7 different usage patterns for each customer.

8 Q Okay. Let's switch gears for a second and
9 take a look at your rebuttal testimony on page 17,
10 which concerns infrastructure efficiency.

11 A Yes. I'm there.

12 Q Okay. So my understanding is that the
13 company has identified 16 circuits with below 50
14 percent of rated capacity under normal or
15 contingency scenarios; is that correct?

16 A That's correct.

17 Q How many customers are served by those 16
18 circuits? Do you know?

19 A I don't.

20 Q Can you -- can you wager a guess, a
21 ballpark guess?

22 A I couldn't wager a guess. No.

23 Q Do you have any information at all about
24 the geographic area of those 16 circuits and
25 whether there are there -- any of those circuits

1 **are contiguous?**

2 A I believe we provided that information as
3 part of the working docket. But I don't have that
4 information in front of me.

5 **Q Do you have any information about whether**
6 **or not it would be possible to, on a map, diagram a**
7 **-- a geographic region and, let's say, in the**
8 **Kansas City area where there is excess capacity,**
9 **maybe not below 50 percent but maybe below 60 or 70**
10 **or 75 percent? Is that possible?**

11 A I'm not sure we could do it in a map. But
12 I know that we were able to identify the line. So
13 just based on that, I would say it's possible. But
14 I'd have to confer with our -- our line specialists
15 and our -- our area -- our subject matter experts
16 in the area.

17 **Q Okay. Well, let's -- let's assume for the**
18 **next couple questions that -- that it was possible**
19 **to -- to draw some kind of line around a service**
20 **area in the Kansas City area where there was excess**
21 **capacity.**

22 A Okay.

23 **Q Tell me what you think about -- about this**
24 **particular proposal, that we waive all line**
25 **extension fees in that geographic area, we**

1 establish a tracker of those lost fees to be
2 recovered at -- at the next rate case, we consider
3 some kind of cap on that amount, and we allow the
4 -- the utility to modify the geographic area if --
5 if there -- if there happened to be some type of
6 significant increase in -- load making -- making
7 that circuit or that particular area no longer --
8 no longer having excess capacity. Does that make
9 since, what I'm -- what I'm proposing?

10 A I believe so. Yes.

11 Q Okay. Do you have any thoughts about it?

12 A Thoughts about the company's willingness
13 to accept that proposal?

14 Q Well, on, on a policy basis, do you -- do
15 you -- do you view that as a -- a reasonable -- a
16 reasonable program?

17 A Reasonable for encouraging more proper
18 utilization of existing infrastructure or --

19 Q Yes. Also, -- yes. Let's leave it at
20 that for now.

21 A If that was the sole goal, yes. It could
22 work for that. Yes.

23 Q Are you familiar with -- with -- with the
24 company's line extension fee tariff, the current?

25 A Yes.

1 Q Do you believe that waiving line extension
2 fees in -- in this particular geographic area could
3 provide some incentive for -- for load growth in
4 those areas? In other words, is the fee
5 sufficient that -- that that would be waived in
6 your view to provide some kind of incentive?

7 A It would depend on the size of the
8 extension, I would say. Or the size of the
9 project.

10 Q So it might depend on the size of the
11 project?

12 A It could.

13 Q So does that mean it might not -- it might
14 not be as much of an incentive for the -- for the
15 construction of one residence, but it might be
16 enough for the construction of a Wal-Mart? Or did
17 you mean something else by that?

18 A I think I meant the prior. But now you've
19 got me thinking about the application of the EDR
20 and how that would work for something like a -- a
21 customer that large, but non-retail.

22 Q So bottom line is, it might provide an
23 incentive. You just don't know how much?

24 A That's correct. Yes.

25 Q Okay. Would it -- would it matter from

1 your perspective the extent to which this
2 particular program was -- was marketed, either by
3 the -- by the City or by the utility or by any
4 other County or State jurisdiction?

5 A Yes. It would matter.

6 Q I know I've thrown this proposal at you
7 while you're on the hot seat. But do you have any
8 sense as to what a -- a reasonable cap might be on
9 such a program?

10 A I don't think I could tell you. No.

11 Q Can you tell -- can you give me a little
12 insight about what -- what line extension fees --
13 what the -- what the range of the amounts are? I
14 mean, are we talking \$150? Are we talking
15 \$200,000? I assume it varies significantly on the
16 size of the customer and the amount of distribution
17 that has to be built.

18 A It does.

19 Q Can you -- can you provide any -- any
20 basic outline of -- of -- well, strike that. Are
21 you familiar with -- with the Staff report
22 responding to certain Commissioner questions that
23 was filed in this case December 4th, 2016?

24 A Yes, I am.

25 Q And on page 15 of that report, on this --

1 on this issue, Staff recommends that KCP&L modify
2 its facility extension tariff to more fully
3 consider the incremental cost of customer costs to
4 a system in determining how much, if any, customer
5 advance is required. Do you see that statement on
6 page 15?

7 A I do.

8 Q What is your view of that proposal?

9 A I think our position has been that we
10 believe that our current tariffs address that
11 already. So we were a little unclear on how to
12 modify to more fully consider when we feel like our
13 existing tariffs do consider.

14 Q Well, my understanding is that -- and --
15 and we can hear more from Staff on this a little
16 bit later.

17 But my understanding was that at least
18 part of that was to copy GMO's facility extension
19 tariff, which was a similar tariff for -- for one
20 thing, but it also had somewhat different formula.
21 So I think that's the proposal that Staff is
22 recommending. So now that you know that that's the
23 difference that they are proposing, why -- what's
24 your position on it?

25 A I think we would be open to that. I think

1 we always have a desire to bring some consistency
2 between our jurisdictions.

3 I think with the advent or the
4 introduction of the possibility of acquiring West
5 Star, we would also want to understand how their
6 line extension processes work and decide -- take
7 the best of all of the worlds and -- and propose a
8 tariff that might give us consistency across
9 jurisdictions.

10 **Q Is there any inconsistency between moving**
11 **towards GMO's -- GMO's facility extension tariff**
12 **and the -- the pilot program that I outlined a**
13 **moment ago? Could those two be combined?**

14 A You can combine anything.

15 **Q That's not really an answer. Would it --**
16 **is there a policy reason why you would oppose**
17 **combining the two?**

18 A I would say we don't have any issue -- I
19 don't think we'd have any issue adopting the GMO
20 methodology. I'd probably want to know a little
21 bit more about the specifics and your proposal to
22 really understand what our position would be in
23 terms of costs and pricing and so forth. So --

24 CHAIRMAN HALL: I have no further
25 questions. Thank you.

1 JUDGE PRIDGIN: Thank you. Any further
2 Bench questions?

3 COMMISSIONER STOLL: No questions.

4 COMMISSIONER KENNEY: Just a --

5 JUDGE PRIDGIN: Commissioner Kenney.

6 CROSS-EXAMINATION

7 BY COMMISSIONER KENNEY:

8 **Q Just a quick follow-up.**

9 COMMISSIONER KENNEY: And before I -- just
10 to notify Counsel for K C P&L, Staff provided the
11 tariff regarding the -- the residential Extensions,
12 sheets of 133 through 133-L. And it says that it
13 was first adopted in 1971 and then continued to
14 1983. I wanted to just -- a couple simple
15 questions.

16 **Q (By Commissioner Kenney) Regarding the**
17 **inclining block rates, does KCP&L Kansas have any**
18 **inclining block rates in their tariffs?**

19 A There's a slight slope, I believe, yes.

20 **Q So they do. I thought they did have some.**

21 A Yeah.

22 **Q Okay. Thank you. Regarding the -- the**
23 **extensions?**

24 A The line extensions.

25 **Q The line extensions. There's a difference**

1 **in underground versus overhead, correct?**

2 A Yes, there is.

3 **Q Now, is it -- is underground -- are there**
4 **-- is -- is KCP&L supposed to -- if you have an**
5 **underground extension, are -- for that cost to the**
6 **company, are they supposed to deduct the overhead**
7 **expenses for the applicant?**

8 A I'd be going by memory. It sounds
9 familiar. But I -- I wish I had the tariff with me
10 to -- to -- to answer most honestly.

11 **Q That's what I -- I -- I found out to be a**
12 **part of it. And do you know how they determine**
13 **those costs to the applicant for an extension?**

14 A I believe that's spelled out in the
15 tariff. I would have to ask our operational
16 expert.

17 **Q I don't think it's spelled out in the**
18 **tariff.**

19 A No, it's not.

20 **Q So is that just a -- someone makes that**
21 **decision?**

22 A The planners -- again, I'd have to refer
23 to our subject matters person in the field to
24 really --

25 **Q Do you know if it has anything to do with**

1 **the load factor that they expect in the future?**

2 A Again, I'd have to confer with our subject
3 matter experts in the field to really understand
4 it.

5 **Q Do you know if that would be determined on**
6 **a number of years?**

7 A I don't know.

8 **Q So it's just the field operators making**
9 **those decisions?**

10 A We have formal policies that are
11 operational processes, but I'm not -- I'd have to
12 confer with them to really understand.

13 **Q When you -- I just -- because when you**
14 **started talking -- when the Chairman started**
15 **talking about extensions, I mean, I -- I kind of**
16 **lit up because that's kind of what I was wanting**
17 **know, and you seemed like maybe you were the one.**
18 **But --**

19 A Okay. My apologies. No.

20 **Q That's all right. Thank you very much.**

21 JUDGE PRIDGIN: If there are no further
22 Bench questions, any recross based on Bench
23 questions? Division of Energy?

24 MR. ANTAL: No questions. Thank you.

25 JUDGE PRIDGIN: Thank you. CCM? Anybody?

1 U.S. Department of Energy? Sierra Club?

2 MS. ROBERTS: No questions.

3 JUDGE PRIDGIN: Renew Missouri?

4 MR. LINHARES: No questions, your Honor.

5 JUDGE PRIDGIN: NRDC? MIEC?

6 MR. DOWNEY: No, thank you.

7 JUDGE PRIDGIN: MECG? Public Counsel?

8 MR. OPTIZ: No, thank you.

9 JUDGE PRIDGIN: Staff?

10 MS. PAYNE: Just one, your Honor.

11 RE CROSS EXAMINATION

12 BY MS. PAYNE:

13 Q Ms. Miller, are you familiar with the
14 term Greenfield?

15 A No.

16 Q Okay. Would you believe me if I told you
17 that the term Greenfield is used in contrast to the
18 term Brownfield to refer to when something is -- is
19 going to be removed in -- in reference to the line
20 extension policies the Commissioners were asking
21 you about?

22 A Your question was, am I aware of
23 Greenfield in the context of Brownfield that you
24 just introduced? Was that your question? Removal
25 of something?

1 Q The removal of something. It's -- and I'm
2 sorry. I am struggling with this, too. They don't
3 teach you this in law school. Maybe if I put it
4 into context, it will help.

5 My actual question is -- is would you know
6 what the cost of a Greenfield extension for a store
7 like Wal-Mart would be under KCP&L's current
8 tariff?

9 A No, I wouldn't.

10 Q Okay. Thank you.

11 JUDGE PRIDGIN: Thank you. Redirect?

12 MR. FISCHER: Thank you, Judge.

13 REDIRECT EXAMINATION

14 BY MR. FISCHER:

15 Q Ms. Miller, let's -- let's start with the
16 area that Chairman Hall got into with you regarding
17 the customer service charge and -- and what costs
18 are included in that.

19 A Yes.

20 Q I believe you indicated that KCP&L would
21 remove the MEEA and the RESRAM costs of -- that
22 were included in that 16.68 to get down to roughly
23 the Staff's number of 12.62; is that right?

24 A Yes.

25 Q Now, as far as the company's actual

1 proposal regarding customer service charges in this
2 case, what is the company's proposal?

3 A 13.18.

4 Q Okay. That's the tariffed amount that --
5 I mean, that's the amount that's included in the
6 tariff today? Or that we're proposing?

7 A That we're proposing. A 10.9 increase.
8 Yes.

9 Q And assuming we didn't get everything we
10 were asking for in terms of the hundred percent of
11 what we requested, how -- how would the customer
12 charge be affected under the company's proposal?

13 A It would decrease from our proposal.

14 Q Would it basically be an equal percentage
15 basis?

16 A Yes, it would.

17 Q Okay. Now, he asked you about what was
18 included in the customer service charge. Would you
19 explain what is the company's perspective on what
20 should be included in the customer service charge?

21 A Costs associated with serving that
22 customer. That would include things as postage,
23 meter reading, billing, customer accounting
24 expense. Yeah.

25 Q He also asked you, I think, about one of

1 my statements in the opening statement. Would you
2 explain your view about what other fixed charges or
3 fixed costs are -- the company experiences beyond
4 the customer service costs that are out there, for
5 example, on generation, transmission or
6 distribution?

7 A Are you talking about if we've ever done
8 an analysis that moved all -- moved all the fixed
9 charges that were included in the energy charge?

10 Q Okay. Let's go there. Have you ever
11 looked at what all the fixed costs would be on a
12 monthly basis if you included all the fixed charges
13 associated with providing electricity, for example,
14 in a monthly customer charge?

15 A Yes, we have. It's \$86.

16 Q \$86 dollars would be your monthly charge
17 if you included -- and that would include
18 generation, fixed generation, fixed transmission
19 and fixed distribution; is that right?

20 A That's correct.

21 Q Now, how do you recover those costs today
22 under the -- the declining block rate structure?

23 A Right now, they're spread across our
24 energy blocks.

25 Q And are they more heavily spread into the

1 first two blocks of that declining block rate
2 structure?

3 A Yes.

4 Q Now, if -- if you adopted a -- let's say a
5 radical improved rate structure for all of your
6 residential load -- or all of your other customers
7 for that matter, how would you -- how would you
8 move the cost recovery to -- to recover those fixed
9 charges of what you say were \$85 a month?

10 A Under an inclining block, if we were to
11 move it to the tail block, we would probably not
12 recover our revenue requirement.

13 Q And would you explain to the Commission
14 why you probably wouldn't recover all those fixed
15 charges?

16 A Under an IBR structure, if there was price
17 signals sent to the customer that would encourage
18 them to use less energy, they would not hit the
19 last block, the third block potentially, or they
20 would be hitting -- the usage would change.

21 For those customers that would be hitting
22 the third belong where there would be a majority of
23 the fixed cost component, it wouldn't hit those, so
24 we would not be able to recover those in a per
25 kilowatt basis.

1 Q So if you had severe weather, a very mild
2 summer, for example, how would that affect
3 potentially your recovery of those fixed charges?

4 A Under an inclining block structure?

5 Q Yes.

6 A We would likely not recover them.

7 Q The Chairman also asked you about a
8 proposal where, I think, as I understood it, there
9 would be an increase in the customer service
10 charge, and the trade-off would be going to an
11 inverted rate structure. Do you recall that?

12 A I do.

13 Q Is a modest increase in the customer
14 service charge going to be a fair trade-off to
15 going to the inverted rate structure if -- if that
16 fixed -- if that volatility issue is still there?

17 A No.

18 Q Would you explain why? I mean, if you
19 raised -- for example, if we raised the customer
20 service charge \$5, but you've got 80 other dollars
21 to be recovered in fixed charges, is that a
22 concern?

23 A Dramatic concern.

24 Q Okay. I believe you also indicated the
25 company was concerned with more than volatility.

1 You were also concerned with customer impacts of
2 going to an inverted rates structure. Do you
3 recall that?

4 A I recall that. Yes.

5 Q Could you elaborate on that concern,
6 especially if you applied that inverted rate
7 structure to things like space heating or high --
8 high usage air conditioning customers?

9 A Yes. When you factor in whether you have
10 an extremely hot summer or an extremely cold
11 winter, customers are going to have to heat their
12 homes or cool their homes. And so they're going to
13 use more electricity. Under an inclining block
14 structure, they're going to be penalized for doing
15 that.

16 Q Well, let's take an apartment renter, for
17 example. Would he have control -- much control
18 over, for example, what -- what source of heat he
19 would have in his -- his apartment?

20 A As an apartment renter, no.

21 Q If -- if we would radically changed the
22 rate structure to be an inverted rate structure for
23 that space heating customer, what would you expect
24 could be the impact on that apartment renter even
25 though he was doing everything he could to

1 **conserve?**

2 A It would go up.

3 **Q And could it go up substantially?**

4 A Yes, it would.

5 **Q What effect would that kind of a rate**
6 **structure potentially have on the company's ability**
7 **to market electric space heating?**

8 A We would lose that revenue.

9 **Q If you lost that revenue, would other**
10 **customers have to, in some way, make that up?**

11 A Yes, they would.

12 **Q You were asked some questions, I think, by**
13 **the Sierra Club Counsel about -- that suggested**
14 **that -- that -- it sounded to me like any -- any**
15 **conservation was a good thing. Do you agree with**
16 **that?**

17 A No.

18 **Q If -- if the company loses off peak load,**
19 **for example, in the winter, space heating load or**
20 **other off peak load, does that hurt other customers**
21 **on the system?**

22 A To the extent that we rely on their
23 revenue to cover our fixed costs, yes, it does.

24 **Q So just conservation for conservation sake**
25 **is not necessarily good public policy? Or do you**

1 **agree with that?**

2 A Conservation for the sake of conservation,
3 no.

4 **Q We've heard Counsel ask you about cost**
5 **causation principles and trying to recover your**
6 **costs. Do you -- have you heard -- or economists**
7 **talk about the best, efficient way to have a rate**
8 **structure that -- that tries to cover your costs**
9 **and -- and -- and not necessarily inflate those**
10 **costs? Is it efficient -- is it efficient to do**
11 **that?**

12 A I'm not sure I'm understanding your
13 question. I'm sorry.

14 **Q Okay. That's a bad -- that's a bad**
15 **question. I apologize. Let me ask you this. Does**
16 **your current rate structure, your declining block**
17 **rate structure, does that tail block recover your**
18 **variable costs or your fuel costs?**

19 A Yes.

20 **Q Does it -- does it make a contribution to**
21 **the fixed costs of your system?**

22 A I believe a small contribution. Yes.

23 **Q I believe you answered one of the**
24 **questions for Sierra Club Counsel that Mr. Hyman's**
25 **proposal on just general use customers was -- was**

1 not a radical proposal on its face. Do you recall
2 that?

3 A Yes.

4 Q If you expand that proposal to cover, for
5 example, electric space heating load, would that
6 change your view?

7 A Yes.

8 Q And why would that be?

9 A Well, I guess I should clarify my earlier
10 statement. When I said it wasn't radical at its
11 face, I was taking the bill impacts that he had
12 considered, which we have issues with, the
13 elasticities that he used in all of his analysis.

14 In terms of the inclusion of -- space heat
15 customers? Was that your question, Jim.

16 Q Yes.

17 A We would have concerns because the usage
18 patterns for our space heat customers are obviously
19 high in the winter. There's very little discretion
20 that our space heat customers would have in terms
21 of heating their homes in the winter under an IBR
22 structure.

23 Q Why didn't you do a study in response to
24 DE's proposal to determine what the customer
25 impacts would be?

1 A Truth is, it's not an easy thing to do.
2 It takes extensive analysis. There's lots of
3 considerations, which is why we're relying on our
4 rate design studies to incorporate those and you
5 consider all those fully.

6 **Q I believe you indicated you had some**
7 **concerns about the price elasticity analyses that**
8 **were included in his study?**

9 A Yes.

10 **Q Would you explain your concern there?**

11 A I believe those came out of a potential
12 study for Ameren. But upon further review of the
13 Powerpoint presentation I think that we saw, it
14 looks like they may have originated from
15 California, those elasticities.

16 And I think it even included in -- in the
17 source notes that -- for California, cooling and
18 heating is considered discretionary, and use is --
19 applying those elasticities to the Midwest is risky
20 at best.

21 **Q Are you suggesting that Missouri's climate**
22 **is different than California's?**

23 A A little bit. Yes. Except today.

24 **Q Okay. I believe you were asked many**
25 **questions about time of day rates. I know you --**

1 **you've been with the company how long?**

2 A Eleven years.

3 **Q Do you know if the company in the past has**
4 **had time of day rates?**

5 A We have.

6 **Q Did you have a lot of customer interest in**
7 **that time of day rate structure?**

8 A We had very little participation.

9 **Q But, nevertheless, GMO at this time and**
10 **KCP&L are -- are embarked on studies of time of use**
11 **rates?**

12 A Yes.

13 **Q And is that partly due to the fact that**
14 **the meter technology has changed?**

15 A Yes, it is.

16 **Q DE -- Missouri Department of Energy asked**
17 **you about Exhibit 803 where -- do you recall that**
18 **question that involved your Data Request 600?**

19 A I do.

20 **Q That data request indicated that weather**
21 **normalized monthly billing data by individual**
22 **customer class does not exist. Do you recall that?**

23 A I do recall it.

24 **Q The fact that it doesn't exist, does that**
25 **change your concern about -- about whether his data**

1 **is weather normalized?**

2 A No, it doesn't change my concern.

3 **Q What other concerns do you have about his**
4 **analysis?**

5 A I'm not sure that anybody else in the room
6 probably besides Staff looked at Martin Hyman's
7 work papers very closely.

8 But besides the price elasticity that we
9 talked about earlier, the sample size, the fact
10 that it was a .3 percent sample as it pertained to
11 our general use customers, when I looked at some of
12 the price elasticities that he applied, for
13 example, for the summer months -- and I believe in
14 his direct testimony, he has average usage for the
15 summer months that are already falling past the
16 first block.

17 But if you look at his work papers, his
18 elasticity would actually show there would be a
19 growth in the first block in the summer months
20 under an IBR structure.

21 MR. ANTAL: Objection. Witness is
22 mischaracterizing Mr. Hyman's testimony. Mr. Hyman
23 didn't apply any elasticities to his analysis.

24 JUDGE PRIDGIN: Mr. Fischer?

25 MR. FISCHER: Well, I think she's giving

1 her -- her understanding of what -- what that study
2 has shown and her concerns regarding that study. I
3 think that's proper.

4 JUDGE PRIDGIN: It's overruled.

5 Q (By Mr. Fischer) Well, let me go to
6 another area. What about the sample size? Did you
7 have any concern about that?

8 A Very small. It was random.

9 Q What do you mean by random?

10 A Not likely representative. Or at least
11 there was no way to know that it was representative
12 of the entire population.

13 Q You were also asked some questions, I
14 believe, by the Sierra Club Counsel regarding
15 declines in usage that would result in overall cost
16 reductions. Do you recall that?

17 A Yes.

18 Q Does a decline in usage always indicate
19 that -- that costs of the system are going down?
20 For example, if you lost Armco Steel or Noranda
21 Aluminum, would that mean your costs are going
22 down?

23 A No.

24 Q Wouldn't that affect other customers if
25 you did lose load like that?

1 A Yes. They would have to cover the costs.

2 Q Counsel for MECG asked you a question
3 about whether variable costs should be recovered
4 through variable charges. Do you recall that?

5 A I do.

6 Q Is that a principle that you can endorse
7 generally?

8 A Generally, yes.

9 Q Going back to customer impacts, were you
10 involved in the GMO rate design effort where they
11 consolidated districts?

12 A Yes, I was.

13 Q Did the company, in that instance, look at
14 customer impacts in great, great detail?

15 A Yes. Yes, we did.

16 Q Did you find any surprises in just
17 consolidating districts as far as -- as the
18 customer impacts were concerned?

19 A There's a lot of complexity in this when
20 you looked at the entire customer base, yes.

21 Q Is that the kind of thing that you would
22 do when you look at customer impacts on changing
23 your residential rate structure?

24 A I believe we would have to.

25 MR. FISCHER: Judge, I appreciate your

1 patience. I'm done. Thank you.

2 JUDGE PRIDGIN: All right. Thank you.

3 This looks to be a pretty convenient time to take a
4 break. Ms. Miller, you may step down.

5 Let's take about 15 minutes. And then
6 it's my intent to try to either end somewhere near
7 6:30, you know, if I can find a natural break. Or
8 if not I may say, you know, we're done. We'll
9 start again. We'll pick up where we left off or
10 just to let people know if they're trying to make
11 plans for anything tonight.

12 So we'll go back on record at 5:15. Is
13 there anything from Counsel before we take a break?
14 All right. Hearing nothing, we will stay in recess
15 until 5:15.

16 (Break in proceedings.)

17 JUDGE PRIDGIN: All right. Good evening.
18 Back on the record in ER-2016-0285. And Staff
19 witness Sarah Kliethermes is on the stand. I'll
20 ask her to be sworn shortly.

21 As I'm sure Counsel is aware, we are now
22 woefully behind the planned schedule. I do admire
23 your ambition. I actually had hoped that we could
24 get through that, but it is what it is.

25 We will obviously pick up somewhere in

1 rate design witnesses tomorrow. And I don't know.
2 I'll have to verify with the Commissioners if we
3 don't get everything done Thursday, Friday may be
4 bad for Commissioners, and so we may have to push
5 the hearing back still further into next week.

6 But I will -- and I want to let you know
7 that as soon as possible, and we'll kind of keep an
8 eye on progress and see what happens. But if we
9 don't get all the witnesses done by tomorrow, I
10 don't know if Friday would work for the
11 Commissioners, and we may be going into next Monday
12 or -- or another day next week.

13 So I wanted to let you know that as soon
14 as possible so you could start making
15 arrangements. Anything further before I swear in
16 Ms. Kliethermes?

17 All right. Ms. Kliethermes, if you will
18 raise your right hand to be sworn, please.

19 SARAH KLIETHERMES,
20 being first duly sworn to testify the truth, the whole
21 truth, and nothing but the truth, testified as follows:

22 DIRECT EXAMINATION

23 BY MS. PAYNE:

24 JUDGE PRIDGIN: Thank you. You may have a
25 seat. And, Ms. Payne, whenever you're ready.

1 **Q** **(By Ms. Payne) Could you please state**
2 **your name?**

3 A Sarah Kliethermes, S-a-r-a-h
4 K-l-i-e-t-h-e-r-m-e-s.

5 **Q** **And are you the same Sarah Kliethermes**
6 **that prepared portions of the report on Staff's**
7 **class cost of service and rate design labeled as**
8 **Exhibit 202 in this matter, along with rebuttal**
9 **testimony labeled as Exhibit 212 and surrebuttal**
10 **labeled as 213?**

11 A Yes. And, also, the Commission -- or the
12 Staff's report on Commission-ordered issues.

13 **Q** **Yes. And do you have any changes to make**
14 **to that at this time?**

15 A Not that is not already indicated. For
16 example, there was some corrections to the class
17 cost of service report that I included in my
18 surrebuttal testimony.

19 **Q** **Okay. Thank you. And with those**
20 **corrections that were labeled in surrebuttal, if I**
21 **asked you the same questions contained in there,**
22 **would you have the same answers?**

23 A Yes.

24 **Q** **Okay. And are all of the answers**
25 **contained in that testimony true to the best of**

1 **your knowledge?**

2 A As of the direct filing, yes.

3 **Q Okay.**

4 A Or I should say reflecting Staff's direct
5 case. Yes.

6 MS. PAYNE: Your Honor, I would offer Ms.
7 Kliethermes' rebuttal and surrebuttal, Exhibits 212
8 and 213 at this time, and I'll offer the report,
9 Exhibit 202, following the other Ms. Kliethermes'
10 testimony.

11 JUDGE PRIDGIN: Thank you. 212 and 213
12 have been offered. Any objections? Hearing none,
13 213 is admitted. And I'm sorry. Ms. Payne?

14 (Staff Exhibit 213 was offered and
15 admitted into evidence.)

16 MS. PAYNE: I tender this witness for
17 cross. Exhibit 212, also, right?

18 JUDGE PRIDGIN: Correct. I admitted 212
19 and 213.

20 (Staff Exhibit 212 was offered and
21 admitted into evidence.)

22 MS. PAYNE: Thank you.

23 JUDGE PRIDGIN: Cross-examination, Public
24 Counsel?

25 CROSS-EXAMINATION

1 BY MR. OPITZ:

2 Q Ms. Kliethermes, were you in the hearing
3 room during the opening statements for this issue?

4 A Yes.

5 Q During the MIEC's opening statement, there
6 was criticism of your surrebuttal at page 5. Do
7 you recall that?

8 A Let me look real quick what it was. Yes.
9 I recall that.

10 Q Based on the hand-out presented by MIEC,
11 it appears they accuse you of characterizing
12 something as production capacity rather than base
13 load plant. Can you tell me what the difference,
14 if any, would be between production capacity and
15 base load plant?

16 A I don't actually have a copy of that
17 hand-out. But I assume that the same argument is
18 made that Mr. Brubaker has made in I think every
19 case where I used the detailed BIP, which is that
20 he misrepresents my assignment of dollar weighted
21 capacity costs as an allocation of costs.

22 Mr. Brubaker appears to believe that I
23 allocate base load plant and separately allocate
24 intermediate plant and separately allocate peaking
25 plant. I do not do those things.

1 I use the actual costs of those plants on
2 a per megawatt basis to develop an overall
3 allocator for all production plant.

4 **Q And what is it about that method that is**
5 **most appropriate for rate design in this case?**

6 A Well, different production plants have
7 different capacity costs. And because we have
8 shifted to an integrated market where all energy
9 has a specific cost, it's important to recognize
10 how that cost of energy varies across the hours no
11 matter who is consuming that energy and no matter
12 what their load factor.

13 So if you're going to recognize those
14 variable costs of energy over the course of the
15 year, it's important to also recognize the varying
16 cost of the capacity that were used to produce that
17 energy.

18 **Q Does your method take into account that --**
19 **well, let me rephrase. So would you agree with the**
20 **proposition that utilities build for peak?**

21 A I would agree that is half right. It is
22 only half right. Utilities build to efficiently
23 serve their load over the course of a year.

24 They also need to meet peak or secure that
25 capacity to meet that peak through some sort of

1 energy market or other contractual relationship.

2 **Q Does your BIP method take into account**
3 **the, I guess, peak that a utility must meet?**

4 A Yes.

5 **Q And --**

6 A That's the P.

7 **Q It simply does so differently than the**
8 **methods used by MIEC and MECG; is that correct?**

9 A Actually, on the peak, not really. The --
10 the peak portion, the only difference is that we
11 use a dollar weighted cost of capacity whereas
12 under the A&E method that Mr. Brubaker has -- has
13 gone for and under the method that Mr. -- or
14 Dr. Schmidt uses, you're assuming that all capacity
15 costs the same.

16 So they account for the peak by saying
17 that it is the same cost of capacity to install a
18 combustion turbine -- turbine or buy a capacitor
19 that only has to discharge for one second as what
20 it is to build a coal plant that has environmental
21 treatment associated with it or a nuclear plant
22 that as a lot of cost associated with that capacity
23 initial installation.

24 **Q And you disagree that those should be**
25 **valued the same?**

1 A I disagree that those should be valued the
2 same if you are looking at -- well, if the reality
3 is that the fleet is not made up of one type of
4 capacity, then the allocator shouldn't reflect one
5 capacity cost.

6 If all of KCP&L's fleet were made up of
7 combustion turbines or all of KCP&L's fleets were
8 made up of nuclear facilities, then there's some
9 reasonableness to that.

10 MR. OPITZ: That's all I have. Thank you,
11 Judge.

12 JUDGE PRIDGIN: Mr. Opitz, thank you.
13 Cross-examination, MIEC?

14 MR. DOWNEY: Yes. Give me a -- give me a
15 second, Judge.

16 CROSS-EXAMINATION

17 BY MR. DOWNEY:

18 **Q Okay. Ms. Kliethermes, are you familiar**
19 **with Mr. Brubaker's Table 1, page 13 of his**
20 **rebuttal?**

21 A Give me a moment. I have Table 1 before
22 me. Yes.

23 **Q Okay. Before we get to that, let me ask**
24 **you this question. Isn't it correct that in**
25 **developing your dollar weighted capacity cost**

1 **allocation, your allocation of the base load costs**
2 **is equivalent to allocating on an energy basis?**

3 A I don't allocate base load. But I assign
4 it using average demand, which average demand is
5 going to be proportionate to energy. Yes.

6 **Q So the answer is yes?**

7 A Well, no, because you used two terms
8 differently than I would be comfortable using them.
9 But with that exception, yes.

10 **Q Okay. And then back to Table 1, page**
11 **13 --**

12 A Yes.

13 **Q -- does Mr. Brubaker correctly in Columns**
14 **1 and 2 use the information from Staff's rate**
15 **design and class cost of service report, page 19?**
16 **Does he correctly report that?**

17 A If you -- if you exclude his follow-up
18 question interpreting what says that table means,
19 then yes.

20 **Q Okay. And Column 3 -- I guess Column 3,**
21 **is that -- are those figures accurately taken from**
22 **your work paper Market Energy.XLSX?**

23 A I truly don't know, but I will accept that
24 he can copy and paste a number.

25 MR. DOWNEY: All right. No further

1 questions.

2 JUDGE PRIDGIN: Mr. Downey, thank you.

3 Cross from MECG?

4 MR. WOODSMALL: No questions.

5 JUDGE PRIDGIN: U.S. Department of Energy?

6 MR. GARG: Just a couple.

7 CROSS-EXAMINATION

8 BY MR. GARG:

9 Q Hi, Ms. Kliethermes.

10 A Yes. Close enough.

11 Q Sorry. Kindred spirits. My name is also
12 mispronounced a lot. I'm Rishi Garg representing
13 Department of Energy. I have a couple questions to
14 ask you. Could you refer to page 3 off your
15 surrebuttal testimony, lines 7 to 9?

16 A Yes.

17 Q And you indicate that Staff made a
18 correction to its production capacity allocator and
19 that Staff's correction addresses, quote,
20 Mr. Schmidt's concern that Staff used absolute
21 intermediate and peak demands instead of
22 incremental capacity requirements in calculating
23 its production capacity allocator. Did I read that
24 correctly?

25 A I believe so.

1 **Q** Where in Mr. Schmidt's testimony does he
2 **express a concern that Staff used absolute**
3 **intermediate and peak demand instead of incremental**
4 **capacity requirements in calculating its capacity**
5 **allocators?**

6 A I apologize. I actually don't have a copy
7 of his rebuttal testimony. If I could borrow one?

8 **Q** **Absolutely.**

9 MR. GARG: May I approach the witness?

10 JUDGE PRIDGIN: Yes, you may.

11 A Yes. As a -- as I indicate on page 3 with
12 the footnote, I refer to his rebuttal at Page 2.
13 And if you look at his second bulletpoint, he
14 discusses -- oh, I'm sorry. Third bulletpoint. I
15 can't -- I can't count down today.

16 Whether peak demand is -- whether --
17 sorry. Sorry. It was the second bulletpoint. All
18 customers that use electric during peak power are
19 responsible for the peak and those types of
20 customers could reduce the demand reducing their
21 peak.

22 And then in fairness, that probably was
23 not the best reference to his testimony. He does
24 have the discussion on -- yeah. I'm sorry. If you
25 look at page 7 -- page 7, lines 13 through 16, he

1 clarifies that all production and transmission
2 plant costs are allocated during the peak period,
3 not just the peaking plant.

4 And that's reflected in how -- initially,
5 I had a formulator in my worksheet where I was
6 using the total peak over the total intermediate
7 over the total base, and that's simply wrong. I
8 had a formulator.

9 And in correcting that, it then applies
10 all three plant types to the peaking instead of
11 stacking those types. It's the difference, if you
12 will, between an A&E and an A&P.

13 I had a -- the initial error made mine
14 similar to A&P when, in fact, the way that the
15 three plant types layer is like an A&E. You're
16 just adding an intermediate step.

17 **Q And in making that correction, you're**
18 **addressing a concern that Dr. Schmidt expressed on**
19 **lines 13 and 16 of his rebuttal testimony?**

20 A Yes.

21 **Q Okay.**

22 A And I apologize. I should have referred
23 to page 7 rather than page 2. Well, fixing an
24 error. I mean, I wanted to make it correct.

25 **Q Let's go to -- back to your surrebuttal.**

1 On line 11, you -- you quote from Dr. Schmidt's
2 rebuttal testimony. Do you -- do you see that?

3 A I do.

4 Q And you -- you state on line 11 that --
5 that you agree with the statement that he -- that
6 he made --

7 A Yes.

8 Q -- is that correct? And the -- the
9 statement that you agree with, in part, is, quote,
10 All customers that use electric power during the
11 peak period are responsible for the peak.

12 A Yes.

13 Q Is that correct? And, in fact, you state
14 starting on line 16 and 17 in reference to this
15 statement that I just read that it is the basis of
16 Staff's detailed base intermediate peak method and,
17 quote, the entire point of the BIP production
18 capacity allocator; is that correct?

19 A Yes.

20 Q How many system peak hours in a year are
21 used to develop the 4CP allocator, if you know?

22 A You -- and to clarify, you literally mean
23 the 4CP?

24 Q That's right.

25 A That would be four.

1 **Q** Thank you. Can you refer to page 4 of
2 **your surrebuttal to the uppermost of the two**
3 **figures on page 4?**

4 A Yes.

5 **Q** And could you -- could you tell me how
6 **many hours you believe comprise the peak period in**
7 **that?**

8 A Well, it's important to note we're using
9 two different terms. That's -- that's why I
10 clarified earlier when you said what does -- how
11 many peaks are in the 4CP.

12 The peak period is based on what the 4CP
13 hits as its maximum, and it's based on what the 12
14 NCP is as it's floor. So there are multiple hours
15 that vary by class for how many hours fall in that
16 range.

17 **Q** Yeah. Thank you for -- for all that. But
18 **my question is, can you -- can you tell me how many**
19 **hours you believe comprise the peak in this figure?**

20 A Only one hour comprises a peak. There are
21 multiple hours that have energy usage in the
22 peaking range.

23 **Q** On -- on this graph?

24 A Yes.

25 **Q** On the top of page 4, there's one hour

1 **that comprises the peak?**

2 A In -- I'm sorry. I don't understand the
3 question.

4 **Q I'm -- I'm referring to this figure on the**
5 **top of page 4. Do you see it?**

6 A I -- I see it. Yes.

7 **Q All right. Can you -- can you tell me**
8 **from looking at this how many hours you believe**
9 **comprise the peak period?**

10 A I don't understand that question as you
11 are using those terms. I can tell you how many
12 hours have the peak of energy consumption. And I
13 can tell you how many hours reflect usage in the
14 peak period. Are you asking that second question?

15 **Q I was asking a different question. But**
16 **let me withdraw the question.**

17 MR. GARG: I have no further questions.

18 JUDGE PRIDGIN: Okay. Thank you. Further
19 cross, Sierra Club?

20 MS. ROBERTS: No questions, Judge.

21 JUDGE PRIDGIN: Renew Missouri?

22 MR. ROBERTSON: No questions.

23 JUDGE PRIDGIN: NRDC?

24 MR. ROBERTSON: No questions.

25 JUDGE PRIDGIN: Missouri Division of

1 Energy?

2 MR. ANTAL: No questions.

3 JUDGE PRIDGIN: CCM? KCP&L?

4 MR. FISCHER: No question, Judge.

5 JUDGE PRIDGIN: Bench questions?

6 Mr. Chairman?

7 CROSS-EXAMINATION

8 BY CHAIRMAN HALL:

9 Q Good evening.

10 A Good evening.

11 Q When was the last time the Missouri Public
12 Service Commission used the BIP allocation
13 methodology in a rate case?

14 A I believe the last time the Commission
15 entered an order on cost of service in a rate case,
16 which would have been the Empire rate case. Not
17 the most recent one that was concluded by a Stip.,
18 but the prior one, I believe.

19 Q And before that?

20 A In the Ameren case prior to that -- and --
21 and the Empire case and the Ameren case, we're
22 using the specific detailed BIP as distinguished
23 from a -- a non-detailed BIP.

24 But in the prior -- not the most -- not
25 the currently pending Ameren case, but the one most

1 recently concluded, I believe the Commission
2 determined that the A&E and BIP results were so
3 similar that they needn't find -- find between the
4 two.

5 **Q Okay. Other than those two cases, is it**
6 **safe to generalize that -- that -- that the**
7 **Commission has been using the A&E?**

8 A No.

9 **Q Okay. Well, how would -- to what extent**
10 **do you believe that the Commission has -- has used**
11 **the A&E methodology?**

12 A I've been here 11 years. So I can't speak
13 for much before that.

14 **Q And I don't really care about before that,**
15 **so we're good.**

16 A In the time I have been here, I believe
17 most of the orders that -- to the extent the
18 Commission has determined a result and rate cases
19 weren't resolved by Stip., which would be a lot of
20 them, I think that they've used the A&E in an
21 Ameren case where they rejected the A&P.

22 And in all of the other orders that I can
23 think of where rate design was dealt with, they
24 used the A&P as a surrogate for a TOU, time of use.

25 And so the -- the -- the BIP has really

1 only been presented in the last three or four years
2 ever since that Ameren order, in either form,
3 either the plant stratification or the enhanced A&E
4 if you will.

5 **Q And you may have -- have already addressed**
6 **this on cross. And if so, I apologize. But you --**
7 **you're aware of the characterization of the BIP**
8 **methodology as requiring that each generation plant**
9 **be designated as baseline, intermediate or peak?**
10 **Did you hear that characterization?**

11 A Yes.

12 **Q And you disagree with that?**

13 A No. I -- I agree -- there's a distinction
14 here. It's subtle, but it's an important one. We
15 don't say, Here's the cost that you have associated
16 with Wolf Creek versus here's the costs that you
17 have associated with -- I'm blanking on the name of
18 one of their CTs right now.

19 But we don't say, This class is
20 responsible for these costs. We use the actual
21 costs of the different types of plant in the
22 utility's fleet to come up with a dollar weighted
23 average cost of capacity and a dollar weighted
24 average cost of production associated with each
25 unit.

1 **Q But you are or you're not characterizing**
2 **the plants in those three categories?**

3 A No. You -- I'm sorry. You divide the
4 plants into those three categories to come up with
5 those three types of average costs.

6 **Q Okay. Does it make sense to divide plants**
7 **up on that categories even though KCP&L has -- is**
8 **now part of the integrated marketplace?**

9 A It's better than the A&E. There --
10 really, the ideal thing to do would be to do
11 something like what time of use studies used to be
12 or some other form of plant utilization study.

13 The -- the happy medium, if you will, is a
14 plant stratification study such as the detailed
15 BIP. There's lots of ways to -- to peel that
16 apple, if you will.

17 **Q Let me switch gears to the Staff's report**
18 **responding to certain Commission questions. And**
19 **I'm going to focus on the -- the infrastructure**
20 **efficiency portion of that report. Do you have**
21 **that in front of you?**

22 A I am about to. Yes.

23 **Q Okay. Can -- can you explain to me why**
24 **you believe it would be appropriate for -- for us**
25 **to modify the -- the facility extension tariff for**

1 **KCP&L to be more like GMO's?**

2 A Well, and, actually, I think that in your
3 proposal that you discussed with Ms. Miller, you --
4 you hit on the nose why we think it's appropriate.

5 If you were trying to get customers to use
6 infrastructure that's already in place, it would
7 seem obvious that you would discount what they
8 would pay to access that infrastructure.

9 The concern is, because KCP&L does not
10 look at the cost of energy to serve new customers
11 in a Greenfield -- or in any new installation,
12 they're essentially making it cheap -- they're
13 making it just as cheap or almost just as cheap to
14 do a Greenfield installation as to do a Brownfield
15 installation.

16 So if your cost is next to nothing or
17 nothing, then there's really no benefit to gaining
18 from the -- the Brownfield application.

19 **Q Do you have any sense as to the -- the**
20 **amount of impact that that change might have on --**
21 **on any particular facility extension?**

22 A I don't. That was part of what we hoped
23 to develop with KCP&L during the course of this
24 case. And those conversations didn't ultimately
25 pan out.

1 **Q** What are your thoughts about that pilot
2 program that I outlined with Ms. Miller earlier --
3 earlier today? Do I need to go over those
4 components again, or do you -- do you remember
5 them?

6 A I -- I remember them. I -- I guess I
7 would have to caveat with the initial statement
8 that I haven't had an opportunity to discuss with
9 management, so I can only offer my opinion as my
10 opinion.

11 I would want to have a conversation as --
12 as Ms. Miller indicated with some of the folks in
13 the Operations Department.

14 I guess my concern would be that if a
15 given customer that you're trying to attract to
16 that Brownfield area would not pay any costs or
17 would pay minimal costs to install in a Greenfield
18 area, then you're really not changing what they
19 would pay under either construct.

20 In other words, for many customers to go
21 into a Brownfield area today, it, it may be low or
22 no cost, and it would be the same low or no cost to
23 go into a Greenfield area.

24 **Q** So it might not provide much of an
25 incentive?

1 A Absent changing the extension fees, yes.
2 Or no, I suppose.

3 **Q But it might be more aligned with actual**
4 **cost causation?**

5 A If the customer is not requiring
6 additional facilities to be installed, that
7 customer is causing minimal costs that would need
8 to be recovered under -- under your proposal.
9 Correct.

10 **Q How difficult do you believe it would be**
11 **to designate a particular geographic region as --**
12 **as an area with excess distribution infrastructure?**

13 A Well, things have a habit of getting a lot
14 easier once they get ordered in the sense that we
15 have to do it. I -- from the conversations I've
16 had with the company, I get the sense that that
17 would be difficult. I do not get the sense that
18 that would be impossible, with -- with the
19 understanding that switching occurs, and as
20 substations are replaced, they may be replaced in
21 different areas. They may be, you know,
22 consolidated, that sort of thing. But your -- I
23 believe your proposal catches that with the ability
24 to modify over time.

25 **Q Do you believe that it would be -- be**

1 **appropriate to establish a tracker related to this**
2 **-- this type of program?**

3 A I can tell you that I do not believe that
4 extension costs today are -- I -- I don't know.
5 That would be a better question for -- for someone
6 in the Accounting Department.

7 **Q Do you believe that it would be**
8 **appropriate to put some kind of cap on the -- on**
9 **the pilot program?**

10 A Again, that would probably be better for
11 somebody in the Accounting Department. I'm -- I'm
12 not sure that your part of the proposal would, in
13 practice, change much from the status quo for how
14 that development occurs today. But I would need to
15 talk to -- with some people with the company to
16 better understand that.

17 **Q Okay. This -- this next line of questions**
18 **may be more appropriate for -- for Robin**
19 **Kliethermes, but I'm going to go ahead and start**
20 **with you. And if you tell me I should move into**
21 **her, she'll be lucky enough to get them when she's**
22 **on the stand.**

23 A I'll do that as promptly as I can.

24 **Q If -- if the Commission were to determine**
25 **that it was appropriate to implement some kind of**

1 -- of inclining block rate structure for the summer
2 and some kind of movement away from the -- from the
3 current declining block rates in the winter, how
4 would the Commission -- what would be needed in
5 order to -- for the company to file compliant
6 tariffs?

7 A You mean just in terms of -- of do we have
8 the billing determinants necessary to do the math?

9 Q Well, I mean, I -- the only inclining
10 block rate structure that has been submitted in --
11 in testimony in this case is -- is the Division; is
12 that correct?

13 A Sure. Yes. I believe so.

14 Q Okay. So, clearly, if -- if we were to
15 adopt that approach, then that could be modified
16 based on whatever the revenue requirement was --
17 was ultimately determined to be?

18 A Yes. With one caveat. And this -- this
19 was discussed an extent with Ms. Miller. Perhaps I
20 can try to clarify a little more.

21 Mr. Hyman's study based on a sample of
22 actual bills. But when we take the revenue
23 requirement and we get our week or two to try to
24 give you tariff sheets back, what we use are
25 actually the billing determinants that are the

1 comprehensive list of what charges are in what
2 blocks.

3 So we would -- if you told us, Give them
4 this revenue requirement and we want this percent
5 of an incline or something like that, we would be
6 able to develop rates that reflect that. But they
7 wouldn't -- I would -- can't imagine that they
8 would look exactly like what Mr. Hyman prepared.

9 **Q So -- so in other words, what you would**
10 **need -- what the company would need would be the**
11 **percent of the incline?**

12 A Or any kind of relationship. It's -- it's
13 just that the exact relationship between first,
14 second and third that Mr. Hyman developed is not
15 based on the billing determinants, so it wouldn't
16 tie out to the revenues.

17 **Q All right.**

18 CHAIRMAN HALL: No further questions.
19 Thank you.

20 MS. KLIETHERMES: Thank you.

21 JUDGE PRIDGIN: Any further Bench quiz?

22 COMMISSIONER STOLL: No questions.

23 COMMISSIONER COLEMAN: No.

24 JUDGE PRIDGIN: Thank you. Any recross
25 based on Bench questions? Public Counsel?

1 MR. OPITZ: No, thank you, Judge.

2 JUDGE PRIDGIN: MIEC?

3 MR. DOWNING: Yes, Judge.

4 RECROSS EXAMINATION

5 BY MR. DOWNEY:

6 Q Chairman Hall asked you some questions
7 about taking plant and assigning it to a B, an I or
8 a P. Do you recall that discussion?

9 A Yes. Yes.

10 Q Are there some types of generating plants
11 that are not designated B, P or I?

12 A Yes. As I discussed, I forget what page
13 it's in, but there is a discussion in the report
14 that we exclude the renewables as, frankly, a --
15 both as public policy that everybody should be
16 paying for renewables and, also, just as a
17 practical matter that would shift all of the costs
18 of the renewables to the high load factor
19 customers. And, frankly, that doesn't seem fair to
20 me.

21 Q So like wind and solar?

22 A I don't know that the company has any
23 solar investment. But wind, yes.

24 Q Right.

25 MR. DOWNEY: Thank you.

1 JUDGE PRIDGIN: Mr. Downing, thank you.

2 MECG?

3 MR. WOODSMALL: Yes, your Honor.

4 RECROSS EXAMINATION

5 BY MR. WOODSMALL:

6 **Q And in response to a question from**
7 **Chairman Hall, you indicated that the Commission**
8 **adopted BIP in an Empire case; is that correct?**

9 A I hope that I didn't use the word adopted.
10 I know that this is something that certain parties
11 put certain -- the Commission used it.

12 I -- I don't like to say that what a
13 Commission did in a prior case holds that
14 Commission to do anything going forward.

15 **Q Do you -- is it your belief that the**
16 **Commission was asked in that case to decide between**
17 **BIP and another production allocator?**

18 A I can't recall a case where you haven't
19 asked the Commission to decide that, so I believe
20 they would have been, yes.

21 **Q Do you believe it was a litigated issue,**
22 **them deciding between BIP and another production**
23 **allocator?**

24 A Could you be more specific in what you're
25 asking?

1 **Q** Do you think the -- the list of issues
2 said something to the effect, what production
3 allocator should the Commission use in this case?

4 A I don't recall. I know that which study
5 to use was an issue.

6 **Q** Okay. Let me see if I can refresh your
7 recollection. Would you agree that what happened
8 in that case was MECG accepted Staff's
9 quantification of the residential subsidy as
10 quantified by the BIP and that the only issue in
11 that case was how fast to remove that residential
12 subsidy?

13 A I'm confident that Staff did not identify
14 a residential subsidy in that case. So could you
15 repeat the question? I -- I lost track as you were
16 saying it.

17 **Q** Staff -- do you recall that Staff executed
18 a Non-Unanimous Stip. with other parties besides
19 MECG that reduced the residential subsidy over the
20 course it would have taken like 11 years?

21 A Again, I'm confident that we did not
22 identify a residential subsidy. I believe we did
23 agree to a shift to residential. I don't recall
24 the level of detail you're discussing. No.

25 **Q** Okay. Do you recall -- well, if there was

1 **a shift to residential, you don't believe that that**
2 **equates to a residential subsidy?**

3 A No. They were providing a positive
4 return.

5 Q **Okay. So you don't believe -- so you**
6 **believe as long as they're providing a positive**
7 **return, there is no residential subsidy?**

8 A That's what the word subsidy means.
9 Correct.

10 Q **Okay. So when you say positive return, if**
11 **their ROE is .01 percent, there is no residential**
12 **subsidy under your definition; is that correct?**

13 A I wouldn't use the word subsidy. I can't
14 imagine I wouldn't recommend that there be revenue
15 responsibility to shifts. But, no, I would not use
16 the word subsidy in that case.

17 Q **Okay. And in that case, there was --**
18 **Staff quantified how much it would take under the**
19 **BIP model to bring residential class to full cost**
20 **of service. Do you recall that?**

21 A I recall that Staff calculated, as we do
22 in every case, the changes necessary to revenues to
23 produce an equal percentage of ROE among the
24 classes. I don't recall what that amount is, if
25 that's what you're asking.

1 **Q** And do you believe that MCEG asked the
2 Commission to adopt as a litigated issue a
3 production allocator in that case different than
4 Staff's BIP model?

5 A I -- I believe so because there was an
6 issue with SPS. And, in fact, what the Commission
7 did in -- in using the BIP study is it -- or not
8 SPS.

9 One of -- one of your client's classes got
10 a small increase because of MIEC -- MCEG's position
11 in that case due to the difference in your class
12 cost of service study and Staff's class cost of
13 service study. I don't recall the extent of that,
14 but I do recall that.

15 **Q** Okay.

16 A It's hard to forget.

17 **Q** Well, apparently, you have. We'll let the
18 Commission order speak for itself because there is
19 a completely different understanding here. So
20 thank you.

21 JUDGE PRIDGIN: Thank you. Any cross
22 based on Bench questions? U.S. Department of
23 Energy?

24 MR. ANTAL: No, your Honor.

25 JUDGE PRIDGIN: Sierra Club?

1 MS. ROBERTS: No, your Honor.

2 JUDGE PRIDGIN: Renew Missouri?

3 MR. LINHARES: No.

4 JUDGE PRIDGIN: NRDC?

5 MR. ROBERTSON: No, thank you.

6 JUDGE PRIDGIN: Missouri Division of
7 Energy?

8 MR. ANTAL: No questions.

9 JUDGE PRIDGIN: CCM? KCP&L?

10 MR. FISCHER: Yes, Judge, briefly.

11 RE CROSS EXAMINATION

12 BY MR. FISCHER:

13 Q Ms. Kliethermes, in answer to Chairman
14 Hall's question regarding what you would need in
15 order to actually implement an inverted rate
16 structure in the summer -- do you recall that
17 question?

18 A Yes.

19 Q Would the company need to determine the
20 billing determinants based on the blocks that --
21 that the Division of Energy put forward the first
22 600 kilowatt hours and the next 600 kilowatt hours?

23 A I would defer for specific details to the
24 other Ms. Kliethermes. But what I intended to
25 cover by that response I gave to the Chairman would

1 be that we would need to be sure that whatever
2 rates were used to tie to the billing determinants
3 that we have information for.

4 **Q And we don't have information at this**
5 **point about a block of 600 and then an excess block**
6 **-- another 600; is that right?**

7 A I would defer to the other Ms.
8 Kliethermes, but I suspect that -- that you're
9 accurate on that.

10 **Q Would you also need to have price**
11 **elasticity studies if you were actually going to**
12 **use a proposal like this to determine what the**
13 **impact on increase in the tail block would be for**
14 **-- on demand?**

15 A I -- in keeping with Missouri statute, I
16 don't believe so. No.

17 **Q Well, if you didn't do that, wouldn't you**
18 **be likely that you would end up with a revenue**
19 **shortfall?**

20 A I don't know.

21 **Q Did you hear Counsel for the -- the**
22 **Department of Energy indicate that a price**
23 **elasticity study was not applied to the proposal of**
24 **the Division of Energy?**

25 A I'm sorry. I didn't follow. Could you

1 say that again?

2 Q Did you have -- you were in the room when
3 I think it was Counsel for the Division of Energy
4 indicated that Mr. Hyman had not used price
5 elasticity studies in the development of his
6 program -- or his proposal? Maybe I'm
7 mischaracterizing what was said, but --

8 A I -- I recall him saying -- I don't recall
9 the detail of what he said. I'm sorry.

10 Q Okay. Thank you. I'll ask him. Thank
11 you.

12 JUDGE PRIDGIN: Thank you. Any redirect?

13 MS. PAYNE: Yes. Thank you, your Honor.

14 REDIRECT EXAMINATION

15 BY MS. PAYNE:

16 Q All right. Ms. Kliethermes, you made a
17 comment -- Chairman Hall was asking you about the
18 BIP study, and you referred to it as plant
19 stratification. Can you explain what plant
20 stratification means?

21 A Plant stratification is the process of
22 dividing out multiple gener -- of consolidating
23 like generating units into kind of study groups, if
24 you will, to look at what the cost of those plants
25 are, either from a capacity cost or an energy

1 production cost or both in the case of Staff. It's
2 done in a -- oh, gosh. Most of the states under
3 that name where Excel Energy operates.

4 **Q Okay. Thank you. Sorry. Okay. And when**
5 **the U.S. Division of Energy was asking you about**
6 **the -- the BIP study, they referenced the**
7 **production allocators. Would you agree that the**
8 **production allocators are driving the differences**
9 **in the results of the studies, the cost allocation**
10 **studies performed by the parties here?**

11 A That is a difference. It's probably not
12 as large of a difference as the differences in --
13 in revenues. Specifically, the companies that --
14 every party except for Staff based their CCOS on
15 the company's revenues and the company's revenue
16 requirement.

17 So you're going to have some difference in
18 study results if you're building in an extra \$90
19 million of revenue requirement, removing \$7 million
20 of revenue and moving around how those things
21 relate due to some -- some issues with rate
22 switcher that exist between Staff and the company.
23 Those -- those would drive a large difference. I
24 believe I addressed that in my rebuttal testimony.

25 **Q Thank you. I believe you did. Also, in**

1 **Chairman Hall's line of questioning, you referenced**
2 **the A&E study and the use of it in the past. Is**
3 **Staff opposed to the A&E study?**

4 A It's a blunt tool. It has its use when
5 there's data limitations or a back of the envelope.
6 In a lot of the cases where an A&E study and a BIP
7 study are done using these same revenues and the
8 same revenue requirement, the results are quite
9 comparable, as the Commission noted in that Ameren
10 case.

11 Q Thank you. In answering MIEC, Mr. Downey
12 when he was questioning you, you noted that there
13 was a difference between allocate and assign. Can
14 you he elaborate on that?

15 A Sure. Some costs are -- are known what
16 class they go to. And this is actually the portion
17 of the study that the other Ms. Kliethermes tends
18 to handle.

19 Where -- where we do some assignment would
20 be, oh, for example, if there's where a company --
21 where a customer owns their own transformer and
22 pays rent on that. We would assign those revenues
23 and we would assign that plant transformer to that
24 class.

25 Most of the study is done on allocation

1 where we're just taking a reasonable measure of a
2 cost as a basis to spread that cost of the classes
3 because we don't have the level of detailed
4 information to specifically say, This cost is
5 associated with this customer in this class.

6 **Q So would you say the characterization of**
7 **something as an allocation where it was actually an**
8 **assignment would make a difference in what was**
9 **actually conducted during the study?**

10 A Or vice versa, yes.

11 **Q Thank you. When Mr. Opitz was questioning**
12 **you, he mentioned that the -- the peaking plants**
13 **were causing -- there was a lot of controversy**
14 **causing that within the study. Are peaking plants**
15 **the most important consideration here?**

16 A Well, you need all -- even operating in an
17 integrated market, you need to efficient -- it is
18 most economical, well, even when operating in a
19 integrating market to have plants that are
20 compatible with your generation.

21 I think the Commission is very cognizant
22 in what you call the true purchase power issue that
23 much of what the utility's load uses does actually
24 come from the utility's own generation and that you
25 are netting the value of the energy for the rest of

1 it.

2 You know, peak is important. But if you
3 only cared about peak, you wouldn't build
4 generation. You would buy capacity through the
5 market or you would install a capacitor.

6 You know, to have nuclear plants and coal
7 plants as KCP&L does is a recognition that they
8 have some load in every hour. And, hopefully,
9 they're serving it as efficiently as possible.

10 **Q And one final question. If you can refer**
11 **to your surrebuttal testimony on page 4.**

12 A I'll be happy to if I can find it back.

13 **Q I can hand you a copy if it will help.**

14 A I -- I apologize. I can't find my copy
15 back.

16 MS. PAYNE: May I approach?

17 JUDGE PRIDGIN: You may.

18 A Thank you.

19 **Q (By Ms. Payne) Mr. Garg was asking you**
20 **about the table at the top of Page 4 there in your**
21 **surrebuttal. Do you recognize that?**

22 A Yes.

23 **Q Can you explain what exactly that table**
24 **conveys?**

25 MR. GARG: Objection, your Honor. I

1 withdrew that question.

2 JUDGE PRIDGIN: Ms. Payne?

3 MS. PAYNE: I'm sorry. I did not hear
4 what he said.

5 JUDGE PRIDGIN: I think he said he
6 withdrew that question.

7 MS. PAYNE: Oh, okay. Well, I thought
8 there was still a line of questioning involving the
9 table before he withdrew the specific question.

10 JUDGE PRIDGIN: I may be -- I think I'm
11 going to sustain the objection. If you think I'm
12 inaccurate, please proceed. But I recall he tried
13 to get an exchange with Ms. Kliethermes and he
14 eventually withdrew his question about the chart.
15 But my memory may be wrong. Or are we maybe
16 talking about two different charts?

17 MS. PAYNE: My understanding was that he
18 asked her specifically about the table, and she
19 answered at least one or two questions regarding
20 it. And then when he asked her the final question,
21 that was the one that he withdrew. I was merely
22 wanting to clear up what the table reflected for
23 the sake of the Commissioners.

24 JUDGE PRIDGIN: All right. I'll let you
25 proceed, and he can launch an objection if he

1 wants.

2 A I'm sorry. What was the question.

3 **Q (By Ms. Payne) The question was simply**
4 **what does that table reflect?**

5 A Well, the top table is the residential
6 class. The second table is the LPS class. And
7 this is simply showing what portion of that class's
8 energy was for purposes of developing the
9 production allocator, treated as being served by
10 base versus by intermediate versus by peak, and
11 then, therefore, what capacity -- dollar weighted
12 capacity value would be applied to it and what
13 dollar weighted energy value would be applied to
14 that in calculating ultimately an allocator.

15 So as you can see -- and I -- and I
16 apologize. This is black and white. But the color
17 that is associated with base is present in all
18 hours as it's reflective of average demands and the
19 fact that average demand is average.

20 Intermediate only can occur in hours where
21 all of the base capacity associated with that class
22 has been utilized. So anything above that and up
23 into the peak cutoff is -- is priced out at the
24 intermediate determinants.

25 And then, finally, peak is only applied to

1 those hours where the -- the base and intermediates
2 capacity associated with that class has been fully
3 utilized.

4 MS. PAYNE: Thank you. No further
5 questions, your Honor.

6 JUDGE PRIDGIN: All right. Thank you.
7 And, Ms. Kliethermes, you may step down. And,
8 Ms. Kliethermes, you may take the witness stand.
9 That's going to read funny. Ms. Kliethermes, if
10 you'll raise your right hand to be sworn, please.

11 ROBIN KLIETHERMES,
12 being first duly sworn to testify the truth, the whole
13 truth, and nothing but the truth, testified as follows:

14 DIRECT EXAMINATION

15 BY MS. PAYNE:

16 JUDGE PRIDGIN: Thank you very much. You
17 may have a seat. Ms. Payne, when you're ready.

18 **Q (By Ms. Payne) Can you please state your**
19 **and spell your name for the court reporter?**

20 A My name is Robin Kliethermes, R-o-b-i-n
21 K-l-i-e-t-h-e-r-m-e-s.

22 **Q And are you the same Robin Kliethermes who**
23 **adopted portions of Staff's rate design and class**
24 **cost of service report labeled as Exhibit 202 in**
25 **this matter authored by Mr. Jim Busch?**

1 A Yes.

2 Q And did you also cause to be prepared
3 rebuttal testimony labeled as Exhibit 210 and
4 surrebuttal testimony labeled as Exhibit 211?

5 A Yes.

6 Q And do you have any corrections to make to
7 that testimony at this time?

8 A I am not aware of any other corrections
9 other than I've already made to my rebuttal and
10 surrebuttal -- or made in sur -- rebuttal and
11 surrebuttal to direct.

12 Q In taking those considerations into --
13 taking those corrections into consideration, would
14 you have -- would you -- if I were to ask you the
15 questions to be contained in that testimony, would
16 you answer the questions true -- the same?

17 A Yes.

18 Q And are all the answers in there true to
19 the best of your knowledge?

20 A Yes.

21 MS. PAYNE: Okay. At this time, I would
22 offer Staff's Exhibit 202, 210 and 211 into
23 evidence.

24 JUDGE PRIDGIN: Exhibit 202, 210 and
25 211?

1 MS. PAYNE: 210 and 211, yes.

2 JUDGE PRIDGIN: All right. Thank you.
3 Those have been offered. Any objections? Hearing
4 none, 202, 210 and 211 are admitted into evidence.

5 (Staff Exhibits 202, 210 and 211 were
6 offered and admitted into evidence.)

7 JUDGE PRIDGIN: And the witness has been
8 tendered for cross. Any cross-examination? Public
9 Counsel?

10 MR. OPTIZ: No, thank you, Judge.

11 JUDGE PRIDGIN: MIEC?

12 MR. DOWNEY: Yes, Judge.

13 CROSS-EXAMINATION

14 BY MR. DOWNEY:

15 Q Good evening.

16 A Good evening.

17 Q Do you have your surrebuttal in front of
18 you?

19 A I do.

20 Q Would you turn to Page 6, please?

21 A Okay.

22 Q And on lines 2 through 9, there's a
23 question and an answer.

24 A Yes.

25 Q And is it -- I'm going to paraphrase, but

1 is it fair to say that you were addressing a
2 calculation error that Mr. Brubaker identified in
3 his rebuttal?

4 A I was attempting to address a correction,
5 so I made a correction. I don't think it fully
6 went to what he was saying in rebuttal. But I did
7 correct my class cost of service.

8 Q Okay. And when I said correction, I meant
9 a correction to what Staff had done, not a
10 correction to what Mr. Brubaker had done.

11 A Yes. I corrected our direct.

12 Q And it says on line 7 that Staff that --
13 has done the recalculation?

14 A Yes.

15 Q Is -- is that you --

16 A Yes.

17 Q -- when I say Staff?

18 A Yes.

19 Q All right. And are you aware of any
20 concern that any party has about the correctness of
21 that recalculation?

22 A I don't know that anybody has raised a
23 concern with that since this was surrebuttal. So I
24 have not heard of a concern with the recalculation.

25 Q Okay. Mr. Brubaker did not tell you about

1 **a concern he had with your recalculation?**

2 A Well, it didn't move to Mr. Brubaker's
3 analysis, so I would say there's still a difference
4 of his calculation versus my calculation. So I
5 would say, yes, he probably does have a concern
6 with my testimony.

7 **Q Okay. But, I mean, did you know before**
8 **you took the stand today that he had a concern with**
9 **your surrebuttal testimony?**

10 A Oh, okay. Yeah. Earlier today, he wanted
11 to show me some differences that he had -- had
12 looked at and said that mine were too -- mine were
13 too high, which I assume because I didn't move to
14 his full correction, yes. I mean --

15 **Q Okay.**

16 A -- he saw a concern.

17 MR. DOWNEY: Okay. That's all I have.

18 A Okay.

19 MR. DOWNING: Thank you.

20 JUDGE PRIDGIN: Thank you. Excuse me.

21 Thank you. Cross by MECG?

22 MR. WOODSMALL: No questions.

23 JUDGE PRIDGIN: U.S. Department of Energy?

24 MR. GARG: Nothing.

25 JUDGE PRIDGIN: Sierra Club?

1 MS. ROBERTS: No questions.

2 JUDGE PRIDGIN: Renew Missouri?

3 MR. LINHARES: Yes. Just a few questions.

4 CROSS-EXAMINATION

5 BY MR. LINHARES:

6 Q Good evening, Ms. Kliethermes.

7 A Good evening.

8 Q I want to ask you briefly about an
9 objection you had to the inclining block rate
10 proposal --

11 A Okay.

12 Q -- from Division of Energy. Specifically,
13 your point regarding space heating customers. I
14 believe this is in your rebuttal testimony. Do you
15 have that in front of you?

16 A Yes.

17 Q Ms. Miller with the company wasn't able to
18 tell the -- or estimate how many customers in the
19 KCP&L -- how many residential customers out of the
20 600 or so thousand were space heating customers.
21 Do you have any knowledge on than number?

22 A So I did not specifically calculate
23 revenues in this case. And -- and I'll just say
24 when -- when you calculate revenues in the case,
25 you get very familiar with the billing determinants

1 and what exactly -- how many customers are per
2 class.

3 So I -- I do not have exact knowledge.
4 But I am aware of -- I am thinking from when I have
5 looked at the billing determinants that I think --
6 I think residential general use was -- I really
7 don't want to mischaracterize this. But I think
8 there's -- space heating was 80-some thousand
9 customers.

10 **Q And in terms of a rough percentage, what**
11 **-- what percentage is that of --**

12 A I -- I don't want to guess -- Staff
13 witness Michael Stallman has the exact billing
14 determinants for --

15 **Q Okay. But it's safe to say it's**
16 **significantly less than the majority; is that**
17 **right?**

18 A Oh, it's less than the majority. I mean,
19 general use has the majority of the customers is in
20 residential general use. But residential space
21 heating has a large amount of customers in it.

22 **Q Okay. Regarding this -- this residential**
23 **summer inclining block rate proposal put forth by**
24 **Division of Energy and supported by Renew Missouri**
25 **and Sierra Club, OPC, can you explain your**

1 objection -- can you explain how space heating
2 customers would be affected differently than
3 general use customers?

4 A Can you -- Can you point to exactly where
5 in my testimony --

6 Q Sure. Yes. Just a second. So you
7 mentioned space heating customers on page 3 of your
8 rebuttal testimony.

9 A Okay. Is that line 9 where I mention it?
10 Is that where you're referring to?

11 Q Yes. And if you give me just a second, I
12 could find other reference. Well, I suppose I
13 should just clarify. Do you have an objection
14 based on space heating -- an effect on space
15 heating customers that an inclining block rate
16 proposal like the one proposed by DE would have?

17 A Well, I -- I think I am not -- shouldn't
18 say I'm not opposed to an inclining block. But I
19 think it's important to be aware that when you have
20 customers that maybe don't get that tail block or
21 are in the tail block on like a space heating type
22 customer and you have the weather effect such as
23 like an abnormally cold winter that those customers
24 would have a higher impact. And -- and I think I
25 addressed that in the rest of my testimony.

1 **Q Yeah.**

2 A But for all customers in general that --

3 **Q So -- so can I summarize your hesitance to**
4 **an inclining block rate? Can I summarize that as**
5 **basically that space heating customers -- that**
6 **space heating customers simply use more electricity**
7 **than general use customers and, thus, would be**
8 **affected more by a inclining block rate?**

9 A In certain months. I would -- that --
10 would space heating --

11 **Q Okay. Thank you. Yeah. Would these**
12 **space heating customers be receiving an incentive**
13 **to conserve similar to general use customers near**
14 **the high end of usage?**

15 A The -- the thing with space heating that's
16 -- and this is with the -- with weather, you may
17 have a very energy efficient furnace. But if you
18 have a very cold winter, there may be nothing that
19 you can do, and you're just going to use more to
20 heat at home.

21 **Q Can't you pursue energy efficiency?**

22 A Oh, yeah. I mean, you could pursue an
23 energy efficient furnace, but that may not decrease
24 it down below that 1500, 1600 KWH mark.

25 **Q But you would have an increased incentive**

1 **to pursue energy efficiency under an inclining**
2 **block rate; is that correct?**

3 A I don't know that -- I don't know that an
4 increased incentive would be the way to character
5 -- if you're saying if you got an energy efficient
6 appliance, would that -- would -- would you have a
7 higher value to decrease your KWH because that tail
8 block is more expensive --

9 **Q Yes.**

10 A -- then -- then, you know, yes.

11 **Q Okay. Thanks.**

12 A Yeah. But I --

13 **Q So would it be possible to design a rate**
14 **that would allow residential space heating**
15 **customers to opt out of an inclining block rate, I**
16 **suppose?**

17 A That would be interesting to get those
18 billing determinants to do that because that would
19 -- that would -- you know, in order to -- and this
20 is kind of coming to Chairman Hall's question on
21 billing units.

22 When you go to do rate design, billing
23 units are a very important part of developing that
24 rate. So would you -- would you have to assume
25 some level of customers who are going to opt out?

1 Or how that would all --

2 **Q My question is simply, would it be**
3 **possible to design such a rate?**

4 A I -- I don't know.

5 **Q You're not sure?**

6 A I would have to study that a lot more than
7 -- to say right now.

8 **Q Is it your understanding that the company**
9 **separately tracks and bills space heating**
10 **customers?**

11 A Yes. Space heating customers are on a
12 separate residential --

13 **Q So just given that, would it be possible**
14 **to structure an inclining block rate that allowed**
15 **an opt-out for these -- this minority of space**
16 **heating customers?**

17 A Oh, you're saying the whole class would
18 opt out, not certain customers would opt out? Are
19 you saying --

20 **Q I'm asking you if it would be possible to**
21 **structure a rate to allow these space heating**
22 **customers to opt out. That's all I'm asking.**

23 A Okay. So -- okay. Okay. I think I
24 understand what you're saying. So -- so are you
25 saying you would do an inclining block rate for the

1 winter general use customers only? That's --
2 because, yes, space heating class as a class is
3 tracked separately. But if, say, only certain
4 customers in that class will opt out, then we're
5 going to have a problem with billing determinants
6 because we won't be able to identify who in that
7 class will want to opt out unless you say the whole
8 class is opting out. Does that make sense?

9 **Q No. I'm having trouble following. Isn't**
10 **the nature of an opt-out that the customer is**
11 **letting you know they want to op out, that they're**
12 **flagging themselves as an opt-out?**

13 A Right. But at this time, we don't know --
14 we know -- we know that there are space heating
15 customers in this class. So if -- if you're saying
16 the inclining block rate would not be for any --
17 all those customers could opt out -- or will opt
18 out.

19 **Q No. Just would have the ability to opt**
20 **out.**

21 A Right. And I think that's where I -- we
22 wouldn't know what -- you could design something
23 like that. But I don't know how you would come up
24 with the assumptions about who would opt out and
25 how you would price that opt-out.

1 **Q** That's -- that's not my question. I'm --
2 **I'm simply asking you --**

3 **A** Okay. I'm sorry. I'm just not following
4 what you're asking.

5 **Q** Well, assuming you could structure a rate
6 **this way and assuming there are examples out there**
7 **of these types of rates, would that help in**
8 **addressing your objection or your hesitance to an**
9 **inclining block rate regarding space heating**
10 **customers?**

11 **A** I think I would have to see how all of
12 that is designed and how those rates were
13 developed.

14 **Q** But similar to Chairman Hall's question
15 **earlier with a witness, I'm not asking would it**
16 **erase your hesitance, but would it help address**
17 **your hesitance to a declining block rate?**

18 **A** If space heating customer -- and I think
19 my -- I think the problem is -- the understanding
20 your question is that the whole class not going to
21 have the inclining block -- residential space
22 heating class when I say class, not the whole --
23 not the whole residential class. Residential space
24 heating class, or is it certain customers in the
25 space heating class? And I think that is where --.

1 **Q The latter.**

2 A Okay. So -- so I don't know that a rate
3 can be designed with billing determinants that we
4 have in this case for that option.

5 **Q Okay. I'd like to clear something up**
6 **quickly with you if you don't mind.**

7 A Sure.

8 **Q Can you turn to page 3 of your rebuttal**
9 **testimony?**

10 A Yes.

11 **Q Starting on line 4, would you read lines 4**
12 **through 6 there just until that semicolon?**

13 A Okay. And out loud or to myself?

14 **Q Yeah. Please, out loud.**

15 A Okay. Okay. Currently, Mr. Jester is
16 advocating that the current declining block rate
17 structure for the eight months of the year that are
18 not June, July, August or September be changed to
19 an inclining block. However, average customers --

20 **Q That's enough.**

21 A Okay.

22 **Q So is that in line with the -- your**
23 **understanding of the IBR as proposed by Division of**
24 **Energy inclining block rate in the winter? Or the**
25 **non-summer months?**

1 A Yeah. I -- I think Mr. Hyman had it for
2 all eight months of the year, for all eight winter
3 months.

4 **Q Do you have Mr. Hyman's direct testimony**
5 **in front of you?**

6 A I do not.

7 **Q Okay. That's fine.**

8 A Oh, is Mr. -- I'm sorry. So Mr. Hyman's
9 is moving towards the inclining in the winter,
10 right, not purely inclining? Or is it inclining?
11 I think it is inclining.

12 **Q Well, we'll be able to clarify that in the**
13 **record.**

14 A Okay.

15 **Q You are correct, though. So another**
16 **concern you had with -- or a hesitance to an**
17 **inclining block rate that you raised in your**
18 **testimony is in regards to revenue volatility --**

19 A Yes.

20 **Q -- is that correct? So would -- would an**
21 **inclining block rate with a mechanism designed to**
22 **limit bill impacts to no more than 5 percent for**
23 **the 95th percentile of -- of usage, would that do**
24 **anything to remove that -- that objection?**

25 A No. I -- I -- the volatility is with

1 customer impact but as well as total revenue
2 impacts. And with Mr. Hyman's analysis, he -- I
3 think he was looking -- and by all means, correct
4 me, but I think it was looking on a weather
5 normalized basis what the impact would be.

6 And the main concern that is driving the
7 volatility is -- is weather. And, unfortunately,
8 that is something that's -- that's kind of unknown
9 about what it's going to do.

10 So to say that it will only have a 6
11 percent impact, you're looking at on a normalized
12 basis, which part of the concern is an abnormal
13 winter or an abnormal summer, what would that do?

14 And so to say that you're going to lock it
15 in at 5 percent, okay, for normal. But when
16 weather comes in, it -- it won't be 5 percent.

17 **Q Well, that 5 percent is for the month of**
18 **August, correct?**

19 A This month of August? And, again, with --
20 with weather, it -- it is an unknown. For -- for
21 August of 2015, that may be true.

22 **Q Well, let me rephrase. Your objection is**
23 **based in part on space heating customers, which is**
24 **a concern in the winter, correct?**

25 A My -- my -- it's not just space heaters.

1 **Q** I know. It's not -- it's not just space
2 heating.

3 **A** It's all customers.

4 **Q** But in part, it's space heating. And your
5 objection is based on inclining block rate, which
6 is only proposed for the summer months. And only
7 for the month of August we're talking about the
8 rate being structured for a 5 percent at most
9 impact on the 95th percentile of customers.

10 So a rate structured in that way, does
11 that help to somewhat decrease your objection to
12 the rate?

13 **A** I -- I want to clarify again that I --
14 it's not an objection.

15 **Q** Okay.

16 **A** It is just, Here are things that could
17 happen with an inclining block rate design that may
18 not be an intended -- there -- there may be an
19 unintended consequence of the rate design.

20 It's not necessarily saying, you know,,
21 that we are completely opposed to it. It's saying
22 this could happen.

23 **Q** Okay. Fair enough.

24 **A** And --

25 **Q** Do you have your surrebuttal testimony

1 with you?

2 A I do.

3 Q So there at the top of page 3, you state
4 that it's not necessarily true that a customer who
5 uses more energy will place greater demand on the
6 system. Is that -- is that accurate?

7 A Page -- or you're on page 3 and what line?
8 I'm sorry.

9 Q Right at the top, 1 through 3.

10 A Okay. Yes.

11 Q Do you believe that, all other things
12 being equal, it's more likely that higher use
13 customers place greater demand on the system than
14 lower use customers?

15 A No. I mean, that -- I think that's what I
16 addressed that if you're -- just because you use
17 less doesn't necessarily mean --

18 Q I'm not asking as a rule. I'm asking, 11
19 other things being equal, on average, if you had to
20 guess, if you had to extrapolate for all high use
21 customers and all low use customers, do you believe
22 that it's more likely that higher use customers
23 place greater demand on the system than lower use
24 customers?

25 A And greater demand -- and I guess this

1 would come into the definition of demand being that
2 instantaneous in time when a customer used energy
3 compared to the total month that they use energy.

4 And, you know, when you're talking 600 or
5 a thousand KWH or whatever level of KWH, you're
6 talking about the whole month, not at a specific
7 period of time.

8 And I would hate to guess that -- I don't
9 think that a low use -- that it would -- that I
10 could automatically say a low usage customer would
11 place less demand at a specific point in time than
12 a customer who used more.

13 **Q That's -- that's not my question. My**
14 **question is, is it more likely that high use**
15 **customers place a higher demand than low use**
16 **customers?**

17 A I don't know.

18 **Q You don't know. Okay. Would a program**
19 **that saves energy and reduces demand be valuable to**
20 **consumers and to the company, in your opinion?**

21 A So if it reduced peak demand, yes, that
22 could be valuable.

23 **Q Okay. Could you turn to page 6 of your --**
24 **let's see. I might have you jump back here. Could**
25 **you turn to page 6 of your rebuttal testimony?**

1 A Okay.

2 **Q I'm looking at line 21 in response to the**
3 **question, Is a flat -- given the usage level**
4 **describes, is a flat or inclining block design the**
5 **best tool available to address policy objectives?**

6 A Right.

7 **Q To use rate design to encourage**
8 **conservation?**

9 A Right.

10 **Q And what was your response there if you**
11 **want to summarize it?**

12 A I said -- I -- I just respectfully
13 disagreed that that was the best. I would say time
14 of use is what we ultimately said would be the
15 best.

16 **Q Has any party proposed a time of use rate**
17 **for this case?**

18 A No. I don't believe so.

19 **Q In the meantime, does it say, We pursue a**
20 **time of use rate for KCP&L in the next rate case**
21 **and two rate cases from now, in the meantime, we'll**
22 **still be using a block rate structure?**

23 A Between -- you're saying between now and
24 when a time of use goes into -- I mean, yeah. I
25 mean the -- yeah.

1 Q Okay. And if we did institute a time of
2 use rate, is it likely that that would have -- that
3 would be an opt-in time of use rate, or at the very
4 least, an opt-out rate where some customers were
5 not using the time of use rate?

6 A It could. I -- I don't know at this time
7 what would be designed or --

8 Q Okay. And -- and if that were the case,
9 would there still be a need for a -- would it still
10 be likely that the company would be using a
11 residential block rate structure of some kind under
12 a time of -- under an opt-in or opt-out time of use
13 rate?

14 A Again, they could. They could have
15 some --

16 Q Would you say it's likely given the
17 history of the company?

18 A I -- I would hate to -- to say what the
19 company is going to do. They -- they could stay
20 with their current rate structure as an option. I
21 mean, that's something they could do.

22 Q Okay. So would you say that under the
23 status quo declining block rate structure, some
24 lower usage customers have a higher bill than they
25 otherwise would under DE's proposed rate?

1 A Well, Division of Energy's proposed rate
2 -- and, again, correct me if I'm -- if I am not
3 remembering this right or -- so from the current
4 rate, they are decreasing the first block in order
5 to create an inclining block. So from current
6 tariffed rates to their proposal, that first block
7 is being decreased.

8 **Q For the summer?**

9 A I think for the winter as well. I -- I
10 know you keep -- no? Somebody's shaking their head
11 no. I thought there was one for just -- okay so
12 just the summer is decreased.

13 So when you decrease from the current
14 rates, customers who are using -- I think the block
15 was 600 KWH. If the block is 600 KWH, then
16 customers will actually -- if you are in that block
17 will receive a decreased bill from what they're
18 currently paying.

19 **Q Can I refer you to --**

20 A Yes, please.

21 **Q -- Martin Hyman's testimony?**

22 A I'm going off of the Powerpoint that was
23 earlier, so -- could you refer me to the page?

24 **Q Yes, I will. I promise we're almost down**
25 **here. Down to page 19.**

1 A Okay. Okay. What -- What about page 20?
2 I thought page -- DE's proposal, it says, DE's
3 proposed rates, general use rate design, page 20.

4 **Q We can look at 22. Can we look at 19**
5 **first?**

6 A Yeah. 19 is nine.

7 **Q Could you read from line 4 down to line 7?**

8 A Okay. So this is just the answer. Yes.
9 As a step toward rates that send improved price
10 signals for efficiency, DE recommends that the
11 company move towards the adoption of flat
12 volumetric rates for residential general use
13 customers during the winter and the company
14 implement an inclining block rate for the
15 residential general use customers during the
16 summer.

17 **Q Okay. So can we move to page 20 now?**

18 A Right.

19 **Q And can you review the table there**
20 **starting at line 10?**

21 A Yes. Okay. I did.

22 **Q Does that seem to indicate to you that**
23 **there would be an inclining block right for the**
24 **summer months and a moving towards flat rate in the**
25 **summer?**

1 A Okay. So yes. Let me clarify. So it
2 would be a inclining block for the summer. It
3 would be a declining yet for the winter, but it is
4 -- it is moving -- it's flattening that tail block.

5 **Q That's correct. That's correct.**

6 A But -- but --

7 **Q Okay. So can I move us back to your**
8 **rebuttal testimony to pages 6 and 7?**

9 A Yes.

10 **Q So my question to you was, would you say**
11 **that under this rate -- and now that we've cleared**
12 **that up DE's proposal being supported by Renew**
13 **Missouri and Sierra Club and OPC in this case,**
14 **would you say that under that rate, low usage**
15 **customers would have a lower bill than they would**
16 **under the status quo declining block rate?**

17 A If -- if you were in the 600 block, you
18 will have a rate decrease, all else being equal.

19 **Q Okay. Thank you. Thank you. Thank you.**
20 **So would it be an accurate summary to say that a**
21 **decision between the status quo declining block**
22 **rate and the summer inclining block rate proposed**
23 **by DE is, in part, a decision whether to place a**
24 **bill impact on lower usage customers or higher**
25 **usage customers? Is that another way of phrasing**

1 **the decision we have in this case?**

2 A I don't know that I would phrase it that
3 way that --

4 **Q Well, help me understand how I'm -- how**
5 **I'm mischaracterizing it.**

6 A I mean, from the proposal, yes, low usage
7 customers would receive a lower bill, and above
8 average usage customers would receive a higher bill
9 than under current rates. So, I mean, that --

10 **Q And do you agree that under the --**
11 **compared to DE's proposal under the current rate**
12 **that lower usage customers would receive a higher**
13 **bill, and higher usage customers would receive a**
14 **lower bill?**

15 A Under -- are you comparing current rates
16 in DE's proposal?

17 **Q Yes.**

18 A Because DE decreases the block, the first
19 block in winter and summer, the customers in those
20 blocks 600 KWH and less will receive a bill -- a
21 lower bill than they are currently paying on
22 today's rates.

23 **Q Yeah. And all I'm trying to say is under**
24 **the current -- when you're comparing DE's rate,**
25 **under the current structure, would low usage**

1 **customers receive a higher bill than under DE's**
2 **rate?**

3 A Low usage customers would have a higher
4 bill --

5 **Q Yeah.**

6 A -- if you're comparing the two today.

7 **Q Okay. Thank you. Thank you.**

8 MR. LINHARES: I believe that's all I
9 have. Thank you very much.

10 JUDGE PRIDGIN: Cross for NRDC?

11 MR. ROBERTSON: No, your Honor.

12 JUDGE PRIDGIN: CCM? I'm sorry. Division
13 of Energy?

14 MR. ANTAL: Yes. Just a few questions.

15 CROSS-EXAMINATION

16 BY MR. ANTAL:

17 **Q Hello, Mrs. Kliethermes. How are you?**

18 A Hi.

19 **Q Do you have a copy of Staff's class cost**
20 **of service report?**

21 A I do.

22 **Q Could you turn to page 29? And as a point**
23 **of clarification, you adopted certain sections of**
24 **this report Mr. Jim Busch originally created?**

25 A Yes.

1 **Q** Starting on line 23 of page 29, there is a
2 **discussion of flat and declining block rate design.**
3 **Do you see that?**

4 A Uh-huh.

5 **Q** Would you mind reading lines 23 to the end
6 **of the page to line 2 pictured to the right?**

7 A Okay. Okay. Conversely, a flat or
8 inclining block rate design can be viewed as
9 recovering demand costs over the first 600 KWH
10 consumed each month while recognizing a system's
11 higher cost of energy for usage consumed during the
12 summer season.

13 This ratio of the first and second block
14 could also reflect summer peak consumption as a
15 driver of the cost of certain demand-related
16 investments.

17 Importantly, different experts may
18 reasonably view a given rate structure as being
19 designed to accomplish different objectives.

20 **Q** Okay. Based off those statements, does
21 **Staff acknowledge that reasonable experts can agree**
22 **that declining block rates can be used, amongst**
23 **other things, to send a price signal to reduce**
24 **summer peak demand?**

25 A I don't think sentence was to reduce

1 summer peak demand. But it was more related to the
2 cost causation of why you would have a inclining
3 block rate if you -- if a utility had to install a
4 peaking plant for the sole purpose of summer.

5 **Q So there is some cost causation rationale**
6 **for using a declining block rate?**

7 A If certain things were needed by capacity
8 and things to -- for that peak, for that specific
9 incline.

10 **Q Do -- does that situation have to be**
11 **eminent in order for an inclining block rate to**
12 **make any sense? Or would an inclining block rate**
13 **perhaps have avoided that situation in the first**
14 **place?**

15 A You mean if you did an inclining block
16 rate, are you avoiding the need for a plant?

17 **Q Yes.**

18 A I -- I don't know that that is what this
19 section is characterizing. It's not an avoidance
20 of. It's if you have to do it.

21 **Q So in Staff's opinion, only if a peaker**
22 **plant is eminent should an inclining block rate be**
23 **used?**

24 A Yes. Because I think this -- we would
25 have been looking from a class cost of service

1 standpoint, so we're looking at something that was
2 installed or was going to need to be installed in
3 the eminent future.

4 **Q Okay. Thank you for that clarification.**

5 MR. ANTAL: I don't have any further
6 questions.

7 JUDGE PRIDGIN: All right. Counsel, thank
8 you. Cross from KCP&L?

9 CROSS-EXAMINATION

10 BY MR. FISCHER:

11 **Q Good evening. Ms. Kliethermes, over here.**

12 A Yes. Sorry.

13 **Q That's all right. No problem. It's**
14 **getting late. I think you are the billing**
15 **determinant expert in the case, aren't you?**

16 A I -- I will say I know a lot about billing
17 determinants in general. And, again, I did not
18 calculate revenues in this case. And when do you
19 calculate revenues, you become very familiar with
20 billing determinants. But, yes, I do have some
21 billing determinants.

22 **Q You were quite involved in the last GMO**
23 **case --**

24 A I was.

25 **Q -- when we consolidated rate structures**

1 **and made rate design changes; is that true?**

2 A I was. But I calculated the revenue in
3 that case.

4 **Q Okay. And in that case, as we changed the**
5 **rate structures, were there some unintended**
6 **consequences that Staff noticed that we needed to**
7 **-- to fix?**

8 A There -- there were -- I know whenever we
9 met in the series of technical conferences, there
10 were billing determinant issues that we addressed,
11 different needed determinants for different types
12 of rate designs.

13 **Q And there was a -- a rather substantial**
14 **study on customer impacts of changing that rate**
15 **structure; is that true?**

16 A Yes. Yes.

17 **Q Do you think it's wise to do a substantial**
18 **customer impact study as you change rate**
19 **structures?**

20 A If -- if you're changing -- you know, if
21 you're drastically changing the rate structure,
22 then, yes, the customer impact.

23 **Q Well, in this case, there was a question**
24 **about what the Staff or what the company would need**
25 **to do with billing determinants if we went to the**

1 **proposal that is being suggested by the Division of**
2 **Energy. Do you have an opinion about how hard that**
3 **might be, what we would have to do?**

4 A As -- so if the proposal is -- is just to
5 apply the inclining block to a specific rate and
6 like residential class or subgroups within the
7 residential class, I think the company has provided
8 the billing determinants to -- to do that.

9 But it depends on how that is structured.
10 It would depend on how -- you know, if there's
11 opt-outs, then that's a different --

12 **Q And if you change the blocks of the rate**
13 **structure, would the company have that information**
14 **necessarily readily in at his hand or available?**

15 A Well, it's my understanding -- I -- I
16 think in the billing determinants that were
17 provided, those -- those blocks are there.

18 And I -- and I say that because, in my
19 testimony, I provided the percentage of shifts that
20 the volatility with -- what weather caused in this
21 case today on three block analysis, and I did that
22 for all the months. So I could only do that if the
23 three blocks were there for the summer already.

24 And if -- if - if something is not, like,
25 correct, it is my understanding that the company's

1 UI tool would have the ability to provide that
2 level of billing determinants.

3 But the company -- I know that the company
4 did provide in this case cumulative frequency
5 distribution data. So it's a -- a distribution of
6 where bills ended in each block with a series of
7 rate blocks from 100 KWH all the way up to, you
8 know, 5,000 KWH or what was the end of the -- on
9 the high end.

10 So there is data available that if you had
11 to calculate a new block for summer, you -- you
12 could. It may not be the easiest thing to do.

13 **Q As I understand your rebuttal testimony on**
14 **page 2, you did discuss your concerns about using**
15 **an inclining block rate structure.**

16 **And if I understand one of those concerns,**
17 **you testified that if the Commission moved toward**
18 **an inclining block rate using K KCP&L's current**
19 **rate design, there would be a shifting of revenue**
20 **recovery to the tail block, and this change would**
21 **impact the company's revenues; is that right?**

22 A Yes.

23 **Q And that's -- an issue we've been talking**
24 **about. Would you explain what your concern is on**
25 **that -- on that topic?**

1 A Well, the -- the concern is that when --
2 when a greater amounts of revenue responsibility is
3 shifted to that tail block when weather -- and I
4 think the graphs that I provided were -- how -- how
5 weather impacted usage in this case that that tail
6 block is probably the most volatile and how it
7 moves due to weather.

8 And so if -- and so on a normal -- in a
9 normal year or during a rate case, we'll normalize
10 billing determinants. And, you know, that is going
11 to have a change in revenues.

12 But as you go forward, billing units are
13 done on a normalized basis. So if you have, you
14 know, abnormally cold winters or abnormally warm
15 winters, that same thing for summer, that is going
16 to have a bigger impact on revenue than what a
17 declining block rate would just because that tail
18 block, the value of the decreased KWH would be less
19 or more.

20 **Q Are you suggesting that the company's**
21 **recovery of its costs, particularly its fixed**
22 **costs, would be more dependent upon the weather?**

23 A It -- it could be. Yes. And that would
24 depend on how the rate was designed.

25 **Q On page 6 of your rebuttal at line 19,**

1 **you're asked the question -- are you there?**

2 A Yes.

3 **Q Given the usage levels described above, is**
4 **a flat or inclining block rate design the best tool**
5 **available to a dress policy objectives to use rate**
6 **design to encourage conservation? And then you**
7 **answer, Respectfully, probably not. Would you**
8 **explain why you feel that way?**

9 A I think I go on to say that -- well, I do
10 go on to say that time of use rates would be
11 probably the ultimate rate design to move to.

12 And -- and if that is going to happen, you
13 know, in the near future, rather than, you know,
14 changing a rate design for customers and getting
15 them used to a new rate design and then switching
16 them to a time of use, you know, it could cause
17 more confusion.

18 But a time of use rate would more align
19 exactly -- you know, more align a utility's cost
20 with, you know, the -- the cost that a consumer
21 would be in that hour. So it could reduce that
22 peak demand more so than what an inclining block
23 would.

24 **Q I think you were asked a question about**
25 **would a reduction of -- of the peak demand be**

1 **valuable to the company, and I believe you said**
2 **yes.**

3 A Yes.

4 Q Well, would a reduction in off peak demand
5 **be valuable to the company?**

6 A I do not believe so.

7 Q Well, would it be valuable to other
8 **customers that might have to pick up the load lost**
9 **because of the -- the off peak demand dropped?**

10 A Can you -- can you --

11 Q Yeah. Let me change the -- let me ask it
12 **this way. If -- if the load -- the system load**
13 **factor became worse because we incented people not**
14 **to be using energy during the off peak period,**
15 **would that be helpful to other customers on the**
16 **system?**

17 A I do not believe.

18 Q So is it correct that a larger residence
19 **could be doing everything possible to conserve**
20 **energy but still receive a higher bill under an**
21 **inclining block rate structure just because of the**
22 **nature of the inclining block?**

23 A It could.

24 Q How would you expect an inclining block
25 **rate structure to affect the winter heating**

1 **customer?**

2 A I -- I think it's -- it's all going to
3 depend on what -- you know, if a winter heating
4 customer is over the thousand, I think we -- we
5 were discussing the difference between the rate
6 designs and a -- a higher usage customer or a
7 customer over that thousand KWH block would have a
8 higher bill than they otherwise would under the
9 current rate structure.

10 If you put an impact of weather on that
11 and it -- and it increased, it could be more. If
12 it decreased, then it would be less.

13 **Q And have you seen billing determinants in**
14 **some of your -- your studies and winter space**
15 **heating customers -- or some of them are very**
16 **large, aren't they?**

17 A I think I supplied a table of average use,
18 and I -- I think in January, it was up to about
19 1600 KWH.

20 **Q And that's the average use, right?**

21 A Yes.

22 **Q There are some that are substantially more**
23 **than that, correct?**

24 A Right.

25 **Q For a typical renter of an apartment, does**

1 -- does he have any control over the type of
2 heating system that's in his participate?

3 A I -- I don't know. I think that would
4 depend on what type of apartment they're -- they're
5 in. I don't know.

6 Q Well, is it typically the owner of the
7 apartment that determines the heating system, in
8 your experience?

9 A It -- it could be.

10 Q If the Commission adopted an inclining
11 rate structure during the winter, wouldn't that
12 change have the effect of raising the bill on an
13 apartment dweller who didn't really have control of
14 his heating system?

15 A If there was an inclining block in the
16 winter?

17 Q Yes.

18 A Yes.

19 Q Do you think it would be prudent to study
20 all of the impacts of such a change in rate
21 structure before it's ordered?

22 A Again, I think it -- it -- it -- or it
23 depends on what type of change in rate structure
24 you're talking about.

25 Q And I'm talking about an inverted rate

1 **structure in this case.**

2 A Yes. If it's a -- if it's an inverted
3 rate block for winter and summer, yes.

4 **Q Is it your understanding that there are a**
5 **number of rate design studies in progress at KCP&L**
6 **and GMO that might be helpful in evaluating that**
7 **kind of rate structure?**

8 A Yes.

9 **Q And you also indicated that you thought**
10 **time of use was a better alternative than the**
11 **inverted rate structure for -- for -- for**
12 **conserving electricity or for really giving**
13 **customers the right price signal. Or does it -- do**
14 **you do it different?**

15 A I would say right price signal and peak --
16 shaving peak demand because, I mean, you can still
17 use the same amount of electricity even with a time
18 of use versus how you're using it today. It's just
19 when do you use the power on a time of use rate.
20 May use it at night versus during the day. I don't
21 -- you might still use the same amount of KWH.
22 It's just when you use it.

23 **Q Don't most rate design experts try to**
24 **utilize the cost of the product to give consumers**
25 **the right price signal and the amount to use?**

1 A Do -- do most rate design --

2 **Q Isn't that -- let me withdraw it and say**
3 **isn't that a principle that, really, it's the cost**
4 **of service that you try to -- you try to hit that**
5 **bogie rather than artificially increasing the price**
6 **above the cost in order to -- to cause customers to**
7 **react in some way?**

8 A Cost -- cost causation is one -- one
9 element of rate design. But there are numerous
10 other reasons why you do rate -- different rate
11 designs.

12 **Q And time of day use rates might better**
13 **reflect costs rather than an inverted rate**
14 **structure?**

15 A Yes.

16 **Q Okay.**

17 MR. FISCHER: Okay. I think that's all I
18 have. Thank you very much.

19 MS. KLIETHERMES: Thank you.

20 JUDGE PRIDGIN: All right. Mr. Fischer,
21 thank you. Any Bench questions? Mr. Chairman?

22 CHAIRMAN HALL: Yeah. Just a few.

23 CROSS-EXAMINATION

24 BY CHAIRMAN HALL:

25 **Q Good evening.**

1 A Good evening.

2 **Q My understanding of Staff's position is**
3 **that the fully allocated residential customer**
4 **charge is 12.82; is that correct?**

5 A 12.62.

6 **Q 12.62. But Staff is not recommending to**
7 **the Commission that we order an increase to that**
8 **amount unless the revenue requirement is increased**
9 **proportionately; is that correct?**

10 A Yes. So if -- if the revenue requirement
11 increases, then the -- and whatever increase goes
12 to the residential class. So if the residential
13 class increases by 2 percent, then all rate
14 elements would increase by that same percent up to
15 the amount of that 12.62 but no more than.

16 **Q If \$12.62 is the -- the accurate amount**
17 **that each customer should pay for -- for those**
18 **customer-related expenses, why does Staff temper**
19 **its recommendation to move towards the 12.62?**

20 A Oh, not go directly to the 12.62?

21 **Q Right. Regardless of whatever we do on**
22 **the revenue requirement.**

23 A So the 12.62 is based on, again, fully
24 allocated cost of service. So if residential went
25 to their full cost of service, then it's 12.62.

1 But in some cases, that -- it doesn't
2 shift all the way to full cost of service advice,
3 you know. And the total --

4 **Q Why -- why is that not Staff's**
5 **recommendation regardless of -- of what we do with**
6 **the revenue requirement? Why is Staff not**
7 **recommending that we go to 12.62?**

8 A Well, for the -- for the other part is
9 that the -- currently, the customer charge is
10 \$11.88, and so it's very close to 12 -- to 12.62.

11 And the customer charge changes based on
12 -- we calculate it by the costs in the certain
13 accounts that we identified in direct divided by
14 the number of customers.

15 So any time of number of customers changes
16 that cost, that rate will change. So if you move
17 it by a percent that the rate class increases, then
18 it --

19 **Q Now, let me -- what -- there must be a**
20 **policy reason why you're not recommending we move**
21 **to 12.62. Is it -- is it -- is it because -- well,**
22 **you tell me. Why -- why not move to 12.62?**

23 A Well, so -- so I -- I -- so part of that
24 is that the -- the full shift to the residential
25 class of cost will not match what the -- the exact

1 cost of that that 12.62 is based on.

2 So -- so fully allocated cost of service
3 as residential rate -- cost of service to serve
4 residential might be -- and I don't have the -- I'm
5 sure the exact number is in there. Let's say a
6 hundred million. And part of that 20 million is --
7 is -- is these customer-related costs that are
8 developed by the customer charge.

9 That hundred million at the outcome of
10 this case not may not be -- it may only be 90
11 million that residential is responsible for because
12 we -- so it may only be 90 million. So that
13 customer charge would actually -- let's say only
14 15 million is now in the customer-related costs.

15 So that customer charge calculation would
16 change based on how much is actually going to go to
17 RES. The -- the 12.62 is if residential rates were
18 fully developed to -- to -- to recover cost of
19 service, full cost of service.

20 The -- the other -- the other part is that
21 -- comes in on the rate design part. So when you
22 increase each rate element on an equal percent
23 basis, then each rate element increases on an equal
24 percent basis.

25 When you increase the customer charge to

1 12.62, it's going to result in a level of revenue
2 that may be above or below the overall revenue
3 requirement.

4 **Q Okay. I guess I'm going to -- my**
5 **understanding of Staff's recommendation is -- is to**
6 **increase the customer charge, but only if we are**
7 **increasing the revenue requirement.**

8 A Yes. Yes.

9 **Q So my question is, why? Why -- why don't**
10 **we just increase the customer charge based upon**
11 **your calculation for those expenses that are**
12 **properly allocated to the customer?**

13 A So the expenses that are allocated as
14 customer-related are -- if all -- if all expenses
15 on -- and I -- I think I'm having trouble
16 explaining this.

17 But if residential class recovered their
18 total cost of service, that is what the -- that is
19 the level of customer-related costs that would
20 results. Divide that by the number of customers
21 and you get 12.62.

22 **Q And why shouldn't we do that?**

23 A Because rate design studies are just a
24 guide and not an exact science. So in the -- and I
25 think that's where all the parties have talked

1 about shifts towards the classes. Staff's is equal
2 percent to each rate class. So that -- that's
3 where it won't shift completely to full cost of
4 service.

5 **Q See, I was expecting that you were going**
6 **to say something along the lines that -- that Staff**
7 **supports keeping the customer charge low in order**
8 **to give customers flex -- or control over -- over**
9 **their bills and that you would not support**
10 **increasing it unless the total revenue requirement**
11 **was increasing. But I'm not hearing anything close**
12 **to that in your response.**

13 A That -- that -- that could be a reason why
14 -- why it is decided. And I think we have -- I
15 don't think we put in this case, but I think in
16 past cases that has been a reason why we have kept
17 it -- kept it at what it is or low. But we did
18 not --

19 **Q Okay. Well, let me ask you this. If --**
20 **if we were to move -- increase the customer charge**
21 **up to the 12.62, does -- does that increase at all**
22 **mitigate your concerns about volatility as -- as it**
23 **-- as that is related to inclining block rates?**

24 A It -- it would decrease the volatility
25 because more revenue recovery is moved to the

1 customer charge versus energy charges.

2 **Q So it mitigates your concerns how much?**

3 **Can you characterize how much?**

4 A So it would really depend on what the
5 overall increase to the residential class, -- is.
6 So if you increase the residential customer charge
7 to 12.62, that's a 74 cent increase. And so --

8 **Q Yes.**

9 A Okay. So if you -- if you took that by
10 the number of customers each month and by the whole
11 year, then that's going to result in a level of
12 revenue that will now be recovered -- additional
13 revenue based on the outcome of this case.

14 So if the overall revenue requirement or
15 increased to residential -- and, again, I'm -- is
16 20 million and this results in 5 million, then
17 energy charges only have to make up the additional
18 15.

19 If you stayed at 11.88, then the energy
20 charges have to make up additional -- additional
21 revenue.

22 **Q Okay.**

23 A And that's one of the reasons for if -- if
24 there was no rate increase granted in this case, if
25 you increase the customer charge, you have to

1 decrease the other rate blocks.

2 So that is what we would want to -- and
3 that's kind of what we were wanting to avoid. If
4 -- if the increase is only 1 percent and you
5 increase the customer charge to 12.62, you still
6 may have to -- depending on what that overall --
7 you still may have to decrease the other rate
8 blocks. So that is kind of what we were trying to
9 avoid.

10 **Q Why?**

11 A Because we didn't want -- when you
12 decrease the rate blocks, customers could end up
13 with a rate decrease. Certain customers could --
14 or however those rate blocks were decreased,
15 certain customers could end up with a rate
16 decrease. Certain customers could end up with a
17 rate increase in the outcome of this case.

18 And it's kind of just been a -- a -- when
19 we look at rate design that no -- that -- that not
20 a -- a big group of customers is getting a decrease
21 when others are getting an increase.

22 **Q Would it be possible to implement a -- a**
23 **tracker to -- to cover the volatility issue that's**
24 **been -- been described here that -- to determine**
25 **what -- year to year what -- what additional**

1 revenue the company received or -- or didn't
2 receive as a result of this -- as a result of
3 moving to inclining block rates and -- and keep
4 track of that and do something with it in the next
5 rate case? Is that -- is that possible?

6 A I would have to -- again, Auditing would
7 probably have -- you know, they have a lot more
8 experience with trackers than -- than I do on how
9 that would exactly work.

10 We would also have to run that by
11 management. But I -- I don't know exactly how --
12 I'm not familiar enough with how trackers work in
13 accounting on how that would work. But it -- it
14 potentially could be something.

15 Q Okay. Looking at your rebuttal testimony
16 on -- on page 7, you -- you present one option to
17 deal with that -- that volatility, and that is the
18 recommendation of shoulder months.

19 A Yes.

20 Q Is that proposal subsumed in the following
21 proposal: And -- and that is to do inclining block
22 rates for summer and flat for all of winter?

23 A Winter being all eight months?

24 Q Yes. Because what -- what -- what you're
25 proposing is inclining for summer and winter with

1 flat or declining for the shoulder?

2 A Yes.

3 Q So if we were to do inclining for summer
4 and flat for -- for all of winter, that -- that
5 would subsume your -- your proposal, would it not?

6 A Yes.

7 Q All right. And would -- if we were to do
8 that kind of rate structure, would your proposal --
9 the last provision of your proposal on page 8 be
10 necessary?

11 A Rebuttal testimony?

12 Q Yes. I'm sorry.

13 A Page 8?

14 Q Correct.

15 A Okay. Top of the page, lines 1 through 3.
16 I would still recommend -- so you're saying go
17 straight to flat in the winter?

18 Q Correct.

19 A So I would still have concerns about
20 volatility because it's a straight move to flat
21 rather than the gradual approach.

22 Bill impacts might also be a concern with
23 a straight flat instead of the -- you know, a
24 reduction in that tail block. A reduction in the
25 differential between the decrease in the tail

1 block, I mean.

2 So I would probably still have concerns
3 with that. But it wouldn't be -- the proposal to
4 go straight to flat wouldn't be as volatile as an
5 incline in winter.

6 **Q Okay. So what -- what kind of direction**
7 **-- this is same question I asked Sarah Kliethermes.**
8 **What kind of direction would be needed from the**
9 **Commission for the company and for the company to**
10 **craft compliant tariffs?**

11 A So -- so billing determinants are -- are
12 obviously the foundation to do that. And depending
13 on -- and I'm going off of what you just said on
14 the flat in the winter, inclining in the notice
15 summer.

16 **Q Right.**

17 A I think we would have to confirm to make
18 sure that we have the blocks for the summer. I
19 think we do that.

20 **Q So -- so we -- if -- we could use the same**
21 **blocks that are in existence now, the --**

22 A Yes.

23 **Q -- the 600, 1,00 and then above?**

24 A Yes. The 600, 400 and then a thousand.

25 Yeah.

1 **Q So we would need to provide some type of**
2 **description of the incline, I assume?**

3 A Yes. And this is part of the incline --
4 and -- and remember what I was telling you on the
5 customer charge if you increase the customer charge
6 to 12.62. So that's less revenue that needs to be
7 made up by the energy charge.

8 Depending on how those rates move and the
9 billing determinants that are associated with them
10 will result in a new level of revenue that will
11 come from that calculation.

12 So depending on what the overall increase
13 is to the residential class, that will depend on
14 how you can move those rates.

15 **Q Okay.**

16 A But, yes, we could craft something.

17 **Q Okay. And - and to what extent is a -- is**
18 **an elasticity study necessary for -- for the**
19 **crafting of these tariffs?**

20 A I -- I don't think that elasticity -- if
21 your -- I -- I think the way that DE and Renew
22 Missouri -- and they can correct me if I'm wrong.
23 But the elasticities was to kind of look at how
24 usage would change due to this.

25 If you just want to say you want to set a

1 1 percent incline, you're going to set summer at X
2 rate. You're going to incline it by 1 percent or 2
3 percent, I don't think so you need a price
4 elasticity study to do that.

5 **Q Because you don't think there would be**
6 **that much a change in -- in -- in consumption as a**
7 **result of the --**

8 A Oh, no. No. The way -- the way they were
9 using it was to look at what kind of overall change
10 would energy decrease or increase due to energy
11 conservation based on an -- on an inclining block
12 rate.

13 **Q Right.**

14 A If you're just designing a rate, you could
15 use a price to design that 2 percent or 1 percent,
16 but I think it's all just all dependent on what
17 kind of incline are you wanting? Are you wanting a
18 sharp incline, or are you wanting a gradual
19 incline? Are you wanting a 3 to 4 cent different.

20 **Q So, essentially, are you saying that the**
21 **sharper the incline, the more you would need an**
22 **elasticity study?**

23 A Um --

24 **Q Because, I mean -- I mean -- it -- we're**
25 **going to try to craft these rates so the company is**

1 able to get its authorized return.

2 And so if -- without an elasticity study,
3 aren't we risking a significant decrease in
4 consumption and thereby causing --

5 A Yes, yes.

6 Q So -- so are there elasticity studies
7 elsewhere that could be applied here? I mean, I
8 can't imagine that KCP&L customers are so
9 dramatically different than other customers around
10 the country where there are inclining block rates
11 where the elasticity studies have to have been
12 conducted and could be applied.

13 A I am not aware of any other price -- price
14 elasticity studies. The first one was the one that
15 Mr. Hyman had mentioned in testimony.

16 CHAIRMAN HALL: Okay. All right. I have
17 no further questions. Thank you.

18 MS. KLIETHERMES: Okay. Thank you.

19 JUDGE PRIDGIN: Any further Bench
20 questions?

21 COMMISSIONER STOLL: No questions, your
22 Honor.

23 JUDGE PRIDGIN: Commissioner Kenney.

24 CROSS-EXAMINATION

25 BY COMMISSIONER KENNEY:

1 Q I don't want to continue this. I'm tired.
2 I'm sure everybody else is kind of worn out. But I
3 have one question that's just been bugging me.

4 A Okay.

5 Q Are you related to Ms. Sarah Kliethermes?

6 A No. No.

7 Q Ms. Kliethermes, you are -- you are under
8 oath.

9 A Yes.

10 Q You're on the witness stand. We have a
11 court reporter. You are before the Commission.
12 Are you expecting me to believe that there would be
13 two Kliethermeses on the same Commission in
14 Jefferson City, Missouri, not related?

15 A I -- I know. It surprises --

16 Q Are you expecting me to believe that?

17 A Yes. I married into the Kliethermes
18 family, though, so I am not fam -- as familiar with
19 that. And we're from the same county as well.

20 Q I guess I can understand because I travel
21 the country as my job as a regulator. I go to a
22 lot of conferences, and people are always astounded
23 that I'm not related to Robert Kenney. No -- no
24 more questions?

25 A Okay.

1 JUDGE PRIDGIN: Any recross based on the
2 Bench questions? Public Counsel?

3 MR. OPITZ: Briefly.

4 RECROSS EXAMINATION

5 BY MR. OPITZ:

6 Q Ms. Kliethermes, you were discussing
7 increasing the customer charge and the impact of
8 elasticity with the Chairman. Do you recall that?

9 A Yes.

10 Q And wouldn't it be also be -- I guess
11 there was a discussion of if the customer charge is
12 not increased that there is a risk that usage will
13 go down and the company won't recover its
14 authorized return. Do you recall that?

15 A I don't think it is usage goes -- I think
16 it was if the customer charge doesn't increase and
17 it's more rev -- of the revenue increase that needs
18 to be made up in the energy charges could lead to
19 greater volatility.

20 Q And if the customer charge increases and
21 the design of the TOU rate is such that it's --
22 it's a small impact on elasticity, would the
23 company have a greater security in the revenue they
24 collect?

25 A If the incline is less, it is more flat or

1 if -- then there would be less volatility.

2 **Q So is the incline proposed by DE in this**
3 **case to the level that you believe an increase to**
4 **the customer charge would be warranted?**

5 A I don't know what DE's increase would have
6 on overall revenues. So I -- but the -- the DE's
7 proposal is just for the summer. So I don't know
8 without comparing it to -- applying the rate to
9 total revenues.

10 MR. OPITZ: Okay. Thank you.

11 JUDGE PRIDGIN: Thank you. MIEC?

12 MR. DOWNEY: No, thank you.

13 JUDGE PRIDGIN: MECG?

14 MR. WOODSMALL: No questions.

15 JUDGE PRIDGIN: U.S. Department of Energy?

16 MR. GARG: No questions.

17 JUDGE PRIDGIN: Sierra Club?

18 MS. ROBERTS: No questions.

19 JUDGE PRIDGIN: Renew Missouri?

20 MR. LINHARES: No, thank you, Judge.

21 JUDGE PRIDGIN: NRDC?

22 MR. ROBERTSON: No questions. Missouri
23 Division of Energy?

24 MR. ANTAL: No questions.

25 JUDGE PRIDGIN: KCP&L?

1 RECCROSS EXAMINATION

2 BY MR. FISCHER:

3 Q Not to extend the evening, but,
4 Ms. Kliethermes, I just want to follow the -- the
5 idea of having a tracker. If you did that, if you
6 set a revenue requirement over whatever the revenue
7 requirement is and then change the rate structure
8 and if that rate structure was an inverted rate and
9 it did cause people to conserve, would you imagine
10 the tracker then would look at what the revenue
11 requirement was set in the last rate case and
12 capture the difference?

13 A I don't know. Again, this might be one of
14 an auditing question for someone who works with
15 trackers on how that would be designed. I don't
16 know how that -- how that would be designed.

17 Q Do you have an opinion about how big the
18 revenue requirement volatility might be if we went
19 to -- to a dramatic inverted rate structure?

20 A I think all depends on what type of -- the
21 sharpness of the incline and what increase in that
22 tail block you're actually going to move to. On a
23 dollar value, I do not have it.

24 Q I mean, it could be that if you had a
25 really hot summer, it could benefit the company,

1 **too, right?**

2 A Right. Yes.

3 MR. FISCHER: Okay. Thank you.

4 JUDGE PRIDGIN: All right. Thank you.

5 Redirect?

6 MS. PAYNE: Thank you, your Honor.

7 REDIRECT EXAMINATION

8 BY MS. PAYNE:

9 **Q Ms. Kliethermes, the Chairman was**
10 **discussing the risk of decreasing consumption and**
11 **the elasticity study with you. Over what time**
12 **period would you expect to see any changes as a**
13 **result of this? Do you -- would you anticipate it**
14 **would be an instant change?**

15 A I don't -- I don't think it would be
16 instant. I mean, it would be -- customers would
17 have to have time to react or become knowledgeable
18 of their bill and then to take steps to do
19 something else. But, I mean, weather could always
20 play into this.

21 **Q Okay. Along that same line -- or in**
22 **discussing the potential of a tracker, would**
23 **another consideration be whether the -- the**
24 **tracking would occur on weather normalized or**
25 **non-weather normalized usage?**

1 A Yes. That could be an issue.

2 **Q How would this work with MEEA?**

3 A I don't know. That would be -- that --

4 **Q Would that be something to take into**
5 **consideration?**

6 A Yes. That's something I did not think
7 about because MEEA is looking at the -- the change
8 in kilowatt hours. So that would be -- and then
9 how -- yeah. That would -- the MEEA rider as well
10 as -- yes. That would be an issue.

11 **Q So in order to implement something like**
12 **that, we would need guidance from the Commission in**
13 **an order related to such a -- an implementation,**
14 **would we not?**

15 A Yes. Yes. Yes.

16 **Q Okay. The Chairman also asked you why**
17 **Staff has not proposed that we move immediately to**
18 **the \$12.62 cap that we've suggested for the -- the**
19 **customer charge. Is it true that you would need to**
20 **proportionately decrease cost of energy as a result**
21 **of that?**

22 A Yes. So if -- if there was no rate
23 increase or if you just moved now to that, then
24 energy charges would have to decrease, so that's
25 the change in revenue.

1 **Q** And could this send a negative price
2 **signal that energy was getting cheaper?**

3 A Yes, it could.

4 **Q** If the increase to the customer charge
5 **were implemented immediately to the 12.62, if that**
6 **was used to reduce the first block, does that**
7 **change the answer that you originally provided the**
8 **Chairman with?**

9 A Can you refresh my memory on what --

10 **Q** Would that mitigate your volatility
11 **concerns?**

12 A Yes.

13 **Q** You suggested that it might.

14 A Yes.

15 **Q** Okay. Oh. Yeah. Also -- I'm sorry. In
16 **discussing the -- the 12.62 customer charge, did**
17 **Staff have a study that showed that the residential**
18 **class was over-contributing to cost of service?**

19 A Yes.

20 **Q** Would you care to elaborate on that?

21 A Oh, sorry. Yes. So if -- if they are
22 over-contributing to the cost of service, then
23 their total cost of service going forward would be
24 less -- would be less.

25 And so increasing that customer charge

1 would not make -- would not make sense unless
2 overall revenue requirement increased.

3 Q Thank you. Mr. Fischer asked you in the
4 scenario of a large residence doing everything they
5 could to try and, you know, encourage energy
6 efficiency and that.

7 Is it true that a inclining block rate
8 that was not designed well might incentivize
9 customers to install a second meter to avoid
10 entering the higher block in an inclining block
11 structure?

12 A That could -- can you repeat that question
13 one more time?

14 Q I'm sorry. In this scenario that -- above
15 -- a residence, of a residence, is it possible that
16 they might be negatively incented to try to avoid
17 entering that higher block if the inclining block
18 rate structure is not --

19 A Right.

20 Q -- constructed properly?

21 A Yes.

22 Q Okay. And along those same lines, you
23 were discussing the time of use including -- versus
24 the block rate structure, I'm sorry, versus the
25 inclining block structure.

1 **Does an inclining block structure**
2 **encourage or condition activities such as**
3 **pre-cooling and hot water storage investments?**

4 A Can you repeat that question one more
5 time?

6 **Q I can try. Would a time of use rate**
7 **versus an inclining block structure discourage or**
8 **encourage activities such as precooling or hot**
9 **water storage investments?**

10 A It would -- it would encourage.

11 **Q Okay. So a time of use rate would as**
12 **opposed to inclining block?**

13 A Right. Exactly. The time of use rate
14 would encourage those.

15 **Q Okay. Mr. Fischer also asked about the**
16 **company's ability to recover its fixed costs and if**
17 **the weather would affect the volatility in --**
18 **potentially resulting in over-recovery. Do you**
19 **remember that?**

20 A Yes.

21 **Q Would the company be insulated from**
22 **weather-related changes in its cost of energy?**

23 A Right. So with the company's -- I mean,
24 with an FAC that is basically -- so if the cost of
25 energy is higher in the summer or -- or higher at

1 all, I mean, their -- their -- the FAC would make
2 that -- the company, you know, 95 percent of those
3 costs would be recovered through the FAC if the
4 cost of energy was higher. And so they would still
5 get that cost recovered.

6 **Q So the company would get its cost recovery**
7 **regardless of weather or not?**

8 A Yes.

9 **Q Okay. Thank you.**

10 A For energy.

11 **Q Right. For its cost of energy. Okay.**
12 **And then Mr. Linhares was asking you some**
13 **questions. Are all space heating customers**
14 **separately metered?**

15 A Not all space heating customers are
16 separately metered.

17 **Q So it might be more difficult to**
18 **differentiate between space heating customers and**
19 **the average residential customer; is that correct?**

20 A Yes.

21 **Q Okay. Also, he referred you to page 3 of**
22 **your surrebuttal and was asking -- I don't have my**
23 **questions in order. I'm sorry. I'm in the wrong**
24 **spot.**

25 **Okay. On page 3 of your rebuttal**

1 **testimony where you referenced Mr. Jester's**
2 **proposal -- are you there?**

3 A Of my rebuttal?

4 **Q Rebuttal. I'm sorry. I was in the wrong**
5 **spot.**

6 A Yes.

7 **Q Okay. Would your position change if the**
8 **move was towards a flat non-summer rate instead of**
9 **an inclining non-summer rate?**

10 A Yes.

11 **Q And how would that change?**

12 A If it -- well, and currently, we have a
13 flat summer rate. So it would not --

14 **Q This is in reference to a non-summer rate.**

15 A Oh, a non-summer. Okay. Non-summer. So
16 if it was -- and the question if it was a flat
17 non-summer rate?

18 **Q If the -- if the proposed move was towards**
19 **a flat non-summer rate instead of the inclining**
20 **non-summer rate that Mr. Jester is proposing.**

21 A And how would my --

22 **Q If -- if you -- in reference to your**
23 **testimony on line 5, if you changed the word**
24 **inclining to a flat --**

25 A Okay.

1 **Q** -- rate, how would you -- how would you
2 **explain that differently?**

3 A For the non-summer months, if it was flat,
4 there -- there is still going to be a variability
5 in that -- in that because even with a flat rate,
6 those customers' usages still will not exceed that
7 first block usage into like a second block. So the
8 flat rate, there's still going to be some
9 volatility.

10 **Q** Okay. And then let's see. Mr. Linhares
11 **was also asking you about the possibility of an**
12 **energy efficiency incentive. And given that**
13 **scenario, first of all, do you believe that there**
14 **would be an energy efficiency incentive as a result**
15 **of an inclining block rate?**

16 A I don't -- if -- I don't think it's an --
17 I don't think there's an incentive. I mean, if --
18 if a customer is looking at the cost and whether
19 they're going to make -- do an, you know, energy
20 efficient appliance, will it increase or decrease,
21 -- I mean, if you want to call that an incentive.
22 I don't think it would be necessarily an incentive.

23 **Q** Specifically, he was referencing low
24 **income customers. In your experience, can low**
25 **income customers afford the cost of something like**

1 **an energy efficient appliance?**

2 A Probably not.

3 **Q So it's possible that even if the**
4 **incentive existed that they wouldn't have the**
5 **ability to obtain that incentive?**

6 A Right. Right. Some customers cannot --
7 cannot afford to do that or maybe have a -- not a
8 well-insulated house. Even -- even if they would
9 install energy efficiency, they'd still be a high
10 usage customer.

11 MS. PAYNE: All right. That's all I have.
12 Thank you.

13 JUDGE PRIDGIN: All right. Thank you.
14 Ms. Kliethermes, thank you very much. You may step
15 down. And Ms. Kliethermes will be the last witness
16 of the day.

17 And I'm showing Dr. Marke will be the next
18 witness to resume at 8:30 in the morning. Nick
19 further from Counsel or from the Bench before we go
20 off the record?

21 COMMISSIONER KENNEY: Yes, Judge. I have
22 -- I have a question for counsel.

23 JUDGE PRIDGIN: Okay.

24 COMMISSIONER KENNEY: We've heard today
25 discussions about -- and I believe it was replacing

1 KCP&L's main line extension program with GMO's. Is
2 that correct or incorrect? The replacement? I
3 mean, I heard testimony about --

4 MR. STEINER: I think that was Staff's
5 proposal in the workshop docket.

6 COMMISSIONER KENNEY: Okay. Okay. Now,
7 maybe Staff can answer something. Is that similar
8 to what was handed out today, Sheets 131 through
9 131-L? Is that what we're talking about, or are we
10 talking about something different? Because that's
11 the main line extension.

12 MS. PAYNE: My understanding -- and I'm
13 sorry. My understanding is what was handed out
14 today is strictly what was currently in effect.

15 COMMISSIONER KENNEY: Yeah. I know. My
16 question is can we get a copy of GMO's tariff so I
17 can compare the two?

18 MS. PAYNE: Absolutely. I can have that
19 very first thing in the morning.

20 COMMISSIONER KENNEY: Oh, you don't --
21 yeah. I don't want you to do it tonight. You can
22 do it later -- have somebody do it tomorrow
23 sometime. We're going to be here.

24 MS. KLIETHERMES: I've got it. If you
25 just need the, one I've got it here.

1 COMMISSIONER KENNEY: Just -- what one?

2 MS. PAYNE: One copy. One copy of it.

3 COMMISSIONER KENNEY: Well, no. Just make
4 me a copy for tomorrow.

5 MS. PAYNE: Okay.

6 COMMISSIONER KENNEY: I'm not looking at
7 it tonight.

8 MS. PAYNE: Okay.

9 COMMISSIONER KENNEY: Thank you very much.
10 Appreciate it.

11 JUDGE PRIDGIN: All right. If there's
12 nothing further from the Bench or Counsel? All
13 right. We will resume at 8:30 in the morning.
14 Thank you. We are off the record.

15 (The proceedings were concluded at 7:25 p.m. on
16 February 22, 2017.)

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1	I N D E X	
2	WITNESS: J. ROBERT WOOLRIDGE	PAGE
3	Direct Examination by Mr. Thompson	707
4	Cross-Examination by Mr. Zobrist	709
5	Voir Dire Examination by Mr. Thompson	722
6	Further Cross-Examination by Mr. Zobrist	723
7	Cross-Examination by Chairman Hall	745
8	Cross-Examination by Commissioner Kenney	754
9	Cross-Examination by Commissioner Rupp	757
10	Redirect Examination by Mr. Thompson	758
11		
12	WITNESS: DAVID ROOS	PAGE
13	Direct Examination by Mr. Berlin	771
14	Cross-Examination by Mr. Opitz	773
15	Cross-Examination by Mr. Woodsmall	783
16	Cross-Examination by Chairman Hall	785
17	Recross Examination by Mr. Opitz	789
18	Redirect Examination by Mr. Berlin	791
19		
20	WITNESS: JAMES DAUPHINAISPAGE	
21	Direct Examination by Mr. Downey	795
22	Cross-Examination by Mr. Opitz	797
23	Cross-Examination by Mr. Zobrist	800
24	Cross-Examination by Chairman Hall	802
25		

1	I N D E X (CONTINUED)	
2		PAGE
3	Opening Statement by Mr. Fischer	823
4	Opening Statement by Ms. Payne	827
5	Opening Statement by Mr. Opitz	831
6	Opening Statement by Mr. Antal	832
7	Opening Statement by Mr. Garg	846
8	Opening Statement by Mr. Downey	848
9	Opening Statement by Mr. Woodsmall	856
10	Opening Statement by Mr. Coffman	872
11	Opening Statement by Ms. Roberts	876
12		
13	WITNESS: MARISOL MILLER	PAGE
14	Direct Examination by Mr. Fischer	884
15	Cross-Examination by Mr. Antal	885
16	Cross-Examination by Ms. Roberts	902
17	Cross-Examination by Mr. Linhares	927
18	Cross-Examination by Mr. Woodsmall	935
19	Cross-Examination by Ms. Payne	940
20	Cross-Examination by Chairman Hall	941
21	Cross-Examination by Commissioner Kenney	954
22	Recross Examination by Ms. Payne	957
23	Redirect Examination by Mr. Fischer	958
24		
25		

1	I N D E X (CONTINUED)	
2		
3	WITNESS: SARAH KLIETHERMES	PAGE
4	Direct Examination by Ms. Payne	973
5	Cross-Examination by Mr. Opitz	976
6	Cross-Examination by Mr. Downey	979
7	Cross-Examination by Mr. Garg	981
8	Cross-Examination by Chairman Hall	987
9	Recross Examination by Mr. Downey	997
10	Recross Examination by Mr. Woodsmall	998
11	Recross Examination by Mr. Fischer	1002
12	Redirect Examination by Ms. Payne	1004
13		
14	WITNESS: ROBIN KLIETHERMES	PAGE
15	Direct Examination by Ms. Payne	1011
16	Cross-Examination by Mr. Downey	1013
17	Cross-Examination by Mr. Linhares	1016
18	Cross-Examination by Mr. Antal	1036
19	Cross-Examination by Mr. Fischer	1039
20	Cross-Examination by Chairman Hall	1049
21	Cross-Examination by Commissioner Kenney	1063
22	Recross Examination by Mr. Opitz	1064
23	Recross Examination by Mr. Fischer	1066
24	Redirect Examination by Ms. Payne	1067
25	Reporter's Certificate	1084

E X H I B I T S				
STAFF	EXHIBIT	DESCRIPTION	OFFERED	ADMITTED
	Exhibit 200	Direct Revenue Requirement Report		
	Exhibit 202	Direct Rate Design Report	974	1013
	Exhibit 210	Rebuttal Testimony of Robin Kliethermes	1012	1013
	Exhibit 211	Surrebuttal Testimony of Robin Kliethermes	1012	1013
	Exhibit 212	Rebuttal Testimony	975	975
	Exhibit 213	Surrebuttal Testimony	975	975
	Exhibit 226	David Roos Rebuttal Testimony	772	772
	Exhibit 227	David Roos Surrebuttal Testimony	772	772
	Exhibit 232	J. Randall Woolridge Rebuttal Testimony	708	708
	Exhibit 233	HC J. Randall Woolridge Surrebuttal Testimony	708	708
	Exhibit 233NP	J. Randall Woolridge Surrebuttal Testimony	708	708
	Exhibit 237HC	Summary Schedules and Calculations of Staff's FAC	767	768
	Exhibit 238	Tariffs	822	823

E X H I B I T S (CONTINUED)				
EXHIBIT	DESCRIPTION	OFFERED	ADMITTED	
1				
2	OPC			
3	EXHIBIT	DESCRIPTION	OFFERED	ADMITTED
4				
5	Exhibit 325HC	Documents	806	807
6		Regarding Fuel		
7	Exhibit 326HC	Documents	806	807
8		Regarding		
9		Transmission		
10		Expense		
11	Exhibit 327HC	Documents	806	807
12		Regarding Off		
13		System Sales		
14	KCP&L			
15	EXHIBIT	DESCRIPTION	OFFERED	ADMITTED
16	Exhibit 136	Direct Testimony	885	885
17		of Marisol Miller		
18	Exhibit 137	Rebuttal Testimony	885	885
19		of Marisol Miller		
20	Exhibit 138	Surrebuttal	885	885
21		Testimony of		
22		Marisol Miller		
23	Exhibit 159	Release from	713	713
24		Bureau of Economic		
25		Affairs		
26	Exhibit 160	Advanced Monthly	715	716
27		Sales Report		
28		January 2017		
29	Exhibit 161	2/15/17 News	717	718
30		Release		
31	Exhibit 162	Janet Yellen's	720	720
32		Testimony		
33	Exhibit 163	CME Group	721	723
34		Document		
35	Exhibit 164	Chart	726	726

1	E X H I B I T S (CONTINUED)			
2	KCP&L EXHIBIT	DESCRIPTION	OFFERED	ADMITTED
3	Exhibit 165	Spreadsheets		
4	Exhibit 166	Roe 88033	738	738
5	Exhibit 167	Report & Order		
6	RENEW MISSOURI			
7	EXHIBIT	DESCRIPTION	OFFERED	ADMITTED
8	Exhibit 402	Study	932	932
9	MIEC EXHIBIT	DESCRIPTION	OFFERED	ADMITTED
10	Exhibit 850	Direct Testimony	796	797
11	HC and NP	of James Dauphinais		
12	Exhibit 851	Rebuttal	796	797
13	HC and NP	Testimony of James Dauphinais		
14	Exhibit 852	Surrebuttal	796	797
15	HC and NP	Testimony of James Dauphinais		
16	DIVISION OF ENERGY EXHIBIT	DESCRIPTION	OFFERED	ADMITTED
17	Exhibit 803	Data Request 600	898	898
18	Exhibit 804	Series of E-Mails	900	900
19				
20				
21				
22				
23				
24				
25				

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2
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4
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12
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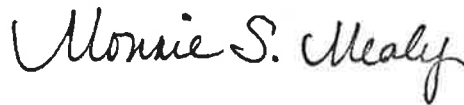
REPORTER'S CERTIFICATE

STATE OF MISSOURI)

) ss.

COUNTY OF OSAGE)

I, Monnie S. Mealy, Certified Shorthand Reporter,
Certified Court Reporter #0538, and Registered Professional
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took down in stenotype the proceedings had at said time and
was thereafter transcribed by me, and is fully and accurately
set forth in the preceding pages.



Monnie S. Mealy, CSR, CCR #0538
Registered Professional Reporter

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

A	752:4 753:9,16	acknowledge	989:5 1005:24	768:24 769:1
AARP 903:12	755:22 786:5	843:3 873:9	1018:25	772:24 773:1
ability 861:25	991:8	898:6 899:11	1028:16	779:13 797:5,5
878:10 911:25	accomplish	1037:21	1040:10	797:6 807:3,4
964:6 993:23	1037:19	acquired 752:14	addresses	807:5,5,13,16
1022:19	account 740:1	847:22	981:19	822:16 823:5,7
1042:1	763:15,15	acquiring 953:4	addressing	885:17,20
1071:16	766:11,11	acronism	854:2 983:18	898:14,16
1075:5	767:13 775:12	907:22	1014:1 1023:8	900:19,21
able 810:22,25	775:19 776:4,6	activities 801:18	adequate 740:21	932:23 933:1
814:2 839:5	779:4 781:14	1071:2,8	755:25 756:1	975:13,15,18
859:22 894:2	786:23 787:13	actual 723:17	756:24 761:22	975:21 1013:4
900:3 920:13	787:18 788:19	857:9 958:5,25	792:21,22,23	1013:6 1081:2
921:6 923:10	791:5 792:20	977:1 989:20	792:24,25	1082:3,13
923:14 924:10	867:23 977:18	993:3 995:22	adjusted 888:23	1083:2,7,9,16
928:2,6 933:24	978:2,16	add 770:6,11	889:2	adopt 836:8
948:12 961:24	accountants	added 743:12	adjustment	847:10 856:3
996:6 1016:17	778:20,21	770:6 839:20	717:15 718:19	867:1 995:15
1022:6	781:15 782:3	842:5	769:10,15	1001:2
1025:12	accounting	adder 743:13	771:17 800:15	adopted 825:2
1062:1	959:23 994:6	adding 983:16	800:21,22	830:19 857:20
abnormal	994:11	addition 811:3	801:1 802:10	873:5 954:13
826:16	1057:13	878:2 881:9	adjustments	961:4 998:8,9
1026:12,13	accounts 776:3	943:19	734:8,9 797:22	1011:23
abnormally	778:17 779:1	additional 793:1	836:10 914:24	1036:23
1018:23	781:13,23	805:7 818:22	915:7 941:17	1047:10
1043:14,14	798:9 800:19	942:23,25	Administration	adopting 739:8
Absent 993:1	806:14 828:12	943:5,19 993:6	759:21 846:20	823:25 868:19
absolute 981:20	941:20	1055:12,17,20	admire 972:22	916:8 953:19
982:2	1051:13	1055:20	admission	Adoptingincl...
absolutely	accurate 724:18	1056:25	713:14 715:25	881:14
915:16 982:8	724:22 847:4	Additionally	717:24 720:6	adoption 824:10
1076:18	885:10 900:7	830:9 838:23	721:20 726:2	824:17 847:17
academic	915:12 1003:9	additions 850:9	885:14 932:3	1033:11
848:24	1028:6	address 770:15	admit 772:20	advance 952:5
accept 949:13	1034:20	824:4 825:9	admitted 708:21	advanced
980:23	1050:16	840:7 852:25	708:22,24	713:21 714:24
acceptable	accurately	881:18 884:18	713:16 716:10	715:8 882:16
902:21	828:15 839:23	888:12 926:12	716:12,14	1082:19
acceptance	980:21	945:13,16	718:1,3 720:8	advent 953:3
875:12 877:24	1084:13	952:10 1014:4	720:10 721:7	adversely 881:1
accepted 755:11	accuse 976:11	1023:16	723:11,13	advice 1051:2
756:19 849:23	achieve 839:5	1030:5	726:4,6 732:25	Advocates
851:2 852:7,8	851:17 878:11	addressed 751:9	733:4,9 734:23	703:21
999:8	888:6,21	807:12 854:18	738:15,18,24	advocating
access 705:13	achieved 882:23	867:20 904:20	739:1 764:8	1024:16

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

AEG 928:21 929:14	782:17 856:21 856:23 881:11	859:8 861:14 863:17 865:14	829:20 982:5 1005:7,8	787:6,14,15,19 787:20,20,23
Affairs 712:22 927:12 1082:18	893:3 896:6 903:19 905:12 906:1 908:1	865:25 870:3 873:16 887:14 976:23,23,24	allotted 830:11 allow 825:12 949:3 1020:14 1021:21	787:24,25 788:1,3,12,15 788:20 789:1 790:8 811:2,22
affect 759:10 801:18 825:4 857:3 962:2 970:24 1045:25 1071:17	911:1 915:11 917:17,22 924:12 925:15 931:8,12 936:17 946:5 964:15 965:1 977:19,21 984:5,9 989:13 999:7,23	980:3 1006:13 allocated 829:6 861:22 870:9 893:6 936:11 941:6,11 983:2 1050:3,24 1052:2 1053:12,13	allowed 752:15 808:20,25 1021:14 allowing 770:5 809:6 846:11 alluded 838:23 838:24 839:22 840:9	820:25 842:4 850:21 858:15 859:10 871:9 880:5,6 905:2 921:15 941:7 949:3 951:16 959:4,5 991:20 1000:24 1017:21
afford 1074:25 1075:7	1005:7 1035:10 1037:21	allocates 839:24 839:24 848:7 851:21 853:18 854:23 855:1 855:15	aloud 903:6 alternative 1048:10 alternatively 850:12 alternatives 881:10 899:22	1048:17,21,25 1050:8,15,16 amounts 768:4 780:11 951:13 1043:2
afraid 856:13	agreed 780:22 784:21,23 844:23 886:23	allocating 829:7 849:23 854:7 854:21 868:14 937:22 980:2	Aluminum 970:21 ambition 972:23 Ameren 744:22 750:16 754:10 843:1 849:25 850:16 851:3 855:13 862:15 862:16 864:8 868:13 884:3 967:12 987:20 987:21,25 988:21 989:2 1006:9	AMR 816:2,8 analyses 713:11 715:16 716:9 924:21 967:7 analysis 712:8 712:24 713:22 717:2 719:6 728:20 729:3,8 729:13,17 730:13 736:3 739:15 745:25 748:4 749:15 781:11,12 835:4,7,21 837:1 839:11 840:7 841:16 845:5,6 849:15 849:19 862:17 895:20 896:7 910:3,7 912:21 912:25 913:2,8 913:11,14,19 914:20 915:2 924:5 928:12 928:17 931:5 932:11 942:24
afternoon 794:3 809:19 825:19 832:18 848:21 850:11 856:17 876:12 877:14 886:1 901:17 902:2 927:8 935:4 941:3	agrees 878:9 922:20 ahead 763:22 764:19 779:23 784:19 799:18 801:22 822:13 826:10 944:12 994:19	allocation 851:12 852:6 853:2,6 855:13 858:4,7,17,19 858:21 859:4 867:12 870:13 873:1,11,13 939:16 976:21 980:1,1 987:12 1005:9 1006:25 1007:7	Ameren's 862:16 AMI 813:20 814:16 815:1,4 816:1 818:1 923:6 AMIs 816:6 amount 775:9 775:25 776:23 777:9 778:2 786:3,3,21	
age 863:5	air 866:12 963:8	allocations 872:20		
Agencies 703:7 846:9,18 847:9	alerted 809:20	allocator 864:4 864:7 937:23 937:24 939:3,4 977:3 979:4 981:18,23 984:18,21 998:17,23 999:3 1001:3 1010:9,14		
agenda 793:24 809:7,9,12	Alex 832:19	allocators		
aggregate 775:9 775:9,23,25 776:14,17	align 1044:18,19 aligned 993:3 allegation 852:10 853:7			
aging 921:1	Allele 732:13			
ago 722:4 724:3 733:10 741:12 747:14 762:10 762:25 783:7 809:24 842:8 902:8 953:13	allocate 829:4 847:11 848:3 849:14 851:14			
agree 711:7 728:12 734:2 740:4 751:12 751:22 753:2 754:21 756:17 770:3 776:21 776:24,25 777:14,15 781:16,18				

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

943:6,20,21,23	1012:18	989:6 1008:14	983:9	834:13 841:13
945:1,9 960:8	Antal 832:14,17	1010:16	apply 777:2	841:25 911:19
966:13 967:2	832:18,19	apparently	831:9 866:21	911:20
969:4,23	845:25 846:1	903:24 910:17	874:5 903:11	April 850:15
1015:3 1026:2	879:20 881:12	1001:17	903:18 969:23	855:7 918:13
1041:21	885:23,25	appealing	1041:5	arbitrary
analyze 899:25	896:17,20,23	875:22	applying 875:4	862:22,23
Andrew 703:22	897:2,5,9,12	appear 719:22	890:7 892:5,19	area 849:11
927:9	897:15,17	734:19 735:3	967:19 1065:8	868:13 917:12
Ands 804:25	898:11,17,21	737:19 762:6	appreciate	924:4 947:24
annual 713:19	900:16,22,25	846:12 901:5	749:19 757:4	948:8,15,16,20
714:1 841:12	902:7 910:2	902:4 908:8	817:11 846:11	948:20,25
934:13	917:13 929:16	appearing	971:25	949:4,7 950:2
annualization	929:17 936:4	707:21,23	1077:10	958:16 970:6
829:17	956:24 969:21	856:18	appreciated	992:16,18,21
answer 723:3	987:2 1001:24	appears 908:21	809:1	992:23 993:12
746:6 749:19	1002:8	976:11,22	approach	areas 818:5,17
751:11 758:20	1036:14,16	applaud 828:14	779:19 782:13	821:23 827:11
767:19,25	1039:5	applauded	807:1 808:25	950:4 993:21
771:24 786:1	1065:24	860:24	902:22 925:2	argue 840:19
811:10,11	1079:6,15	applauds 860:25	929:11,15	argues 739:8
825:16,18	1080:18	apple 990:16	937:1 982:9	argument 740:4
829:23 830:23	anticipate	appliance	995:15	941:24 976:17
832:6 835:2	1067:13	1020:6	1008:16	Armco 970:20
842:15 845:22	antithetical	1074:20	1058:21	arrangements
848:10,11	877:19	1075:1	appropriate	901:8 973:15
895:19 896:12	anybody 744:2	applicability	718:20 727:14	art 873:11
907:3 921:19	758:12 764:7,9	924:6	740:22 827:13	artificially
921:23 922:24	816:2 832:15	applicable 863:4	830:1 836:12	1049:5
943:8 953:15	956:25 969:5	863:22 864:1	845:7 863:16	Ashbury 900:2
955:10 980:6	1014:22	915:5	883:7 893:12	Ashley 766:8
1002:13	anymore 759:17	applicant 955:7	903:15 942:8	783:18
1012:16	863:8 864:16	955:13	944:4 946:5,15	asked 729:21
1013:23	anyway 748:22	application	946:25 977:5	737:6 760:1
1033:8 1044:7	apart 876:3	774:25 811:15	990:24 991:4	764:1 791:2,17
1069:7 1076:7	apartment	873:19 950:19	994:1,8,18,25	792:5 809:5
answered	875:8 963:16	991:18	appropriately	842:12 936:4,4
734:16,16	963:19,20,24	applied 777:1,4	786:2 848:7	940:2,11
752:5 965:23	1046:25	812:23 824:13	892:7,21	959:17,25
1009:19	1047:4,7,13	830:1 843:8	approved	962:7 964:12
answering 787:1	apologies 762:17	928:20 963:6	756:20 802:11	967:24 968:16
1006:11	795:9 956:19	969:12	871:25 932:12	970:13 971:2
answers 708:12	apologize	1003:23	approximate	974:21 997:6
772:6 796:23	774:17 788:7	1010:12,13,25	934:1,5	998:16,19
885:8 974:22	944:12 965:15	1062:7,12	approximately	1001:1
974:24	982:6 983:22	applies 874:25	833:14,16,24	1009:18,20

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1044:1,24 1059:7 1068:16 1070:3 1071:15 asking 726:20 726:20 727:23 748:21 765:13 774:23 787:4 789:22 821:23 897:25 917:13 932:12 957:20 959:10 986:14 986:15 998:25 1000:25 1004:17 1005:5 1008:19 1021:20,22 1023:2,4,15 1028:18,18 1072:12,22 1074:11 asks 903:10 aspect 826:3 827:23 aspects 873:12 873:23 assessing 725:16 assessment 915:12 asset 728:24 729:14 757:12 assets 864:15 921:9 922:9 938:6 assign 887:14 888:1 939:5 980:3 1006:13 1006:22,23 assigning 997:7 assignment 864:13 938:5 976:20 1006:19 1007:8	Associate 732:18 associated 821:1 826:5,18 865:25 890:16 959:21 960:13 978:21,22 989:15,17,24 1007:5 1010:17,21 1011:2 1060:9 Associates 733:9 734:19 735:5 795:20,21 918:11 assume 739:25 740:2 749:22 766:1 794:2 813:4 930:21 943:16 948:17 951:15 976:17 1015:13 1020:24 1060:2 assumes 865:17 assuming 905:6 905:7 935:14 959:9 978:14 1023:5,6 assumptions 862:23 914:23 916:17 1022:24 astounded 1063:22 as-is 805:6,10 attached 804:1 attempt 854:4,4 attempting 1014:4 attempts 853:21 861:17,21 attention 756:19 attorney 703:4,9 703:23 704:5,9 754:12	Attorneys 703:18 attract 859:22 992:15 attributable 936:10,13,13 audit 778:5 auditing 801:8 801:11 1057:6 1066:14 August 710:5 711:8,9 835:17 841:14,15 880:1 1024:18 1026:18,19,21 1027:7 authored 877:5 1011:25 Authority 701:11 authorize 836:5 authorized 732:19 739:16 740:6 741:8 756:4 1062:1 1064:14 automatically 1029:10 available 813:13 825:16 848:11 881:24 883:2 911:10 913:4 1030:5 1041:14 1042:10 1044:5 Avenue 703:9 average 711:11 712:9 731:22 733:14,21 734:1 737:4 744:10 748:7 754:14,20 760:4 835:12 835:15,16,19 835:19 836:17	836:19 837:10 837:13 841:5,6 841:16 844:11 847:23,25 849:13,22 850:2,10,18,19 850:20,25 852:12,13,16 852:17,21,21 854:14,20,22 855:1,3 867:18 868:4 869:6,7 869:23 871:3 904:24 905:2,5 906:3 909:7 912:14 929:3,4 929:21,22 969:14 980:4,4 989:23,24 990:5 1010:18 1010:19,19 1024:19 1028:19 1035:8 1046:17,20 1072:19 averages 756:3 912:12 avoid 836:25 847:6,17 881:21 940:19 1056:3,9 1070:9,16 avoidance 1038:19 avoided 1038:13 avoiding 880:17 1038:16 avoids 830:6 award 731:18 awarded 750:25 751:5,19 753:8 760:4 awarding 751:15 760:8 awards 751:16	aware 714:4 716:16,20 718:13 719:15 722:23 723:25 751:1 754:24 755:4,9 800:13 802:16 803:4,8 803:9 839:8 873:4 909:9,14 914:15 928:22 929:1 933:10 933:11 943:1 957:22 972:21 989:7 1012:8 1014:19 1017:4 1018:19 1062:13 awesome 840:24 awkward 720:22 A&E 849:24 850:6,14 854:11 855:12 855:15,17,23 855:25 857:18 868:4,8,9,12 868:14,24 869:3 978:12 983:12,15 988:2,7,11,20 989:3 990:9 1006:2,3,6 A&P 851:11 854:10,13 983:12,14 988:21,24 A-l-l-e-t-e 732:13 a.m 724:13
<hr/> B <hr/>				
B 997:7,11 1081:1 1082:1 1083:1 back 705:2				

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

719:2 744:8	787:16,18,19	996:25	beginning	952:10 954:19
754:7 761:24	787:21 788:3	1001:22	773:21 808:22	955:14 957:16
762:4 763:7	788:12 791:8	1002:20	896:21 916:5	958:20 962:24
764:21 793:16	792:24 802:12	1005:14	927:11	965:22,23
794:16 798:12	828:9,18,23	1018:14	begins 742:13	967:6,11,24
801:11 805:4,5	829:3 853:2,6	1026:23	742:15	969:13 970:14
807:23 809:6	853:18 854:1	1027:5	begs 792:23	971:24 976:22
809:12,20	861:10,13,22	1037:20	behalf 707:22,23	981:25 985:6
822:3,15 827:5	862:5 863:6,13	1050:23	729:9 743:2	985:19 986:8
827:9 839:10	864:13 865:17	1051:11	769:11 838:18	987:14,18
841:20 879:9	865:18,25	1052:1,16	851:7 856:18	988:1,10,16
881:16 901:11	927:15 938:1	1053:10	909:10 929:14	990:24 993:10
901:18 909:21	938:19,25	1055:13	932:10	993:23,25
910:23 922:14	939:5 971:20	1061:11	behavior 802:2	994:3,7 995:13
933:19 971:9	976:12,15,23	1064:1	831:21	998:19,21
972:12,18	980:1,3 983:7	baseline 989:9	belief 708:16	999:22 1000:1
973:5 980:10	984:16	basic 951:20	772:9 885:11	1000:5,6
983:25 995:24	1010:10,17,21	basically 759:3	998:15	1001:1,5
1006:5	1011:1	760:16 837:7	beliefs 828:8	1003:16
1008:12,15	based 713:25	959:14 1019:5	believe 705:6	1005:24,25
1029:24	724:18,22	1071:24	713:6 716:10	1016:14
1034:7	730:12 731:24	basis 710:13,14	726:2 730:2,15	1028:11,21
background	744:10 746:17	711:5,10 713:6	735:6 740:25	1030:18
768:11 846:13	748:2,3,9,25	716:24 718:12	741:20 744:20	1036:8 1045:1
857:8	758:9,12	724:15 725:4,7	745:17 749:8	1045:6,17
backwards	766:11,15	725:18,24	753:6 762:9	1063:12,16
871:10	767:9,11,12	730:13 731:21	763:25 767:18	1065:3
bad 945:5	769:14 783:10	732:19 733:25	770:4,7 793:16	1074:13
965:14,14	786:4 787:7	739:17 740:8	794:10 797:22	1075:25
973:4	789:17,18	743:12 744:6	798:16 800:6	believes 774:19
balance 819:5	804:14 811:20	746:8,11,21	800:16 803:21	825:11 874:13
874:10	815:22 826:22	747:16 750:1,4	804:1 805:21	938:2
ballpark 928:6	827:13 829:11	750:18,19,20	812:19 813:15	belong 781:4
934:9,12	847:16 851:15	753:8 754:17	815:4 823:19	961:22
947:21	853:8 869:14	853:3 861:15	824:6 825:1,23	Bench 705:9
Banking 719:21	887:23 891:15	861:16,23	864:5 878:19	706:2 723:20
Bannister	893:2 895:20	886:17 949:14	887:1 896:18	731:5 739:3
846:24	896:8 910:14	959:15 960:12	900:13 910:9	745:4 753:24
Barb 899:3	911:12 913:3	961:25 977:2	910:11,15,20	758:9,13
barely 741:14	919:20 930:19	980:2 984:15	911:21 915:11	762:13,20
bars 723:24	933:25 939:6	1007:2 1026:5	918:15,22,22	770:19 785:10
908:23	943:18 947:5,5	1026:12	932:4,13,16	789:11,18
base 763:16	948:13 956:22	1043:13	935:22 937:20	794:23 802:20
766:16,19	976:10 985:12	1052:23,24	938:22 939:14	804:15 809:10
770:13 781:23	985:13 995:16	bear 783:8	944:1 948:2	810:17,19
781:24 787:14	995:21 996:15	becoming 815:5	949:10 950:1	811:13 813:18

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

817:20 819:17	967:20 974:25	916:10 923:10	1042:6 1054:9	837:12,17,18
820:7 821:11	982:23	925:12 928:12	binder 919:2	837:23 838:1,7
821:15 827:17	1012:19	928:16 943:3	BIP 829:3	838:11,13
832:7 845:24	1030:5,13,15	944:22 966:11	851:10,20,21	841:23,24
848:14 856:7	1044:4	1025:22	851:25 852:6	871:5,20
872:7 876:7	betas 753:15	1031:24	852:15 853:6	877:10 878:7
883:15 940:24	better 722:4	1032:17	855:24 857:11	878:13,16,17
954:2 956:22	727:6 764:18	1034:15,24	860:22,24	878:24 879:2,6
956:22 987:5	873:7 875:18	1035:7,8,13,14	861:6,7 863:3	879:10,19
996:21,25	878:25 881:6	1035:20,21	863:21 864:4,6	880:10,12
1001:22	882:5,9 922:24	1036:1,4	865:16,21	881:14 887:3
1049:21	936:18,20,21	1045:20	866:2 867:8,9	890:17 893:23
1062:19	990:9 994:5,10	1046:8	867:11 872:23	894:10,12,24
1064:2	994:16	1047:12	873:5 937:23	894:24 895:2,5
1075:19	1048:10	1058:22	937:24 938:2	895:16 907:20
1077:12	1049:12	1067:18	938:20,22	910:4 914:2,8
beneficial 819:9	beyond 742:12	billed 899:25	939:3,4,15	914:18 915:13
832:4 859:2	752:3 776:10	billing 814:6,8	976:19 978:2	915:24 916:8
benefit 855:5	777:23 780:18	829:11 833:24	984:17 987:12	916:15,23
991:17	802:16 960:3	840:17 841:3	987:22,23	917:18,19
1066:25	biased 910:10	877:22 898:2,8	988:2,25 989:7	919:11 928:10
benefits 842:5	big 741:4 753:13	899:25 900:3	990:15 998:8	928:13,25
879:5	821:9 869:18	900:12 923:9	998:17,22	929:5 930:18
Berlin 702:4	1056:20	959:23 968:21	999:10	931:18 932:11
763:13 764:23	1066:17	995:8,25	1000:19	942:16 943:5,7
765:1,4,6	bigger 1043:16	996:15	1001:4,7	943:24 944:5
766:3,4,7	biggest 859:12	1002:20	1004:18	944:15,19
767:1,3,11,18	865:11 874:16	1003:2	1005:6 1006:6	946:4,9,15,25
768:19,22	874:17	1016:25	bit 710:11 730:5	954:17,18
770:11 771:1,3	bilateral 799:7	1017:5,13	750:17 811:7	960:22 961:1
772:11,19	bill 814:20,22,22	1020:18,21,22	833:6 952:16	961:10,11,19
773:2,4 779:17	814:23 831:18	1022:5 1024:3	953:21 967:23	961:19 962:4
779:18,20	835:6,20	1039:14,16,20	black 1010:16	963:13 965:16
790:24 791:1	836:20,25	1039:21	blank 721:11,14	965:17 969:16
793:6 799:23	837:4,10 839:1	1040:10,25	blanking 989:17	969:19 995:1,3
804:18 807:9	839:11,18	1041:8,16	blanks 720:24	995:10 1003:5
807:11,17	840:7 841:16	1042:2	blast 865:6	1003:5,13
1078:13,18	844:10 874:14	1043:10,12	blind 906:15	1016:9
Bernanki	875:3,16,24	1046:13	block 824:1	1017:23
758:25	878:3,9 880:14	1059:11	825:21,22	1018:15,18,20
best 708:15	895:19 896:7	1060:9	826:15,22	1018:21
772:9 800:23	903:23 905:4	billion 752:17	827:3 830:18	1019:4,8
825:9 840:10	905:13,14	752:24,25	831:24 832:3	1020:2,8,15
842:15 857:19	906:4 910:3,6	bills 835:7 841:6	833:10,13	1021:14,25
860:21 885:10	910:7 912:1,5	904:23 905:15	834:3,4,7,15	1022:16
953:7 965:7	912:21,25	995:22 1021:9	834:18,21,23	1023:9,17,21

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1024:16,19,24	blue 835:11	breakdown	978:12 980:13	1016:22,24
1025:17,21	Bluefield 752:20	786:22	1014:2,10,25	1039:18,19
1027:5,17	753:3	brief 754:13	Brubaker's	1042:11
1030:4,22	blunt 1006:4	794:7,12	851:14,16	1051:12
1031:11,23	board 711:20	810:17 872:16	856:3 861:19	calculated
1032:4,5,6,14	718:7,14	877:15 939:24	979:19 1015:2	744:23 782:7
1032:15,16	720:14 823:16	briefly 762:11	budges 880:24	790:19 841:11
1033:14,23	890:7	789:19 820:12	budgeting 777:7	879:23 930:10
1034:2,4,16,17	boat 902:5	835:3 836:14	bugging 1063:3	1000:21
1034:21,22	body 874:6	838:10 844:12	build 862:2	1040:2
1035:18,19	bogie 1049:5	879:23 935:1	977:20,22	calculates
1037:2,8,13,22	Bolivar 704:5	1002:10	978:20 1008:3	841:21
1038:3,6,11,12	Bolling 846:22	1016:8 1064:3	building	calculating
1038:15,22	bond 728:14	briefs 770:15	1005:18	766:15 792:24
1041:5,21	739:23,25	bright 875:13	built 847:22	981:22 982:4
1042:6,11,15	752:10 875:13	Brightergy	863:5 864:23	1010:14
1042:18,20	bonds 752:11	872:11	865:7 951:17	calculation
1043:3,6,17,18	bonus 839:20	brights 835:11	bulk 895:8	766:10,17
1044:4,22	born 849:8	bring 746:10	bulletpoint	782:2 783:18
1045:21,22,24	borrow 761:9	953:1 1000:19	982:13,14,17	790:6,7,8
1046:7	982:7	brings 937:21	bunch 720:23	817:14 941:16
1047:15	bottom 717:17	broad 803:6	868:17	942:4,5,12
1048:3	731:2,8 735:24	broadly 881:24	burden 738:5	1014:2 1015:4
1054:23	739:7 740:24	883:2	816:10 842:9	1015:4
1057:3,21	742:14 747:9	Broadway	842:18 843:5	1052:15
1058:24	907:7 930:6	703:23	843:12,17,18	1053:11
1059:1	950:22	broke 809:21	843:19 844:21	1060:11
1061:11	bottomed 710:6	brought 756:19	burdensome	calculations
1062:10	711:9	805:3	844:20	756:2 1081:21
1066:22	bought 863:11	Brownfield	Bureau 712:8,21	California 755:5
1069:6 1070:7	Boulevard	957:18,23	712:24 713:21	755:6 967:15
1070:10,10,17	701:24 703:5	991:14,18	714:6 715:1,6	967:17
1070:17,24,25	box 702:7,12	992:16,21	716:17 717:7	California's
1071:1,7,12	740:17 782:10	Brubaker	1082:18	967:22
1074:7,7,15	Brad 937:8	795:20,21	Busch 830:20	call 731:10
blocks 826:12	break 706:7,8	828:7 848:23	1011:25	833:13 834:7
842:1 894:8	706:19 761:17	848:23 849:5	1036:24	899:12 900:9
895:3,7,9,16	762:3 764:12	850:1,5 851:6	buy 761:8	900:10,14
960:24 961:1	768:3 793:10	851:9,13,18,24	978:18 1008:4	901:11 918:3
996:2 1002:20	793:14,21,23	852:8,15,18		1007:22
1035:20	805:16 809:9	853:1,25	C	1074:21
1041:12,17,23	809:12,18	855:10,12,23	C 702:1 703:1	called 840:5
1042:7 1056:1	810:1 882:15	865:23 867:7	704:1 705:1	907:19 918:12
1056:8,12,14	897:14 901:1,2	869:15 870:10	771:8 954:10	933:8
1059:18,21	901:12,16	870:15 871:17	calculate 744:21	CAM 811:6
blog 759:5	972:4,7,13,16	976:18,22	781:24	Canadian

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

752:15	Carlson 804:2	858:23 859:1	1052:10	caused 708:2
cap 746:20	Carolina 736:15	859:13,18	1054:15	749:23 771:16
757:17,19,21	736:20,21	860:6,8 861:5	1055:13,24	865:20 869:18
812:18 949:3	carrying 938:15	862:3,15	1056:17	884:22
951:8 994:8	case 701:10	864:18 865:13	1057:5 1065:3	1041:20
1068:18	707:21 718:18	868:1,9 869:18	1066:11	causers 855:16
capable 924:20	722:24 728:20	869:23 870:15	cases 715:17	855:19
938:3	729:7,18	871:23,25	733:19,21	causes 860:1
capacitor	733:24 735:11	873:20 876:23	736:4,25,25	causing 776:23
978:18 1008:5	735:13,15,17	877:5 878:13	737:3 774:15	826:1 870:21
capacity 847:21	735:21,25	878:18 880:18	846:16 851:4	993:7 1007:13
847:24 850:21	736:7,13,15,16	881:13 882:1	871:24 926:20	1007:14
853:24 865:17	736:17,21	882:21 886:19	988:5,18	1062:4
865:19 879:4	737:11,12,16	886:25 889:13	1006:6	caveat 992:7
921:13,15	737:21 738:22	901:7 902:17	1030:21	995:18
927:12 947:14	740:20 741:13	905:22 906:20	1051:1	CCM 872:12
948:8,21 949:8	741:16 742:11	906:25 907:13	1054:16	901:22 956:25
976:12,14,21	742:21 744:5	925:22 926:22	Casey 703:18	987:3 1002:9
977:7,16,25	744:12,22	928:11,14	808:15 876:13	1036:12
978:11,14,17	745:11 746:4	932:13 937:11	902:3	CCO 903:12
978:22 979:4,5	748:25 750:16	937:18 938:12	cash 728:22	CCOS 1005:14
979:25 981:18	750:22 754:10	943:18 949:2	729:25 776:24	CCR 701:23
981:22,23	754:10 755:10	951:23 959:2	catch 901:8	1084:21
982:4,4 984:18	770:6 774:21	975:5 976:19	catches 993:23	CC&B 923:8
989:23	780:10,21	977:5 987:13	categories	Census 714:4,5
1004:25	781:5,6,8,24	987:15,16,20	769:21 775:4	714:25 715:6
1008:4	782:20 790:13	987:21,21,25	780:9,12 781:7	cent 1055:7
1010:11,12,21	792:25 793:4	988:21 991:24	941:14,25	1061:19
1011:2 1038:7	795:23 796:1	995:11 998:8	990:2,4,7	center 703:13
capital 715:17	802:13 803:5,5	998:13,16,18	caught 867:8,9	871:6
715:20 717:3	808:9 812:15	999:3,8,11,14	causation	centralized
727:24 728:1,9	813:7 818:13	1000:16,17,22	839:25 850:4	864:3 939:2
728:24 729:4	827:23,24	1001:3,11	865:22 874:24	cents 833:14,17
729:14 752:4	828:5 829:16	1005:1	879:1 881:6	833:25 834:14
752:18 753:9	831:25 833:11	1006:10	882:5 888:9	871:4 941:7,8
753:12,17,19	836:2,5 837:21	1016:23,24	892:15 893:4	certain 716:25
755:22 756:6	838:2,3,4,6	1024:4	902:14 936:8,9	742:5 767:21
757:1,12 839:7	840:15,16,17	1030:17,20	965:5 993:4	769:20 774:10
852:16,21	840:23 841:2	1031:8	1038:2,5	792:9 798:5
931:17 934:10	843:1,2,2	1034:13	1049:8	863:17,18
934:12	844:23 845:9	1035:1	cause 771:21	872:22 920:13
caption 1084:11	845:17,21	1039:15,18,23	854:22 866:12	951:22 990:18
capture 1066:12	849:15 850:16	1040:3,4,23	867:2 942:21	998:10,11
care 988:14	852:24 854:16	1041:21	1012:2	1019:9
1069:20	856:24 857:9	1042:4 1043:5	1044:16	1021:18
cared 1008:3	857:24,25	1043:9 1048:1	1049:6 1066:9	1022:3

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1023:24	842:12 848:15	1042:20	characterizing	1068:19
1036:23	872:8 876:8	1043:11	976:11 990:1	1069:4,16,25
1037:15	883:17 940:24	1045:11	1038:19	charged 833:24
1038:7	940:25 941:2	1047:12,20,23	charge 813:23	834:13 879:4
1051:12	953:24 956:14	1051:16	814:2,25 815:1	charges 826:6
1056:13,15,16	958:16 962:7	1052:16	815:4,18,23	826:17 841:24
certainly 713:12	987:6,8 996:18	1060:24	823:21,23	844:18 858:14
715:22 719:7	997:6 998:7	1061:6,9	830:10 831:14	870:20,24,25
727:6 765:24	1002:13,25	1066:7	831:17 833:5,8	871:8,15,21
770:14 794:3	1004:17	1067:14	841:23 844:16	872:3,4 877:18
801:12 802:12	1006:1	1068:7,25	844:18 858:13	877:21 878:2
806:9 860:11	1020:20	1069:7 1073:7	858:14 871:16	893:23 894:24
867:11 873:23	1023:14	1073:11	874:14 875:20	895:13 903:13
878:14	1049:21,22,24	changed 750:13	877:9,17	904:12,12,18
Certificate	1062:16	788:25 789:4	889:25,25	904:22 905:3
1080:25	1064:8 1067:9	963:21 968:14	890:2,5 892:6	930:9 936:19
1084:1	1068:16	1024:18	892:8,20,22	959:1 960:2,9
Certified 1084:7	1069:8 1078:7	1040:4	893:5,6,10	960:12 961:9
1084:8	1078:16,24	1073:23	894:11,20,23	961:15 962:3
certify 1084:10	1079:20	changes 708:8	894:24 895:14	962:21 971:4
cetera 749:16	1080:8,20	746:3 803:5	903:5,10,12,18	996:1 1055:1
Chair 718:13	Chairman's	824:7 885:3	905:3,18,23,23	1055:17,20
719:16,20	763:14 805:18	913:21 914:24	906:5,5 920:23	1064:18
720:2	chance 718:25	935:9 943:2	926:11,20	1068:24
chairman	724:6 733:2	947:6 974:13	930:8,15,16,20	Charlotte 906:9
701:18 705:10	764:15,17	1000:22	930:21,24	906:19
705:11,23,25	794:21	1040:1	931:9,11,14	chart 721:13
745:4,5,7	change 711:23	1051:11,15	936:22 941:7	723:18,23
753:21 756:18	730:7,8 741:3	1067:12	941:12 942:1	724:2 734:20
758:25 760:2	746:9 759:11	1071:22	944:3,16	734:24 773:25
762:25 763:25	759:11 794:15	changing 799:3	945:13 958:17	775:4 803:21
785:11,13	805:9 826:13	827:11 834:19	959:12,18,20	909:2 1009:14
787:4,6,11	833:20,25	905:19 907:23	960:9,14,16	1082:24
789:8,22	834:20 835:24	938:3 971:22	962:10,14,20	charts 723:20
802:20,21,23	836:3 864:6	992:18 993:1	1050:4 1051:9	1009:16
804:6 808:4	905:4,6,7,22	1040:14,20,21	1051:11	cheap 991:12,13
811:14,15,19	913:20 929:3,4	1044:14	1052:8,13,15	991:13
812:5,10,14,21	929:21,22	character	1052:25	cheaper 1069:2
813:1,4,15	935:10,18,19	1020:4	1053:6,10	check 807:11
816:9,10,18,23	935:23 939:14	characterizati...	1054:7,20	815:24 816:22
817:2,4,11,19	943:5,19,24	989:7,10	1055:1,6,25	872:25
819:18 820:9	961:20 966:6	1007:6	1056:5 1060:5	checking 817:18
822:11 825:19	968:25 969:2	characterize	1060:5,7	Chief 701:15
825:25 826:8	991:20 994:13	1055:3	1064:7,11,16	739:8 740:20
826:10 827:2	1040:18	characterizes	1064:20	741:7
827:15 831:1	1041:12	853:23	1065:4	chip 882:2

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

choice 880:18	805:11 810:20	classes 823:17	closely 969:7	1018:23
choices 873:15	821:16 823:18	829:1,3,6	closing 845:10	1019:18
925:11	823:19 824:1	830:2,4,5	Club 703:12,16	1043:14
choose 881:5	825:16 828:8	831:11 847:13	808:16 838:18	Coleman 701:20
907:16	828:14 830:11	848:8 849:15	876:9,14,16,23	789:15,16
Christiansen	847:7,13,18	849:20 852:4	877:3,15 878:8	804:12 996:23
918:11 919:9	849:16 852:17	853:4 854:22	878:21 880:9	collect 858:14
circuit 949:7	852:19 855:6	854:24 859:9	881:23 883:1	870:17,18,19
circuits 947:13	855:11 856:3,4	872:20 873:8	883:25 901:23	870:23 871:14
947:18,24,25	858:12,21	873:25 874:11	902:3 904:10	871:20 936:18
circumstances	859:4 871:6,7	888:1,23 898:4	909:11 957:1	1064:24
907:23	873:8 874:12	936:11 940:15	964:13 965:24	collected 872:3
CIS 900:5	887:13,16,17	1000:24	970:14 986:19	872:4 936:14
cited 851:6	887:25 888:5	1001:9 1007:2	1001:25	936:14
855:10	888:10 889:1,7	1054:1	1015:25	collecting
City 701:7,10,24	889:11,15,17	class's 1010:7	1017:25	841:22 871:6,9
702:7,12,14,17	889:24 890:10	clause 769:10,15	1034:13	936:21
702:20,22,23	893:5,12,14	771:17 800:21	1065:17	collects 888:2
704:6,10	902:8 912:8,15	800:22 801:1	CME 720:18	color 766:13,13
734:11 741:12	921:21 935:14	802:10 927:24	721:10,16	766:21 767:13
741:15 754:6	935:24 936:11	clauses 800:15	722:11 723:23	791:3,6,13
800:7 851:11	936:13 968:22	cleans 811:4	724:19,22	1010:16
854:9 855:25	974:7,16	clear 765:11	1082:23	Colorado
872:12,12	980:15 985:15	786:25 799:10	coal 978:20	868:20
884:20 897:7	989:19	823:1 840:16	1008:6	colored 782:9
897:25 927:18	1000:19	843:7,16	coast 926:12	Columbia
948:8,20 951:3	1001:11,12	853:25 862:17	coasts 894:19	703:24 868:21
1063:14	1006:16,24	903:6 908:3	coded 767:13	column 731:3
claim 854:3	1007:5 1010:6	1009:22	791:6,13	787:16,17
clarification	1010:6,21	1024:5	coding 766:13	833:19 836:15
886:14 887:7	1011:2,23	cleared 802:6	766:13,21	836:16,23
894:3,15	1014:7 1017:2	1034:11	791:3	867:16 980:20
1036:23	1021:17	clearer 843:11	Coffman 703:3	980:20
1039:4	1022:2,2,4,7,8	clearly 752:19	872:12,14,15	Columns 980:13
clarified 985:10	1022:15	995:14	877:22	combination
clarifies 983:1	1023:20,22,22	client 842:21	1079:10	924:8
clarify 767:9	1023:23,24,25	client's 1001:9	cognizant	combinations
769:4 791:5	1036:19	climate 967:21	866:19	828:20
940:14 966:9	1038:25	climates 827:14	1007:21	combine 953:14
984:22 995:20	1041:6,7	clock 793:11,22	coincident	combined 829:2
1018:13	1050:12,13	close 740:2	850:12	923:8 953:13
1025:12	1051:17,25	751:15 818:14	coincidented	combining
1027:13	1053:17	926:24 981:10	847:10	820:1 953:17
1034:1	1054:2 1055:5	1051:10	coincides 782:6	combustion
clarity 769:9	1060:13	1054:11	cold 945:6	978:18 979:7
class 766:9	1069:18	closed 852:22	963:10	come 707:1

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

716:24 734:11 734:18 755:17 757:13 809:12 814:2 843:10 846:24 879:3 884:6 916:19 989:22 990:4 1007:24 1022:23 1029:1 1060:11 comes 716:7 782:4 831:13 834:16 1026:16 1052:21 comfortable 820:2 908:6 980:8 coming 809:6 823:4 881:16 1020:20 comingled 894:19 comment 1004:17 commented 718:22 comments 770:10 782:9 822:1 Commerce 712:22 714:6 715:1,7 716:8 commercial 732:5 866:4 commission 701:1 702:2,6 721:1 731:18 735:15 737:21 738:21 740:19 741:6 742:5,20 742:23 744:4,9 744:15,18 748:1,1 749:4 750:25 755:11	756:20 760:8 769:10 771:11 771:13 794:3,7 794:11,16,20 801:16 802:8 805:4 809:6,22 813:6 823:14 825:11 827:22 828:1,3 829:25 830:24 831:7 832:19 836:4,7 836:11 837:16 837:22 838:5 839:8 842:20 843:4,9 844:3 845:7,11 846:7 846:12,15 847:10 850:14 850:17 851:2,5 854:16,18 855:9,24 856:3 857:17 861:2 866:19 867:20 867:22,24 869:17 872:1 872:16 873:6 876:13,24 877:20 878:1,6 878:14 879:9 880:18 881:4 881:23 883:1,5 883:10 886:6 902:5,12 903:10,16,20 904:1,6 907:8 907:13,18 908:3 915:22 918:13 919:10 923:18,21 925:8 926:1,5 942:7 944:2 946:3,24 961:13 974:11 987:12,14 988:1,7,10,18 990:18 994:24	995:4 998:7,11 998:13,14,16 998:19 999:3 1001:2,6,18 1006:9 1007:21 1042:17 1047:10 1050:7 1059:9 1063:11,13 1068:12 Commissioner 753:25 754:5 757:3,6,7,9 761:11 789:12 789:13,14,16 804:9,11,12 807:19,20,21 808:3,11 813:19,22 814:4,14,24 815:5,8,16,19 815:25 816:4,7 817:22,23,24 818:8,12,19,24 819:19 821:13 827:18 831:2 832:8 848:16 883:18 951:22 954:3,4,5,7,9 954:16 996:22 996:23 1062:21,23,25 1075:21,24 1076:6,15,20 1077:1,3,6,9 1078:8,9 1079:21 1080:21 Commissioners 701:17,20 793:24 837:25 957:20 973:2,4 973:11 1009:23 Commissions	732:20 751:5 751:19 857:21 862:10 Commission's 742:25 829:21 837:19 842:25 843:15 878:10 879:13 902:17 902:24 924:25 925:6,16 Commission-o... 974:12 committee 718:15 719:21 common 746:24 918:2 community 727:4 companies 732:7 751:19 1005:13 company 702:22 705:13 735:13 736:16 737:22 743:11 751:17 760:8 769:12 769:16 770:5 774:15,18 778:14 780:14 797:19,19 817:5,7,21 819:1 820:18 820:23 821:4 823:24 825:13 825:20 826:7 826:23 831:12 832:5 834:6 835:8 845:4,8 845:13 862:19 881:9,16 886:16 887:19 888:2 889:15 890:10 893:3 898:1 899:21 902:9 909:15 910:5 911:5,25	912:5,24 914:2 914:5,16 915:1 915:18 916:12 917:6 920:13 921:6,9,16 922:4,11,20 923:20 924:20 925:20 926:19 927:13 928:16 932:10,14 933:25 937:18 937:25 938:2 938:20,25 939:7 941:15 942:16 943:6 944:18 947:1 947:13 955:6 960:3 962:25 964:18 968:1,3 971:13 993:16 994:15 995:5 996:10 997:22 1002:19 1005:22 1006:20 1016:17 1021:8 1029:20 1031:10,17,19 1033:11,13 1040:24 1041:7,13 1042:3,3 1045:1,5 1057:1 1059:9 1059:9 1061:25 1064:13,23 1066:25 1071:21 1072:2,6 company's 701:10 741:16 743:21 774:4 775:6,21 776:17 777:14
--	--	---	--	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

790:13 816:19	competition	985:20 986:1	1059:2	consequences
817:13 824:19	768:8	computing	1069:11	824:11 1040:6
825:15 829:11	competitive	715:19	concluded 929:2	consequently
829:12 831:9	859:20 867:4	concept 827:3	987:17 988:1	852:1
835:24 841:22	competitiveness	872:4	1077:15	conservation
844:15,23	859:16	conceptually	conclusion	826:1 875:5,25
859:6 880:19	complete 767:20	850:17	792:13 862:8,9	876:1 877:1
880:22 881:1	767:21 801:17	concern 751:20	conclusions	879:8 907:12
882:6 887:13	801:20 882:10	824:16 841:20	843:10,11	918:3,5,8
887:25 888:5	completed 824:8	899:19 939:3	concur 903:13	931:10,13
889:7,10,23	825:12 881:16	944:14 945:16	condition	964:15,24,24
890:4,15 898:7	901:19	945:17,18,19	1071:2	965:2,2 1030:8
920:7,19	completely	946:12,21	conditioning	1044:6
921:24 941:6	829:14 860:15	962:22,23	866:13 963:8	1061:11
942:15 943:4	945:16	963:5 967:10	conditions 938:3	conservative
943:17,17	1001:19	968:25 969:2	condition's	831:20
949:12,24	1027:21	970:7 981:20	939:11	conserve 838:22
958:25 959:2	1054:3	982:2 983:18	conduct 914:16	839:16 880:25
959:12,19	complex 846:23	991:9 992:14	conducted	903:14 907:16
964:6 1005:15	846:24 861:7	1014:20,23,24	1007:9	964:1 1019:13
1005:15	complexity	1015:1,5,8,16	1062:12	1045:19
1041:25	971:19	1025:16	conducting	1066:9
1042:21	compliance	1026:6,12,24	713:11 924:20	conservers
1043:20	923:24	1042:24	confer 764:6	875:8
1071:16,23	compliant 995:5	1043:1	765:18 948:14	conserving
comparable	1059:10	1058:22	956:2,12	1048:12
868:6 1006:9	complicated	concerned 741:2	conferences	consider 850:12
compare 777:9	816:24	810:15 820:17	1040:9	875:11 902:13
781:12	complies 797:20	840:20 877:7	1063:22	913:21 914:7
1076:17	complying 800:7	944:21,22	confident	915:10 922:11
compared 781:3	800:9	962:25 963:1	911:11 999:13	949:2 952:3,12
862:18 906:5	component	971:18	999:21	952:13 967:5
1029:3	848:2 850:19	concerning	confidential	consideration
1035:11	850:19,20,24	808:21 903:5	760:15,17	862:6 888:10
comparing	865:20 887:15	910:2 938:18	767:24 768:7	925:23 943:14
817:4 1035:15	961:23	concerns 753:9	768:12 786:11	1007:15
1035:24	components	820:4 840:2,3	confirm 719:19	1012:13
1036:6 1065:8	854:21 869:8	841:10 864:4	906:24	1067:23
comparison	992:4	881:18 938:23	1059:17	1068:5
817:9 837:8	compose 899:9	946:8 947:10	confused 788:9	considerations
compatible	comprehensive	966:17 967:7	894:1	842:7,11 875:1
1007:20	914:3 915:15	969:3 970:2	confusion	887:6 893:14
compelling	996:1	1042:14,16	1044:17	967:3 1012:12
875:2	comprise 985:6	1054:22	Congress 718:15	considered
competent	985:19 986:9	1055:2	consequence	776:1 780:19
845:13,18	comprises	1058:19	1027:19	824:9 844:3

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

867:21 874:24	703:2 716:19	777:17,22	convenient	718:8 719:16
878:15 890:12	856:19 872:16	778:1 791:11	793:22 972:3	719:25 720:3
903:21 916:2	874:12 875:9	810:8 813:8	conversation	720:15 721:5
945:2,10	905:14	868:8 921:16	923:6 992:11	721:22 725:24
946:11 966:12	1029:20	944:12 1063:1	conversations	726:10,16
967:18	1048:24	continued 703:1	991:24 993:15	727:25 728:4
considering	consumes 906:2	704:1 723:14	conversely	728:14,17,22
943:12 946:20	906:3	954:13 1079:1	845:17 1037:7	728:25 729:10
considers 850:3	consuming	1080:1 1082:1	conveys 1008:24	729:18 730:1
850:6 902:9	977:11	1083:1	convinced	730:10,14,25
908:4	consumption	continuing	755:18	731:7,11,15,19
consistency	830:8 841:13	718:17 907:10	cool 826:20	732:13 733:13
953:1,8	841:15 879:12	contract 707:24	963:12	733:22,23
consistent 922:6	891:2,6,17,20	contracts 777:6	cooling 967:17	734:1,12,13
consistently	907:21 908:22	contractual	copies 705:16	735:9,22,23,25
847:2 873:2	908:24 917:14	978:1	731:5 739:3	737:1,7 739:22
consolidated	929:4,22	contrary 797:25	765:12 806:1	740:15,22
971:11 993:22	930:22 933:16	822:20	832:14,15	741:9 742:7
1039:25	934:2 986:12	contrast 743:20	copy 717:9	743:1,9 744:4
consolidating	1037:14	957:17	719:20,22	744:13,19
971:17	1061:6 1062:4	contribute	721:15 722:4	746:1,4 750:23
1004:22	1067:10	851:22 855:3	732:24 733:1,3	750:24 751:6
constant 711:24	contact 801:25	865:24	737:19 773:15	754:16,19
712:1 728:21	contain 912:21	contribution	779:15,16,18	772:9,16
757:24 758:1,6	contained	708:3 855:17	779:21 797:13	773:23,24
construct	779:10 885:7	887:16 965:20	849:3 902:19	774:1,2,10,11
992:19	916:23 974:21	965:22	906:12,15,18	776:10,11,20
constructed	974:25	contributions	918:20 925:1	780:7,8 781:8
870:19	1012:15	848:1 885:3	952:18 976:16	781:9,21
1070:20	contention	control 719:11	980:24 982:6	783:12 784:10
construction	904:17	758:19 776:10	1008:13,14	788:23 789:25
743:13 950:15	contents 708:14	776:18 777:23	1036:19	791:7,9,16
950:16	742:13	780:18 831:18	1076:16	792:4 793:5
Consulting	context 802:14	870:25 875:23	1077:2,2,4	800:11,14,15
918:12	908:7,12	876:4 877:22	core 937:24	800:22 801:1,2
consume 878:4	926:16 957:23	903:14,22	corporate 710:2	801:5,10,19
878:5 903:14	958:4	963:17,17	Corporation	802:5,8,11
909:6 917:20	contiguous	1047:1,13	918:13 919:10	804:3 811:17
917:23	948:1	1054:8	correct 705:23	811:21 812:25
consumed	contingency	controlling	708:15 709:23	813:3 816:16
908:14	947:15	844:2,7	710:9,18,22	868:11 886:7
1037:10,11	continuation	controls 719:8	711:8,12,17,24	887:22 889:3,4
consumer	819:12	controversial	713:11,23	890:2,3,6,18
716:18	continue 710:25	873:14	714:2 715:1,6	891:2 894:20
1044:20	726:9 727:1	controversy	715:17 717:1	896:14 899:14
consumers	773:25 777:13	1007:13	717:12,18,21	899:17 902:10

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

902:11,14	974:20 1012:6	865:22 867:12	1052:19	952:3 953:23
904:24 905:5	1012:8,13	869:14 872:20	1053:18	955:13 958:17
905:24,25	correctly 706:16	873:1,11,13	1054:3	958:21 959:21
908:16 909:18	719:11 739:19	874:24 875:21	1068:20	960:3,4,11,21
910:7,15 912:3	886:5 914:5	876:20 879:1	1069:18,22,23	964:23 965:6,8
915:3 916:8,24	919:15 925:13	880:6 881:6	1071:22,24	965:10,18,18
917:3 918:17	926:13,14	882:5,23	1072:4,5,6,11	965:21 970:19
920:4 921:11	980:13,16	887:13,15,17	1074:18,25	970:21 971:1,3
922:12 926:15	981:24	887:25 888:6,9	costly 839:6	976:21,21
928:15,17,18	correctness	888:10 889:7	costs 727:24	977:1,7,14
935:16,17,21	1014:20	889:16,17,24	770:6 774:1,3	978:15 980:1
935:25 940:10	correspondin...	890:10,20	774:8,13 775:5	983:2 989:16
941:13 947:15	904:12	892:6,6,15,20	775:11,17	989:20,21
947:16 950:24	corresponds	892:20 893:4,5	776:4,5 777:11	990:5 992:16
955:1 960:20	853:18	893:12,14	777:12,16	992:17 993:7
975:18 978:8	cost 708:3	902:8,13,14	778:12,22	994:4 997:17
979:24 983:24	715:17,19	907:24 920:7	780:5,16,19	1006:15
984:8,13,18	727:13,15	920:25 921:21	782:1,4 788:12	1037:9
993:9 995:12	728:1,9 763:1	935:14 936:8,9	792:20 820:17	1043:21,22
998:8 1000:9	763:19 766:9	952:3 955:5	820:21,22	1049:13
1000:12	768:10 771:18	958:6 961:8,23	821:1,4 824:20	1051:12
1014:7 1020:2	772:12 775:20	965:4 970:15	826:4,14,25	1052:7,14
1025:15,20	776:9,12,14,19	974:7,17 977:9	829:7,9 839:24	1053:19
1026:3,18,24	776:22 777:2,9	977:10,16	847:12 848:4,8	1071:16
1032:2 1034:5	777:21,25	978:11,17,22	849:14,24	1072:3
1034:5	778:7 779:1	979:5,25	850:4 851:22	cost-based 847:3
1041:25	780:1,2,11,17	980:15 987:15	852:1,12,16,17	Council 703:2
1045:18	780:24 781:2	989:15,23,24	852:21,22	703:12 872:17
1046:23	781:13,19	991:10,16	855:1,16 859:8	874:13
1050:4,9	785:17 787:13	992:22,22	865:15,17,25	counsel 702:9,11
1058:14,18	789:23 805:11	993:4 1000:19	868:15 870:4,5	706:2 709:3
1060:22	808:21 810:21	1001:12,12	870:9,18,18,20	733:3 738:3
1072:19	814:9 821:16	1004:24,25	870:22,23,25	740:5 743:9
1076:2	825:16 828:8	1005:1,9	871:3,9 872:3	761:17,18
corrected	828:14,22	1007:2,2,4	876:25 879:4	762:20 764:16
736:24	829:4,5 830:7	1011:24	888:1 890:15	769:3 770:8,18
1014:11	830:22 839:24	1014:7	890:18,22	773:5 774:18
correcting 983:9	847:13,16	1036:19	892:17,18	779:13 782:18
correction 766:1	849:17,21	1037:11,15	893:9 894:6,7	786:15 789:18
981:18,19	851:9,15	1038:2,5,25	894:7,10,18,19	794:24 797:7
983:17 1014:4	852:10,14	1044:19,20	895:13 919:24	803:25 804:15
1014:5,8,9,10	854:22 855:11	1048:24	920:10,14,19	806:3 807:22
1015:14	855:16,19	1049:3,6,8,8	920:21,22	808:14 809:4
corrections	858:21 859:5	1050:24,25	922:5,23	809:10,21
708:8 772:1	859:21 860:1,3	1051:2,16,25	926:11 936:10	810:2 817:8,10
796:19 974:16	860:13 865:20	1052:1,2,3,18	936:12,18	819:20 820:2

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

821:15,22	977:23 991:23	critical 859:20	1039:9	currently
822:2 831:4,8	999:20	864:18 869:4	1049:23	710:15 726:12
831:22 838:23	courses 820:19	criticism 844:4	1062:24	766:16 770:7
838:24 840:1,5	court 712:18	852:25 853:22	1078:4,6,7,8,9	780:3,6 791:8
872:19 901:13	1011:19	853:23 976:6	1078:14,15,16	806:15 817:25
901:21 902:3	1063:11	criticize 851:25	1078:22,23,24	821:1 826:11
902:24 939:21	1084:8	criticized 739:10	1079:15,16,17	833:12,21
954:10 957:7	Courthouse	critique 910:2	1079:18,19,20	834:6,11
964:13 965:4	846:23	cross 709:3,8	1079:21	849:17 869:12
965:24 970:14	Courts 842:10	764:9 773:9	1080:5,6,7,8	881:10 882:10
971:2 972:13	842:19 843:19	782:25 785:8	1080:16,17,18	923:1 987:25
972:21 975:24	843:24	785:10 789:18	1080:19,20,21	1024:15
996:25	cover 964:23	797:2 810:21	cross-examined	1032:18
1003:21	965:8 966:4	828:23 866:18	736:14	1035:21
1004:3 1013:9	971:1 1002:25	885:15 897:10	crystal 843:7	1051:9
1039:7 1064:2	1056:23	901:2,21 927:2	CSR 701:23	1073:12
1075:19,22	covering 933:6	934:20 939:21	1084:21	1076:14
1077:12	CP 855:21	975:17 981:3	CS-24 797:23	customer 801:24
Counsel's	861:16	986:19 989:6	CTs 989:18	811:5 823:21
769:13,20	craft 1059:10	1001:21	cumulative	823:23 824:9
782:21 873:21	1060:16	1013:8	1042:4	830:9 831:13
count 982:15	1061:25	1015:21	current 705:16	831:17 833:5,8
counter-prod...	crafting 1060:19	1036:10	705:17,21,22	834:12 835:7
852:19	create 714:10	1039:8	711:6 720:2	841:17 844:15
counting 854:14	763:8 838:20	cross-examina...	722:21 724:14	844:16 847:13
854:25	839:1 841:19	709:1,13	725:17 732:7,8	847:19 848:1
country 827:12	881:6 882:7	723:14 736:18	732:15 760:3	849:15 858:13
924:13	883:12 1032:5	745:6 754:4	774:6 781:20	861:4 871:16
1062:10	created 765:12	757:8 773:3,5	790:14,16	874:11,14
1063:21	1036:24	773:11 783:4	792:19 803:5	875:20 876:4
counts 867:22	creates 879:7	785:12 789:20	821:3 834:1	877:1,9,17,21
county 951:4	891:1 917:19	793:19,25	835:24 836:10	877:21 878:2,4
1063:19	creating 946:6	797:6,9 800:3	880:19 882:6	887:16 889:7
1084:5	credence 739:14	802:22 840:8	889:23 890:1	889:11,25
couple 705:19	credentials	885:21,24	912:10 930:16	890:2,5 891:13
710:18,24,24	743:19 848:24	900:24 901:20	930:20,23	892:7,18,21
718:21 751:7	credit 740:12	901:22,25	933:5 949:24	893:5,6,9
767:8 800:5	761:5,5,7	927:6 935:2	952:10 958:7	898:9 903:5,10
816:11 832:22	Creek 861:9	939:25 941:1	965:16 995:3	903:12,18,22
842:8 901:3	989:16	954:6 975:23	1024:16	905:1,5,23
936:24,25	cri 777:1	975:25 979:13	1031:20	906:2,3,5,5
948:18 954:14	criteria 774:10	979:16 981:7	1032:3,5,13	912:14 914:8
981:6,13	775:18 776:9	987:7 1013:8	1035:9,11,15	914:13,18
course 705:14	776:22 777:2	1013:13	1035:24,25	915:14 916:9
770:16 778:5	778:4 781:3	1016:4	1042:18	919:15 925:11
865:3 977:14	criterion 774:12	1036:15	1046:9	927:14 930:15

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

930:16,20,24	824:15,21	984:10 991:5	903:14	dated 717:8
931:9,11,14	830:7 831:20	991:10 992:20	customer-rela...	724:9,12 899:5
941:6,12 942:1	832:5 837:13	997:19	892:5,19	918:13
944:3,16 945:7	838:21 839:1,3	1016:13,18,19	1050:18	dates 736:3
945:13 947:7	839:6,16	1016:20	1052:7,14	Dauphinais
950:21 951:16	840:23 841:5,6	1017:1,9,19,21	1053:14,19	706:15 793:17
952:3,4 958:17	841:7,19 842:5	1018:2,3,7,15	cut 758:20	794:24,25
959:1,11,18,20	844:10,11,20	1018:20,23	cutoff 1010:23	795:2,18
959:22,23	844:21 847:5	1019:2,5,6,7	cycle 758:4	797:11 800:5
960:4,14	849:20 851:22	1019:12,13	829:17 833:24	804:24
961:17 962:9	852:4,11 857:4	1020:15,25	933:8 934:11	1083:10,12,14
962:13,19	857:14 858:6	1021:10,11,16	D	DAUPHINAI...
963:1,2,3	859:22,23	1021:18,22	D 701:14 705:1	1078:20
966:24 968:6	860:4,4 866:4	1022:1,4,15,17	1078:1 1079:1	David 704:9
968:22 971:9	866:11,14	1023:10,24	1080:1	770:22 771:8
971:14,18,20	867:6 869:9	1024:19	daily 725:24	771:15 772:21
971:22 992:15	870:4,5,9	1026:23	dampen 904:13	856:18
993:5,7	871:1,11	1027:3,9	904:18	1078:12
1006:21	873:24 874:7	1028:13,14,21	danger 751:17	1081:9,10
1007:5	875:10,17,20	1028:21,22,24	dangers 752:3	day 710:20
1018:22	877:17 879:7	1029:15,16	DANIEL 701:18	711:2 724:13
1022:10	879:25 880:4	1031:4,24	data 716:9 717:3	724:16 728:11
1023:18	880:16,23,25	1032:14,16	728:16 730:23	799:18 808:19
1026:1 1028:4	881:5,7,25	1033:13,15	745:21,25	855:7 863:4
1029:2,10,12	882:2,8,17	1034:15,24,25	746:3 747:19	967:25 968:4,7
1040:14,18,22	883:3,13	1035:7,8,12,13	749:14 750:17	973:12
1046:1,4,6,7	890:17 894:17	1035:19	755:24 782:18	1048:20
1050:3,17	895:14,21	1036:1,3	782:21 784:3	1049:12
1051:9,11	896:9,13	1044:14	835:14 881:19	1075:16
1052:8,13,15	899:20 900:4	1045:8,15	889:17,19	days 710:7,20,20
1052:25	904:23 905:24	1046:15	890:12 897:6	710:24 794:10
1053:6,10,12	907:15 909:6,7	1048:13	897:24 898:2,8	809:24
1054:7,20	909:17 910:14	1049:6	899:15 900:12	DC 703:10
1055:1,6,25	911:19 912:2,8	1051:14,15	902:9 908:14	DCF 712:6
1056:5 1060:5	914:4 915:6	1053:20	908:16 910:6	757:18,21,23
1060:5 1064:7	917:20 920:3,8	1054:8	911:9,12 912:1	758:6
1064:11,16,20	920:14 922:7	1055:10	912:6 913:3	DE 833:14 838:8
1065:4	922:10,22	1056:12,13,15	915:9 942:24	838:16 968:16
1068:19	923:3 924:15	1056:16,20	942:25 968:18	1018:16
1069:4,16,25	927:17 947:17	1062:8,9	968:20,21,25	1033:10
1072:19	961:6,21 963:8	1067:16	1006:5 1042:5	1034:23
1074:18	963:11 964:10	1070:9	1042:10	1035:18
1075:10	964:20 965:25	1072:13,15,18	1083:17	1060:21
customers	966:15,18,20	1074:6,24,25	date 745:19,25	1065:2
760:11 778:15	969:11 970:24	1075:6	917:2	deal 745:24
799:5 824:14	982:18,20	customer's		1057:17

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

dealing 738:1 798:17	837:18 838:11 878:13,15	deduct 955:6	1028:5,13,23 1028:25	1061:16
dealt 988:23	879:2,10	Defense 703:12	1029:1,11,15	depending 793:21 794:16
debated 874:23	907:20 917:18	defer 1002:23 1003:7	1029:19,21	798:20 826:24
debt 752:25	919:11 928:13	define 769:20 891:8	1037:9,24	873:7 1056:6
December 711:21 718:7	960:22 961:1	Definitely 709:9	1038:1	1059:12
719:2 741:18	965:16 995:3	definition 830:15	1044:22,25	1060:8,12
747:14 887:20	1023:17	1000:12	1045:4,9	depends 792:22
887:21 951:23	1024:16	1029:1	1048:16	924:23 943:21
decide 858:6	1031:23	deflect 853:21	demands 829:2	1041:9
860:20 946:14	1034:3,16,21	degree 849:6	847:22,23,25	1047:23
953:6 998:16	1037:2,22	872:22 880:12	851:15 865:24	1066:20
998:19	1038:6	903:21	981:21	deployment 882:15
decided 735:14	1043:17	delay 883:4	1010:18	deposits 807:24
819:10 858:4	1058:1	delegation 846:17	demand-related 847:11	depreciation 812:19
858:11	decommission 922:12	Delmarva 735:12 737:21	1037:15	DEPUTY 701:15
1054:14	decrease 834:17	738:21 739:17	demonstrated 753:20 781:17	describe 908:21
deciding 777:5	836:21 837:11	739:24 740:22	Dentons 702:19	917:23 923:20
902:10 998:22	837:18 844:19	demand 839:10	Denver 703:19	described 1044:3
decision 736:10	917:25 921:14	839:20 840:11	Department 703:7 712:22	1056:24
736:12 740:20	944:17 959:13	850:3,7,22,25	714:5,6 715:1	describes 879:5
741:5 744:12	1019:23	850:25 851:23	715:7 716:7	879:16 882:4
744:14 754:25	1020:7	852:3,5 853:3	717:8 743:3	919:8 1030:4
859:14 890:13	1027:11	854:15,22,23	846:3,8,16	describing 715:3
955:21	1032:13	855:1,3,17	847:8 851:8	877:23
1034:21,23	1034:18	858:14 861:16	855:20,21	description 1060:2 1081:2
1035:1	1034:18	862:1,4,6	901:22 957:1	1082:3,13
decisions 778:14	1054:24	864:17,20,25	968:16 981:5	1083:2,7,9,16
824:7 860:2	1056:1,7,12,13	865:13,14	981:13 992:13	descriptions 791:6
876:19 956:9	1056:16,20	866:1,6 867:23	994:6,11	design 705:8
decision-make... 943:10	1058:25	869:3 871:15	1001:22	805:11 808:21
declares 798:20	1061:10	871:20 872:3	1003:22	810:20 821:16
decline 727:24	1062:3	890:16 893:23	1015:23	821:20 822:6
727:25 834:14	1068:20,24	894:6,10,18	1065:15	823:14 824:3,8
879:25 880:1	1074:20	895:13,13	departure 912:9	824:23 825:17
880:13 920:3,8	decreased 830:8	926:11,12,20	depend 950:7,10	828:1 830:18
970:18	1032:7,12,17	928:24 929:3	1041:10	830:20,22
declined 713:5	1043:18	929:21 930:22	1043:24	832:23,25
declines 759:16	1046:12	934:1 980:4,4	1046:3 1047:4	833:10,13
880:20 921:13	1056:14	982:3,16,20	1055:4	836:8 837:13
970:15	decreases 725:23 834:8	1003:14	1060:13	
declining 823:25	931:9 1035:18	1010:19	dependent 1043:22	
825:21 826:12	decreasing 1032:4			
827:2 834:7	1067:10			

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

837:17 838:25	1049:1,9	1007:3	830:1 883:5	978:10 983:11
839:5,21,23	1052:21	details 832:1	1047:7	1001:11
840:3,10	1053:23	931:6 1002:23	determining	1005:11,12,17
841:12 843:22	1056:19	determinant	719:12 812:6	1005:23
843:23 844:13	1061:15	1039:15	838:7 850:3	1006:13
845:12,16,20	1064:21	1040:10	908:5 952:4	1007:8 1015:3
856:4 857:23	1081:4	determinants	detriment	1046:5
858:11,13,17	designate	829:12 900:1	866:13	1066:12
870:13,16	993:11	995:8,25	detrimental	differences
872:18 874:24	designated	996:15	871:11	766:21 829:8
876:22 877:8	830:16 989:9	1002:20	develop 844:5	1005:8,12
877:23 879:15	997:11	1003:2	977:2 984:21	1015:11
880:19,22	designed 870:17	1010:24	991:23 996:6	different 748:10
881:1,2,5,11	888:6,15	1016:25	developed 782:4	748:12 749:5
882:6,23	1023:12	1017:5,14	881:19 996:14	750:16 765:10
886:18,22	1024:3	1020:18	1023:13	768:3 769:23
887:5 889:18	1025:21	1022:5 1024:3	1052:8,18	783:23 784:3
890:15 891:1	1031:7	1039:17,20,21	developing	790:12 809:11
891:12 892:15	1037:19	1040:11,25	979:25 1010:8	814:7 817:8,10
893:22 895:12	1043:24	1041:8,16	1020:23	819:24 820:20
903:21 907:14	1066:15,16	1042:2	development	827:8,11,12,14
907:18 912:10	1070:8	1043:10	873:25 930:3	831:11 834:6
913:20 915:14	designers 894:7	1046:13	994:14 1004:5	838:5 842:11
916:8,15 917:8	designing	1059:11	developments	851:12 854:7
919:12,21	1061:14	1060:9	727:12	857:21 861:18
921:22 923:4	designs 835:25	determination	deviate 893:12	868:3 891:10
924:18,22	837:23 838:20	780:17	deviated 893:3	891:22 908:24
925:24 926:10	878:12 887:4	determine	deviating 889:15	914:22 921:21
926:17 936:6	915:24 916:1	763:16 774:9	890:10	923:17 947:6,7
943:11,13	930:4 1040:12	775:16 780:12	DE's 841:11	952:20 967:22
967:4 971:10	1046:6	781:3 798:24	881:2 899:18	977:6,7 985:9
973:1 974:7	1049:11	858:20 859:16	900:11 966:24	986:15 989:21
977:5 980:15	desire 922:21	883:10 887:15	1031:25	993:21 1001:3
988:23	953:1	912:12 924:6	1033:2,2	1001:19
1011:23	desired 888:3	944:2 946:3,24	1034:12	1009:16
1020:13,22	desk 910:23	955:12 966:24	1035:11,16,24	1037:17,19
1021:3	despite 921:17	994:24	1036:1 1065:5	1040:11,11
1022:22	detail 766:14	1002:19	1065:6	1041:11
1027:17,19	779:6 811:8	1003:12	diagram 836:15	1048:14
1030:4,7	929:19 937:21	1056:24	948:6	1049:10
1033:3 1037:2	971:14 999:24	determined	Diego 755:7	1061:19
1037:8 1040:1	1004:9	793:3 829:20	difference	1062:9
1042:19	detailed 766:20	915:6 956:5	850:25 891:5	1076:10
1044:4,6,11,14	801:8 883:8	988:2,18	891:16 905:20	differential
1044:15	976:19 984:16	995:17	941:20 952:23	1058:25
1048:5,23	987:22 990:14	determines	954:25 976:13	differentiate

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1072:18 differentiated 922:23 923:2 924:14 differently 861:17 978:7 980:8 1018:2 1074:2 difficult 756:15 864:12 938:4 938:24 993:10 993:17 1072:17 dire 722:14,16 1078:5 direct 707:7 763:19 765:2 766:8 767:10 767:11,15 770:25 771:4 771:16 772:12 772:14 783:10 786:7 790:4 795:5 796:9 803:23 829:12 830:21 844:9 849:1 856:5 875:24 877:3 878:22 884:12 884:22 887:8 906:9,20,25 908:10 916:22 918:19,23,24 919:3 935:5 940:3,4 969:14 973:22 975:2,4 1011:14 1012:11 1014:11 1025:4 1051:13 1078:3,13,21 1079:14 1080:4,15 1081:3,4 1082:13	1083:10 directed 798:22 direction 1059:6 1059:8 directly 719:8 759:8,10 763:18 765:1 922:1,3 1050:20 disadvantage 867:4 disagree 740:25 872:21 978:24 979:1 989:12 disagreed 1030:13 discarded 744:18 discharge 978:19 disclaimer 811:5 disclose 768:2 discount 719:1,9 759:9 991:7 discounted 728:22 729:24 discourage 1071:7 discredit 854:5 discredited 872:23 discretion 966:19 discretionary 874:8 967:18 discuss 706:19 734:3,5 797:16 800:20 805:1 820:14 835:3 916:7 992:8 1042:14 discussed 803:18 827:9 932:17 991:3 995:19 997:12 discusses 982:14	discussing 932:15 999:24 1046:5 1064:6 1067:10,22 1069:16 1070:23 discussion 734:7 742:4,15 744:19 746:16 769:6 773:22 802:13 810:7 832:21 837:22 902:7 910:1 916:6 926:22 982:24 997:8 997:13 1037:2 1064:11 discussions 794:5 810:8 911:6 1075:25 disfavored 854:13 disincentive 891:2,6,17,20 917:15,20,23 dispatch 864:3 939:2 dispatched 828:15 863:10 dispute 904:16 disputed 828:21 disputing 909:16 distinction 864:19 869:5 989:13 distinguished 987:22 distribute 806:2 distributed 836:12 877:2 distribution 735:21 739:16 740:1,7 826:6 826:19 870:4,5 870:8 951:16	960:6,19 993:12 1042:5 1042:5 District 868:20 districts 971:11 971:17 diverge 831:12 divide 858:5 937:25 990:3,6 1053:20 divided 1051:13 dividend 715:20 727:9,16 728:2 749:25 750:11 dividends 728:5 750:6 dividing 854:20 1004:22 Division 824:22 831:25 832:12 832:20 833:4 834:25 835:25 836:1,8,19 840:13 844:5 845:17 858:23 877:11 879:19 880:21,24 885:22 886:18 891:1 897:3,6 897:24 898:15 898:19,24 899:5,13 900:20 901:19 906:10,20 911:2,6,12 917:15 928:13 956:23 986:25 995:11 1002:6 1002:21 1003:24 1004:3 1005:5 1016:12 1017:24 1024:23 1032:1 1036:12	1041:1 1065:23 1083:15 Division's 832:22 946:17 947:2 doable 705:20 docket 762:11 923:18,22 925:1,6 926:2 948:3 1076:5 Doctor 709:15 document 763:8 763:24 779:23 811:4,12 897:8 897:18,21 898:25 929:12 932:3,7,9,17 1082:23 documentation 763:3 documents 783:24 806:23 936:25 DOE 847:8,15 847:17 860:12 863:20 865:13 868:5 doing 756:14 761:4 767:20 798:14 809:5 814:9 859:24 866:25 873:18 878:25 879:6 886:4 915:18 915:18 923:1,5 923:21 963:14 963:25 1045:19 1070:4 dollar 763:2,16 778:2 780:11 786:3 787:6 811:1,16,22 812:7 976:20 978:11 979:25
---	--	---	---	---

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1010:11,13 1066:23 dollars 752:17 811:2 819:24 869:21 960:16 962:20 domestic 713:19 714:1 727:3 dominion 732:2 761:9 door 926:24 Dority 702:16 dot 721:13 double 854:14 854:25 867:22 Douglas 838:17 841:9 877:5 878:22 Dow 711:11 Downey 704:4 795:6,9,14 796:25 804:22 848:20,22 856:8,13 867:20 868:11 934:24 957:6 979:14,17 980:25 981:2 997:5,25 1006:11 1013:12,14 1015:17 1065:12 1078:21 1079:8 1080:6 1080:9,16 downgrade 761:7 Downing 706:17 709:6 797:3 848:21 853:13 997:3 998:1 1015:19 download 734:17 735:6 Dr 705:6,9 706:2	706:14,23,25 708:1 712:17 714:22 716:15 717:9 718:4 720:11 721:8 722:3,9,18 723:2,16,22 732:17 735:2 739:15 741:11 742:1,24 743:18,20,21 744:2 754:6 761:14 782:15 831:15,23 848:9 850:13 851:7 863:21 866:19 899:13 910:18,20,25 911:2,4 978:14 983:18 984:1 1075:17 dramatic 962:23 1066:19 dramatically 826:23 1062:9 drastically 1040:21 draw 948:19 dress 1044:5 drive 1005:23 driver 1037:15 driving 839:9 1005:8 1026:6 dropped 821:8 1045:9 drops 820:23 DRs 768:1 779:3 779:7 DSM 928:20 929:13 933:5 934:11 DTE 732:12 754:25 due 968:13 1001:11 1005:21	1043:7 1060:24 1061:10 duly 707:5 770:23 795:3 884:10 973:20 1011:12 duration 850:7 dweller 1047:13 dwellers 875:9 dynamic 923:10 D-a-u-p-h-i-n-... 795:18 D-e-l-m-a-r-v-a 735:13 d/b/a 703:21 <hr/> <p align="center">E</p> <hr/> E 702:1,1 703:1 703:1,23 704:1 704:1,10 705:1 705:1 1078:1 1079:1 1080:1 1081:1 1082:1 1083:1 ear 706:21 earlier 783:6 807:12 844:14 855:8 875:2 879:22 881:9 899:16 910:2 913:18 915:19 917:13 921:7 923:6 966:9 969:9 985:10 992:2,3 1015:10 1023:15 1032:23 earn 752:16 756:5,7 earnest 873:14 earning 752:7,8 752:12,13,18 752:23 753:10 755:21,23	756:8,25 760:25,25 761:2 earnings 710:3 827:1 easier 993:14 easiest 1042:12 easy 816:23 967:1 echo 819:14 economic 710:2 712:8,22,24 713:22 715:18 720:2 726:9 728:16 759:4 759:13 819:13 873:25 1082:18 economical 1007:18 Economist 771:10 economists 965:6 economy 709:24 710:1 727:5 749:15 874:9 Ed 848:22 Edison 755:6 EDR 705:17,21 950:19 Edward 704:4 EEl 752:11 effect 751:22 755:1 760:8 826:1 854:14 854:25 859:24 964:5 999:2 1018:14,22 1047:12 1076:14 effective 876:20 effectively 882:23 883:12 effects 873:24 928:23	efficiency 829:23 838:22 839:17 844:19 866:3 876:21 877:2,19 881:8 888:13 891:6,9 891:12,15,17 904:13,19 908:4 918:4 925:11 947:10 990:20 1019:21 1020:1 1033:10 1070:6 1074:12,14 1075:9 efficient 831:20 847:5 866:5,8 871:13 907:14 918:6 922:22 965:7,10,10 1007:17 1019:17,23 1020:5 1074:20 1075:1 efficiently 866:11,14 977:22 1008:9 effort 778:20 893:22 917:7 971:10 efforts 875:25 876:1 EIA 759:22 eight 830:16 1024:17 1025:2,2 1057:23 either 724:8 777:6 786:2 798:19 800:21 820:20 821:5 928:17 951:2 972:6 989:2,3
--	---	---	--	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

992:19	1048:12,17	encouraging	892:17,20	1020:1,5
1004:25	electronic	876:25 877:19	893:9,23 894:8	1024:24
elaborate 963:5	801:16 898:2	949:17	894:11,20,22	1028:5 1029:2
1006:14	element 825:23	ended 1042:6	894:24,24	1029:3,19
1069:20	1049:9	endorse 971:6	895:14 897:3,7	1036:13
elasticities	1052:22,23	endorsed 937:17	897:24 898:15	1037:11
914:21 915:9	elements 823:17	enemy 840:21	898:19,24	1041:2
916:19 966:13	836:13	881:13	899:5 900:20	1045:14,20
967:15,19	1050:14	energy 703:7	901:19,22	1055:1,17,19
969:12,23	Eleven 968:2	735:21 743:3	904:12,13,18	1060:7
1060:23	eliminate 946:23	768:10 798:18	905:3,17,23	1061:10,10
elasticity 915:5	embarked	829:2 830:7	906:10,20	1064:18
967:7 969:8,18	968:10	831:25 832:13	907:15 908:4	1065:15,23
1003:11,23	eminent 1038:11	832:20 833:4	908:24 909:3	1068:20,24
1004:5	1038:22	836:2,9 838:21	909:17 911:3,7	1069:2 1070:5
1060:18,20	1039:3	838:22 839:16	911:12 914:8	1071:22,25
1061:4,22	Empire 837:21	839:17 840:13	914:13,18	1072:4,10,11
1062:2,6,11,14	843:2 849:25	841:7,13,14,23	915:3,24 918:4	1074:12,14,19
1064:8,22	855:14 859:18	841:24 844:5	918:6,11	1075:1,9
1067:11	862:20 864:8	844:19 845:18	919:13,22	1083:16
election 710:11	865:16 869:17	846:3,8,17	920:9,16,22	Energy's 824:23
electric 701:12	871:25 987:16	847:8 850:8,22	921:5 922:22	834:25 835:25
731:10 733:15	987:21 998:8	851:8,23	925:11 928:20	836:20 855:21
736:8,16 737:5	employed	852:13 853:3,8	929:4,22	880:24 886:18
739:16,18,21	707:18 771:9	853:19 855:20	930:22 933:16	891:1 899:13
740:7,9 744:3	771:12 795:19	856:19 858:13	934:2 936:19	917:15 928:13
752:6 755:6,7	795:20 844:1	858:23 861:15	956:23 957:1	1032:1
802:9 824:13	employment	861:23 862:1,5	960:9,24	Energy.XLSX
824:21 825:5	710:1 718:16	863:13,15,15	961:18 968:16	980:22
847:3 850:16	EMS 782:5	864:20 865:1,8	977:8,10,11,14	engage 831:20
850:18 907:24	811:24 816:15	865:10,19	977:17 978:1	876:2,18
917:25 964:7	816:21	866:6 867:23	980:2,5 981:5	engineering
966:5 982:18	encompasses	869:4,7 870:20	981:13 985:21	849:6,7
984:10	912:2	870:21,24,24	986:12 987:1	enhanced 989:3
electrical 847:6	encourage	871:8 872:4	991:10	ensure 801:24
849:5,6	839:15 841:7	874:3 875:4,4	1001:23	847:24 876:18
electricity	879:11 888:16	875:5 876:21	1002:7,21	883:8 888:2
828:18 847:5	907:14 922:22	876:21 877:1	1003:22,24	899:20
865:2 878:4,5	961:17 1030:7	877:11,19	1004:3,25	ensuring 847:19
879:12 880:23	1044:6 1070:5	879:3,3,17,18	1005:3,5	enter 799:2
905:2 908:15	1071:2,8,10,14	879:20,24,25	1007:25	entered 987:15
908:22 909:6	encouraged	880:3,7,21	1010:8,13	entering
909:13 917:20	838:2 907:21	881:7 882:25	1015:23	1070:10,17
917:24 918:3,7	encourages	885:22 888:13	1016:12	entire 835:12
960:13 963:13	875:5 891:13	890:17 891:13	1017:24	854:23 908:7
1019:6	907:12	891:23 892:6	1019:17,21,23	912:15 970:12

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

971:20 984:17 entitled 929:12 entity 798:21 envelope 1006:5 environmental 703:13 876:3 978:20 environmenta... 831:21 EQR 802:1 equal 823:16,22 830:2,10 831:9 873:18 889:12 905:16 920:6 920:20 931:11 959:14 1000:23 1028:12,19 1034:18 1052:22,23 1054:1 equally 830:6 equate 918:5,7 equates 1000:2 equipment 847:6 equipped 840:18 equity 706:14 715:16 727:13 727:15 728:3 728:10 730:24 731:9 732:8 733:15 738:2 738:12 740:15 742:15 743:2 752:24 755:25 866:20 equivalent 731:14 918:6 980:2 erase 1023:16 erred 739:8 erroneous 744:23 error 896:25	983:13,24 1014:2 ER-2006-0314 741:16 742:11 742:21 ER-2012-0166 879:13 ER-2012-0174 902:25 904:3 ER-2014-0258 850:16 854:16 ER-2014-0370 923:18 925:1,7 926:3 ER-2016-0285 701:10 809:20 972:18 especially 752:14 770:17 963:6 essentially 798:12,14 833:7 835:10 835:14 836:6 836:23 837:9 872:17 991:12 1061:20 establish 949:1 994:1 established 754:14 estimate 713:21 715:8 748:8 751:23 915:13 928:2,3 931:16 933:24 1016:18 estimating 919:11 et 749:16 evaluate 718:16 775:5,8 913:6 917:7 evaluated 776:8 830:17 evaluates 914:12	evaluating 774:24 775:18 882:12 887:3 1048:6 evaluation 914:17 evening 901:7,9 972:17 987:9 987:10 1013:15,16 1016:6,7 1039:11 1049:25 1050:1 1066:3 event 716:21 826:15 eventually 920:13,18 1009:14 everybody 806:2 808:5 860:5 865:12 997:15 1063:2 everybody's 860:1 evidence 708:24 716:14 718:3 720:10 721:7 723:13 726:6 733:5,9 738:1 738:16 739:1 767:4 769:1 772:14,22 773:1 823:4,7 838:6 845:14 845:15,19 885:18,20 898:16 900:21 909:12,16 932:4,24 933:1 975:15,21 1012:23 1013:4,6 Evidentiary 701:5 evolve 718:17	evolving 827:11 exact 711:16 814:2 917:2 996:13 1017:3 1017:13 1051:25 1052:5 1053:24 exactly 766:5 853:6,7,18 996:8 1008:23 1017:1 1018:4 1044:19 1057:9,11 1071:13 Examination 707:7 722:16 758:16 770:25 771:4 790:25 795:5 884:12 957:11 958:13 973:22 997:4 998:4 1002:11 1004:14 1011:14 1064:4 1066:1 1067:7 1078:3 1078:5,10,13 1078:17,18,21 1079:14,22,23 1080:4,9,10,11 1080:12,15,22 1080:23,24 examine 778:4,8 example 734:14 736:5 826:16 826:20 891:12 920:25 936:11 960:5,13 962:2 962:19 963:17 963:18 964:19 966:5 969:13 970:20 974:16 1006:20 examples 1023:6 exceed 830:12	1074:6 Excel 1005:3 exception 980:9 excerpt 739:3 740:14 741:18 742:10 excerpted 738:1 908:2 excerpts 738:12 902:19 903:1 925:5 936:25 excess 798:21 849:13,22 850:2,19,24 854:20,22 868:4 869:6,7 948:8,20 949:8 993:12 1003:5 excessive 879:11 exchange 1009:13 exclude 733:20 792:6 888:14 980:17 997:14 excluded 766:20 774:4,5,6 775:1 780:3 787:16,24 806:15 exclusively 843:16 excuse 723:1 724:21 734:22 795:8 850:20 1015:20 excused 808:19 executed 999:17 Executive 703:7 846:9,18 847:9 exercise 760:12 exhibit 708:5,6 708:19,21,21 708:23,23 712:15,19 713:14 714:23 715:25 716:13
---	---	--	--	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

717:6,9,24	1082:20,22,23	705:14	explained 748:5	extraordinary
718:1,2 720:6	1082:24	expenditure	758:3 759:14	820:18
720:8,9 721:6	1083:2,3,4,5,7	934:10,12	942:14	extrapolate
721:20,22	1083:8,9,10,11	expenditures	explaining	1028:20
723:12,17	1083:13,16,17	931:17	758:18	extreme 836:25
726:2,5 730:17	1083:18	expense 788:16	1053:16	945:6
730:22 732:25	exhibits 751:8	789:2 806:10	explains 759:1	extremely
733:10 734:21	771:23 772:21	812:2 829:18	850:5,14	895:20 896:8
734:23,25	772:25 796:18	959:24 1082:9	explanation	963:10,10
735:12,25	796:25 805:17	expenses 773:22	794:8 807:15	eye 973:8
737:18,18,19	877:6 885:14	797:24 798:3	explore 825:8	e-mail 898:23
738:13,25	975:7 1013:5	802:15 803:2	exploring 878:7	899:3,7,9,12
739:5 741:23	exist 898:9	806:18 941:15	express 982:2	900:8
742:1 743:1	911:9 968:22	955:7 1050:18	expressed 878:6	e-mails 898:22
763:6 765:5,8	968:24	1053:11,13,14	983:18	1083:18
765:10,12	1005:22	expensive	extend 1066:3	E-2016-0285
766:2 767:4,5	existed 1075:4	1020:8	extended 747:2	705:4
768:25 771:19	existence 932:18	experience	748:7	<hr/> F <hr/>
779:10 781:10	1059:21	827:14 848:25	extension	F 757:21
781:17 783:9	existing 847:18	849:2,10,12	705:17,22	FAC 705:8
791:4 796:6,8	949:18 952:13	1047:8 1057:8	812:2 948:25	706:7,14
796:12,15	expand 966:4	1074:24	949:24 950:1,8	762:25 763:4
797:4 803:22	expanded	experienced	951:12 952:2	763:10,17
803:24 805:24	838:15 925:21	710:1	952:18 953:6	766:10,15
806:20,20	expect 727:9	experiences	953:11 955:5	769:4,7,25
807:4,12	747:1,3 770:15	960:3	955:13 957:20	770:13,16,17
822:17,19,21	801:7 803:16	expert 743:21	958:6 990:25	771:18 774:4,6
822:24 823:6	835:10,16	955:16	991:21 993:1	774:25 775:1
849:1 884:23	837:9,12	1039:15	994:4 1076:1	777:14,22
885:19 896:18	864:14 919:22	experts 873:14	1076:11	778:1,5,8
897:3 898:12	920:6 938:5	948:15 956:3	extensions	780:20,24
898:15,18,19	956:1 963:23	1037:17,21	954:11,23,24	781:4 783:6
900:16,20	1045:24	1048:23	954:25 956:15	784:8,22,24
910:23 918:17	1067:12	explain 764:22	extensive 878:18	786:4,4 787:7
932:4,25	expectations	764:23 931:3	913:15 967:2	787:7,16,18,21
968:17 974:8,9	718:18	941:14 942:23	extent 740:11	788:5,17,22
975:9,14,17,20	expected 714:7	947:4 959:19	826:13 867:1	791:8 792:3,11
1011:24	727:19 750:2	960:2 961:13	870:8,24	792:16,18,21
1012:3,4,22,24	818:14 879:17	962:18 967:10	944:19 951:1	802:16 806:19
1081:2,3,4,4,6	879:18 905:4	990:23	964:22 988:9	807:15 819:8
1081:7,8,9,10	916:14 933:13	1004:19	988:17 995:19	820:21
1081:12,13,16	933:16	1008:23	1001:13	1071:24
1081:20,24	expecting	1017:25	1060:17	1072:1,3
1082:3,5,7,10	1054:5	1018:1	extra 733:3	1081:22
1082:13,13,15	1063:12,16	1042:24	738:5 779:16	face 913:23
1082:16,17,19	expeditiously	1044:8 1074:2	1005:18	

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

966:1,11 faced 862:21 facilitate 923:9 facilities 846:21 890:16 894:6 979:8 993:6 facility 952:2,18 953:11 990:25 991:21 fact 710:7 712:25 718:6 719:11 729:23 730:8 734:2 751:4 760:14 840:14 847:1 849:24 921:17 968:13,24 969:9 983:14 984:13 1001:6 1010:19 factor 741:4 753:13 763:17 766:11,15,17 766:19 770:13 781:23,24 791:8 792:24 851:22 852:11 852:19 871:1 871:12 903:20 908:4 956:1 963:9 977:12 997:18 1045:13 factoring 855:16 factors 839:9 848:3 902:13 906:7 facts 943:15 failed 756:11 fails 852:24 864:17 907:22 failure 865:24 fair 875:14 882:9 887:24 928:9 931:8 962:14 997:19	1014:1 1027:23 fairly 855:15 927:13 fairness 879:7 982:22 fall 917:1 985:15 falling 969:15 fam 1063:18 familiar 712:7 733:10 735:7 735:15 779:9 803:1 902:16 906:8 914:11 918:10 920:1 927:13 928:19 933:5 938:8 949:23 951:21 955:9 957:13 979:18 1016:25 1039:19 1057:12 1063:18 familiarize 897:8 898:24 family 1063:18 far 720:13 732:19 735:25 752:21 772:18 775:19,20 806:7 810:15 833:18 840:20 925:9 929:20 958:25 971:17 fashion 744:24 fast 999:11 faulty 866:1 favor 844:14 FDA 847:9,15 February 701:7 715:8 717:8 724:12 755:1,7 1077:16 Fed 719:3,8,11 720:2 721:16	723:23 724:10 747:14 758:19 758:25 759:8 Federal 703:7 711:20 718:6 718:14,19,23 720:13 846:9 846:14,17,20 846:21,23,24 847:2,8 Fed's 720:1 fee 949:24 950:4 feed 814:22 feel 908:6 952:12 1044:8 feeling 808:4 fees 948:25 949:1 950:2 951:12 993:1 fell 744:17 747:15 felt 914:24 FERC 769:14 797:16 798:4 798:14,15 800:9,12,24 801:7 868:21 FERC's 800:17 800:21 fewer 839:6 field 955:23 956:3,8 figure 714:20 721:9 744:6 764:14 788:22 812:22 908:20 934:9 985:19 986:4 figures 731:14 763:2,16 854:5 980:21 985:3 file 705:4 796:1 844:23 852:23 995:5 filed 709:25 718:5 762:10	774:20 794:9 809:24 820:15 838:17 849:3 877:3 878:21 884:22 906:24 915:22 917:1,6 951:23 filing 734:8,10 829:12 933:20 934:5 975:2 filings 770:1 923:24 final 828:2,5 926:8 1008:10 1009:20 finally 787:17 857:22 881:23 1010:25 Finance 707:19 743:19 finances 859:6 financial 727:4 774:14 775:6 775:22 find 760:13 784:6 850:1 856:5 866:16 868:24,25 875:21 890:25 890:25 893:2 895:23 896:22 971:16 972:7 988:3,3 1008:12,14 1018:12 finding 919:9 findings 742:6 918:19 fine 705:14 713:9 761:4 785:23 793:8 808:11 821:23 822:2,14 833:3 1025:7 finish 723:3 finished 897:14	firm 722:2 748:17,18 795:22 first 705:6,18 707:5 711:12 713:18 717:12 719:3 731:23 733:14 766:4,7 770:23 773:19 782:9 783:9 795:3 805:12 808:7,19 821:19 822:3,5 826:12 833:3 833:15 834:11 834:15 835:22 836:9,15 837:15 838:19 841:23 850:11 858:18 860:21 877:8 878:14 884:10 886:6 890:17 893:23 894:8,10,12,12 894:14,23 895:5,7,9 898:6 902:4 935:7 937:5 954:13 961:1 969:16,19 973:20 996:13 1002:21 1011:12 1032:4,6 1033:5 1035:18 1037:9,13 1038:13 1062:14 1069:6 1074:7 1074:13 1076:19 Fischer 702:15 702:16 807:22 822:5 823:9,12 823:13 825:24
---	--	--	---	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

826:2,9,11	960:19 961:8	729:25 734:19	formulator	frequently
827:5 884:13	961:14,23	flows 776:24	983:5,8	867:11
884:15,16,17	962:3,16,21	flying 906:15	forth 801:4	Friday 724:17
885:13 886:12	964:23 965:21	focus 990:19	845:2 946:6	973:3,10
886:15,22	1043:21	folks 874:9	953:23	friend 872:22
904:5 907:1	1071:16	992:12	1017:23	front 733:1
932:5,16	fixing 983:23	follow 716:23	1084:11,14	785:18 796:3
942:14 958:12	flagging	731:6 732:17	forthcoming	846:12 948:4
958:14 969:24	1022:12	833:2 1003:25	845:4	990:21
969:25 970:5	flat 830:14	1066:4	forward 707:1	1013:17
971:25 987:4	833:13,20	followed 843:13	746:10 780:25	1016:15
1002:10,12	834:1,3 879:1	following	803:17 818:15	1025:5
1039:10	880:20 1030:3	843:16 910:1	844:25 857:23	fuel 767:9 768:2
1049:17,20	1030:4	911:5 975:9	882:12 884:7	768:4 769:10
1066:2 1067:3	1033:11,24	1022:9 1023:3	998:14	769:15,20
1070:3	1037:2,7	1057:20	1002:21	771:17 773:22
1071:15	1044:4	follows 707:6	1043:12	784:20 790:3,4
1079:3,14,23	1057:22	770:24 795:4	1069:23	790:5,6 792:9
1080:11,19,23	1058:1,4,17,20	842:20 884:11	forward-looki...	800:15,21,22
fit 836:13	1058:23	973:21	755:10	801:1 802:10
five 749:5	1059:4,14	1011:13	found 740:21	806:10,17
750:18 761:19	1064:25	follow-up 911:4	744:5,9,18	828:22 829:8
761:21,23,25	1073:8,13,16	954:8 980:17	843:19,24	852:17,22
789:3 803:2	1073:19,24	food 714:7,24	955:11	965:18 1082:6
814:7 832:14	1074:3,5,8	715:9	foundation	full 738:4 771:6
877:15 897:12	flattening	footnote 743:17	716:3 723:6	899:20 913:10
fix 871:14 872:2	824:25 1034:4	930:5,6 982:12	765:16,21	913:19
896:25 1040:7	flatter 917:18	forecast 726:18	932:6 1059:12	1000:19
fixed 824:20	flaw 864:17	747:10,12	four 835:14	1015:14
826:4,6,6,17	flawed 857:11	759:19,23	847:10 858:22	1050:25
831:19 844:18	857:15,16	forecasted	860:7 984:25	1051:2,24
848:3,7 852:12	860:22 862:7	820:22 821:6	989:1	1052:19
865:25 870:25	862:25 863:2,3	forecasting	fourth 713:4,20	1054:3
871:9 872:2	flaws 865:11	819:8	714:16 721:15	fully 735:20
874:14 875:3	866:16 867:8	forget 997:12	731:3 835:18	824:9 876:19
875:16,20,21	916:16	1001:16	836:22 854:8	893:6 913:6
877:9,16,18	fleet 829:1 921:2	form 722:5	866:3 930:6	915:10 941:6
890:15,20,22	937:25 979:3,6	837:8 849:24	frankly 997:14	941:11 952:2
894:6 904:11	989:22	883:10 989:2	997:19	952:12 967:5
904:18,22	fleets 979:7	990:12	fray 814:9	1011:2 1014:5
905:3,13	flex 1054:8	formal 956:10	free 729:6,6	1050:3,23
920:13,19,21	flip 853:11	formally 926:23	746:25 748:9	1052:2,18
920:22,25	flipping 922:15	format 771:24	748:13 750:5	1084:13
930:8 936:22	floor 985:14	898:2	frequency 835:6	function 727:16
960:2,3,8,11	Florida 736:20	former 758:25	839:11 910:7	728:1
960:12,18,18	flow 728:22	formula 952:20	1042:4	fund 747:11

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

fundamental 747:19	1039:3 1044:13	generally 726:8 727:2 831:8 849:23 870:4 875:7 879:3 917:3,4 922:5 933:7,10,11 937:20 971:7,8	1048:24 1054:8 given 727:8 779:4,6 833:23 834:12,22 842:15 857:4 859:10 860:8 864:14 866:15 867:7 869:13 883:24 930:18 938:5 992:15 1021:13 1030:3 1031:16 1037:18 1044:3 1074:12	809:4 810:1,7 810:20 814:12 814:18 815:23 815:24 818:15 820:24 821:16 821:24 822:6,8 822:13 826:10 827:5 836:14 838:10 856:20 860:1 867:2 869:16 874:21 874:21 884:4 900:2 901:10 901:13 916:17 920:23,24 933:19 940:15 944:12 946:16 946:18 960:10 964:2,3 970:5 972:12 983:25 992:3,20,23 994:19 1006:16 1020:22 1043:12 1044:9,10 1050:20 1051:7 1052:16 1058:16 1059:4 1063:21 1064:13 1075:19
funds 718:19	G	generating 850:4 851:14 921:9 939:5 997:10 1004:23	gives 798:25 giving 868:18 969:25 1048:12	goal 882:22,24 934:2,3 949:21
fungible 863:16	G 705:1	generation 732:5 798:21 799:4,7,10 802:6 826:5,18 839:14 861:24 861:24 863:8 864:15 877:2 880:7 921:2,15 938:6,24,25 939:7,10,12 960:5,18,18 989:8 1007:20 1007:24 1008:4	GMO 814:3 825:7 913:5 915:18 923:5 923:16 924:5 953:19 968:9 971:10 1039:22 1048:6 GMO's 952:18 953:11,11 991:1 1076:1 1076:16	goals 888:7,13 925:10 933:24 936:5
funny 1011:9	gained 710:8,9	geographic 947:24 948:7 948:25 949:4 950:2 993:11	go 705:8 706:13 709:11 710:19 710:20,21 711:1,1,2 719:2,5 726:13 727:1 730:5 736:5 746:7 747:7,13 748:4 761:8,24 762:5 763:22 764:19 784:19 787:2 801:22 805:1,5 805:14 808:14	goes 726:17,17 726:18 742:4 792:7 798:12 822:3 859:5 1030:24 1050:11 1064:15
furnace 1019:17 1019:23	gaining 991:17	germane 932:13		
further 706:23 718:18 733:17 744:19 745:1 753:21,23 761:12 762:20 770:9,18 785:4 785:8,10 789:10 790:22 793:6 794:19 794:23 802:18 803:14 804:6 804:20 805:14 808:13 809:4 809:15 813:16 813:17 817:20 822:7 827:16 842:14 847:15 870:11 872:6 883:5 884:4 900:23 901:10 901:13 909:20 916:17 920:1 927:1 934:18 939:18 940:21 946:7 953:24 954:1 956:21 967:12 973:5 973:15 980:25 986:17,18 996:18,21 1011:4 1039:5 1062:17,19 1075:19 1077:12 1078:6	gallery 832:15	getting 763:25 774:25 821:9 863:12 993:13 1039:14 1044:14 1056:20,21 1069:2		
	garden 865:4	give 731:5 808:5 810:17 832:23 897:5 928:6 934:9 941:24 951:11 953:8 979:14,14,21 995:24 996:3 1018:11		
	Garg 703:8 762:7,8,18 846:5,7 848:13 856:11 981:6,8 981:12 982:9 986:17 1008:19,25 1015:24 1065:16 1079:7 1080:7			
	gas 754:20,25 755:6,7 921:1 921:4,17			
	GD 711:25			
	GDP 711:23 712:9 713:5,23 714:13,15 715:5 749:16 759:17,20			
	gears 947:8 990:17			
	gener 1004:22			
	general 701:11 715:18 824:25 830:3 832:25 840:23 842:8 844:18 845:9 846:19,19 874:6 886:24 965:25 969:11 1017:6,19,20 1018:3 1019:2 1019:7,13 1022:1 1033:3 1033:12,15 1039:17			
future 720:13 843:15 861:24 925:13 926:20 938:6 956:1	generalize 988:6			

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

going 710:25	998:14	886:1 901:1,17	great 703:13	727:10,19
711:2 716:2	1003:11	902:2 903:8	745:24 752:22	728:2,6,8,21
717:5 720:24	1005:17	927:8 935:4	752:23 753:18	750:3,6,12
721:19 725:6	1009:11	941:3 964:15	754:7 757:2	757:24 758:1,6
726:25 728:6,7	1011:9	964:25 972:17	764:13 819:12	759:4,13,15,17
734:20 737:17	1013:25	987:9,10	840:20,21	759:23,24
746:11 747:13	1019:19	988:15	886:8 916:4	801:9 950:3
748:4 759:3,7	1020:25	1013:15,16	918:23 930:13	969:19
759:16 766:1,2	1022:5	1016:6,7	971:14,14	guess 705:12
767:16,20	1023:20	1039:11	greater 826:17	763:10,11,21
775:17 780:25	1026:9,14	1049:25	876:1 886:23	765:17 769:22
783:7 784:14	1031:19	1050:1	906:4 1028:5	779:10,22
786:17,18	1032:22	Gorman 729:9	1028:13,23,25	782:8 783:23
795:11 803:14	1039:2	729:16,24	1043:2	786:25 790:1
803:17 804:25	1043:10,15	752:11 761:6	1064:19,23	792:22,23
805:10 807:23	1044:12	Gorman's	green 766:19	793:21 806:12
808:8,9,24	1046:2	730:11	Greenfield	810:13 815:25
809:7 810:12	1052:16	gosh 1005:2	957:14,17,23	818:10 884:4
811:25 816:19	1053:1,4	Government	958:6 991:11	931:5,24
818:17,20	1054:5	713:10 715:15	991:14 992:17	947:20,21,22
822:16,24	1055:11	716:5 721:25	992:23	966:9 978:3
824:4 833:22	1059:13	723:8 846:14	grid 924:4	980:20 992:6
837:10,14	1061:1,2,25	847:2	gross 713:18	992:14
838:5 839:18	1066:22	Governmental	714:1 727:3	1017:12
839:19 841:18	1069:23	716:9	801:15 802:3	1028:20,25
841:20 843:18	1074:4,8,19	governs 800:17	grounds 716:3	1029:8 1053:4
856:20 857:5,8	1076:23	gradual 741:3	group 720:18	1063:20
857:10,10,11	good 705:2,11	830:13 832:3	721:10,16	1064:10
857:13,15,18	709:15,16,18	880:11 881:15	722:11 723:23	guidance
858:8,18	745:8,9 757:3	1058:21	724:19,22	1068:12
861:14 863:17	757:10,11	1061:18	730:24,25	guide 1053:24
864:22 867:17	762:4 773:13	gradualism	731:11,11,14	
868:16 870:2	773:14 785:2	741:1 847:17	731:22 856:19	<hr/> H <hr/>
888:8,9 894:16	785:14,15	869:13	928:21 946:7	H 1081:1 1082:1
896:19 901:3,6	789:8 793:10	gradually	1056:20	1083:1
903:2 908:18	793:15 795:14	880:24	1082:23	habit 993:13
909:25 922:14	795:15 797:11	grand 895:8	groups 814:7,16	Hadaway
923:9 932:5	797:12 802:24	granted 762:16	820:17 939:6	743:20 744:2
936:24 944:12	802:25 809:19	827:25 935:15	1004:23	half 749:11
955:8 957:19	810:7 818:25	1055:24	grow 803:14	752:7,12,19
962:10,14,15	819:5 820:16	granting 762:17	grown 803:10	753:11 755:23
963:2,11,12,14	825:19 832:18	graph 712:25,25	growth 710:2	756:8 759:20
970:19,21	838:13 840:21	717:18 722:5	711:24,24,25	761:1,3 869:20
971:9 973:11	848:21 856:17	835:9 985:23	712:1,2,5,9	977:21,22
977:13 980:5	874:21 875:6	graphic 837:8	713:5 714:15	halfway 899:2
990:19 994:19	876:12 881:13	graphs 1043:4	715:20 727:4,5	half-hour 706:8

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

Hall 701:18 705:11,23,25 745:5,7 753:21 756:18 785:13 787:6,11 789:8 802:21,23 804:6 811:15 811:19 812:5 812:10,14,21 813:1,4,15 816:10,18,23 817:2,11,19 819:18 820:9 825:19,25 826:8,10 827:2 827:15 831:1 848:15 872:8 876:8 883:17 940:25 941:2 953:24 958:16 987:8 996:18 997:6 998:7 1004:17 1049:22,24 1062:16 1078:7,16,24 1079:20 1080:8,20	910:22 1076:8 1076:13 handing 898:22 handle 783:17 783:17 1006:18 handled 777:6 handling 773:22 784:20 792:9 806:17 hand-out 763:13 764:24 786:7 835:23 879:21 976:10,17 happen 747:3 749:20,23 826:22 836:6 1027:17,22 1044:12 happened 862:15 949:5 999:7 happening 799:5 happens 788:11 973:8 happy 735:11 763:5 820:3 825:17 832:5 845:22 860:18 883:13 990:13 1008:12 hard 828:2 1001:16 1041:2 harm 778:15 hate 818:10 1029:8 1031:18 Hawaii 868:21 HC 708:5,19,21 708:24 768:17 768:20 779:10 786:21 787:2 796:10,12,15 796:18 797:1,4	797:5,5 806:13 806:22,23 807:4,4,5,14 1081:13 1083:10,12,14 head 931:25 1032:10 hear 857:13 874:18 952:15 989:10 1003:21 1009:3 heard 705:7 736:22 875:2 875:17 877:13 882:14 965:4,6 1014:24 1075:24 1076:3 hearing 701:5 705:3 706:13 706:25 708:20 713:15 717:25 720:7 726:4 738:24 748:16 762:16 765:3 766:1 768:23 772:23 779:24 790:23 797:4 807:3 808:20 810:8,25 813:13 818:11 821:14 823:4 837:20,21,23 896:21 900:18 901:21 926:4 942:13 972:14 973:5 975:12 976:2 1013:3 1054:11 hearings 874:20 heart 827:24 heat 963:11,18 966:14,18,20 1019:20 heaters 1026:25	heating 824:13 825:5 927:23 963:7,23 964:7 964:19 966:5 966:21 967:18 1016:13,20 1017:8,21 1018:1,7,14,15 1018:21 1019:5,6,10,12 1019:15 1020:14 1021:9,11,16 1021:21 1022:2,14 1023:9,18,22 1023:24,25 1026:23 1027:2,4 1045:25 1046:3,15 1047:2,7,14 1072:13,15,18 heavily 960:25 hedge 747:11 hefty 815:18 held 847:2 Hello 886:2 902:6 941:4 1036:17 help 798:23 866:11 929:9 943:1 945:19 958:4 1008:13 1023:7,16 1027:11 1035:4 helpful 906:13 1045:15 1048:6 helping 801:23 helps 785:2 Henry 703:13 876:14 hereof 1084:11 hesitance 1019:3	1023:8,16,17 1025:16 Hevert 729:7,18 736:6,12,17 Hevert's 730:25 731:13 Hi 927:8,9 981:9 1036:18 high 704:10 732:11 750:17 760:9,11 803:12 818:2 824:14 852:11 855:2 870:25 871:11 875:19 877:18,21 878:2 880:6,6 905:2,18 909:6 963:7,8 966:19 997:18 1015:13 1019:14 1028:20 1029:14 1042:9 1075:9 higher 727:3,9,9 730:3,4,4 751:6 760:11 824:13 838:21 841:7 879:2,3 879:4 904:11 904:17,22 905:24 930:16 931:9,14 1018:24 1020:7 1028:12,22 1029:15 1031:24 1034:24 1035:8,12,13 1036:1,3 1037:11 1045:20 1046:6,8 1070:10,17
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MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1071:25,25 1072:4 highest 839:13 841:16 864:24 highlighted 780:2 937:13 938:14 highly 767:23 768:6 786:10 hike 720:14 historically 726:21 868:7 942:7 history 711:12 737:16 1031:17 hit 961:18,23 991:4 1049:4 hits 985:13 hitting 961:20 961:21 Hoc 762:7 hold 765:22 holds 998:13 home 1019:20 homes 838:22 963:12,12 966:21 honest 873:14 honestly 955:10 Honor 706:5 715:24 762:8 767:7 768:16 783:3 785:9 806:6,12 807:25 846:6 883:21 901:24 934:22 935:1 939:19,24 957:4,10 975:6 998:3 1001:24 1002:1 1004:13 1008:25 1011:5 1036:11	1062:22 1067:6 hope 752:20 753:3 841:1 860:9 915:20 923:13 924:4,8 998:9 hoped 972:23 991:22 hopefully 1008:8 hose 865:4 hot 945:7 951:7 963:10 1066:25 1071:3,8 hour 798:15,17 799:13,16 833:23 834:8 850:23 865:3 871:4,7 933:23 985:20,25 1008:8 1044:21 hours 799:1 833:16 834:12 834:19,22 835:13 859:25 865:3 901:3 977:10 984:20 985:6,14,15,19 985:21 986:8 986:12,13 1002:22,22 1010:18,20 1011:1 1068:8 house 1075:8 household 874:2 households 831:19 874:4 908:14,15,25 909:12 hovering 710:16 hundred 725:7 733:25 746:21 753:7 818:15	912:7 959:10 1052:6,9 hundreds 931:21 934:16 hurt 964:20 Hyman 835:1,6 835:20 838:16 844:8 879:20 880:11 900:13 910:6 913:21 969:22 996:8 996:14 1004:4 1025:1 1062:15 Hyman's 895:19 896:7,12 910:3 912:21,25 914:13,17 916:15,22 965:24 969:6 969:22 995:21 1025:4,8 1026:2 1032:21 <hr/> <p align="center">I</p> <hr/> IBR 913:12 915:10 916:2 916:18 930:9 943:12 945:2,8 946:13,18,21 961:16 966:21 969:20 1024:23 idea 881:20 897:10 933:17 1066:5 ideal 990:10 identification 712:16 735:1 741:24 897:4 898:20 identified 947:13 1014:2 1051:13 identify 720:25	766:5 900:4 937:10 938:11 948:12 999:13 999:22 1022:6 ignore 946:16 Illinois 868:19 IM 863:15 939:7 939:9,14 imagine 922:13 996:7 1000:14 1062:8 1066:9 imbedded 920:22 immediate 859:15 immediately 869:15 1068:17 1069:5 impact 774:13 775:6,21 776:16 777:18 778:9 780:13 835:20 836:4 836:17,19 837:4 850:3 874:3 895:20 896:7 908:3 910:6 912:6,21 912:25 913:10 913:19 914:17 915:2,13 916:7 916:10,13,21 928:12,16 943:3 963:24 991:20 1003:13 1018:24 1026:1,5,11 1027:9 1034:24 1040:18,22 1042:21 1043:16 1046:10 1064:7,22	impacted 847:20 943:2 1043:5 impacts 824:9 856:4 864:6 880:15 881:3 910:3 912:1,13 914:4,7,12 915:23 917:8 939:14 944:22 945:3 963:1 966:11,25 971:9,14,18,22 1025:22 1026:2 1040:14 1047:20 1058:22 implement 701:11 816:19 925:17 994:25 1002:15 1033:14 1056:22 1068:11 implementation 825:20 1068:13 implemented 1069:5 implementing 830:17 886:17 916:14 931:17 implications 859:14 imply 945:15 importance 751:14 857:4 875:15 932:18 important 819:14 856:24 862:1,4 876:5 876:24 914:9 925:10 977:9 977:15 985:8 989:14 1007:15
--	--	--	--	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1008:2	incline 996:5,11	1038:22	830:2 853:16	837:11 842:2
1018:19	1038:9 1059:5	1041:5	874:19 898:23	844:15 858:12
1020:23	1060:2,3	1042:15,18	922:21 926:10	869:23 870:22
Importantly	1061:1,2,17,18	1044:4,22	932:10	871:19 873:19
1037:17	1061:19,21	1045:21,22,24	including	874:6 875:4
impose 753:9	1064:25	1047:10,15	791:11 824:5	877:9,16
869:20	1065:2	1054:23	828:10 843:21	888:22 889:12
impossible	1066:21	1057:3,21,25	846:24 876:21	889:24 890:7
993:18	inclining 825:22	1058:3	904:10 914:20	903:11,16,17
impressive	831:24 832:3	1059:14	923:24 928:24	904:23 905:12
743:18	834:3,4 837:12	1061:11	941:15	905:15,21
improper	837:16,23	1062:10	1070:23	906:4 935:13
801:25	838:1,13	1070:7,10,17	inclusion 966:14	935:15,24
improved 961:5	877:10 878:7	1070:25	income 776:23	940:14 944:3
1033:9	878:16,24	1071:1,7,12	831:18,19	944:15 945:12
improvements	879:6 880:11	1073:9,19,24	832:4 839:2	949:6 959:7
881:17	887:3 914:2,8	1074:15	844:21 874:8	962:9,13
improving 710:2	915:13,24	include 731:25	875:7 881:2	1001:10
inability 721:9	916:8,23	731:25 835:17	882:8 908:14	1003:13
824:19	917:19 928:10	839:2 846:22	908:24 909:3,6	1050:7,11,14
inaccurate	928:25 929:5	959:22 960:17	909:7,12,17	1052:22,25
854:3 1009:12	930:18 931:18	included 737:3	1074:24,25	1053:6,10
inappropriate	932:11 942:16	766:16,19	inconsistency	1054:20,21
824:6	943:5,7,24	769:14 774:9	953:10	1055:5,6,7,24
incent 881:7	944:5,15,19	775:1 776:13	incorporate	1055:25
incented	946:4,8,15,25	777:2,13,17,22	876:20 967:4	1056:4,5,17,21
1045:13	954:17,18	778:1,7 780:4	incorporating	1060:5,12
1070:16	961:10 962:4	780:6,6,24	882:19	1061:10
incentive 837:14	963:13 995:1,9	784:8,12,22	incorrect 862:23	1064:16,17
891:7,12,16,18	1016:9	787:14,18,19	1076:2	1065:3,5
917:24 931:10	1017:23	787:21,23	incorrectly	1066:21
931:13 950:3,6	1018:15,18	788:2,5,22	853:22 865:16	1068:23
950:14,23	1019:4,8	790:12 791:8	increase 701:11	1069:4
992:25	1020:1,15	792:10,16,18	714:2 715:10	1074:20
1019:12,25	1021:14,25	792:20 802:15	715:11 717:20	increased
1020:4	1022:16	806:15,19	718:11 724:6	710:12,14
1074:12,14,17	1023:9,21	893:14 918:15	724:15 725:3,9	711:5,10,21
1074:21,22	1024:19,24	941:18,25	725:17,20	713:19,23
1075:4,5	1025:9,10,10	942:3,5 958:18	726:10 728:3,4	716:19 728:8
incentives	1025:11,17,21	958:22 959:5	803:16 811:16	747:14 803:14
844:19 879:8	1027:5,17	959:18,20	811:20,23	830:10 842:4
881:7 882:1,7	1030:4 1032:5	960:9,12,17	823:16,20,22	844:18 907:24
904:13,18	1033:14,23	967:8,16	829:25 830:11	930:8 1019:25
incentivize	1034:2,22	974:17	831:10,10	1020:4
878:4 880:23	1037:8 1038:2	includes 713:2,3	833:4 834:1,23	1046:11
1070:8	1038:11,12,15	732:2,4 733:18	836:4,11	1050:8

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1055:15	892:16	947:23 948:2,4	instances 874:1	intermediate
1064:12	indicating	948:5 980:14	instant 1067:14	828:19,23
1070:2	716:18 773:25	1003:3,4	1067:16	829:3 861:11
increases 725:22	indication	1007:4	instantaneous	861:15 863:6
727:13 833:8	714:11 798:25	1041:13	864:23 1029:2	863:13 864:13
873:23 892:17	indicators	informed 716:25	institute 1031:1	938:1,19 939:5
1050:11,13	715:19	infrastructure	insulated	976:24 981:21
1051:17	individual	829:22 880:5	1071:21	982:3 983:6,16
1052:23	730:18 775:14	882:16 947:10	integrate 740:8	984:16 989:9
1064:20	776:14,15,19	949:18 990:19	integrated	1010:10,20,24
increasing 830:5	778:18,25	991:6,8 993:12	739:18,21	intermediates
875:16 1049:5	898:8 968:21	infrequently	740:1 863:22	1011:1
1053:7	industrial	867:10	864:2,5,15	Internet 720:23
1054:10,11	711:11 859:16	inherent 917:15	938:7 939:2	interpreted
1064:7	859:21,21,23	initial 707:15,16	977:8 990:8	725:8
1069:25	860:3,4 866:4	813:22 814:15	1007:17	interpreting
increasingly	866:14 867:2,6	817:3 818:18	integrating	980:18
864:12 873:5	870:5 871:11	829:13 911:2	1007:19	interrupt 822:10
938:4	industrials	978:23 983:13	intend 849:3	interrupted
incremental	855:2 858:24	992:7	intended 888:12	723:1 944:11
952:3 981:22	industries	initially 712:11	1002:24	interrupting
982:3	753:14	745:20 819:10	1027:18	774:18
incurred 789:3	industry 756:3,3	983:4	intent 894:10	intervenes
865:18 870:18	756:4 815:6	inner 847:18	972:6	846:15
Independence	873:24	innovative	intention 893:7	intervening
703:9	inefficiently	878:11	inter 847:6	829:15
independent	866:12	input 882:21	interest 710:5	Intervenors
729:12	inflate 965:9	inputs 829:14	711:21 715:21	729:10
index 716:18	inflation 718:17	914:19	718:7 720:14	intra 847:7
717:14,19	728:7 759:4,13	inquire 763:11	726:19 727:3	856:4
indicate 727:4	influenced	808:18 810:2	746:17,17,19	introduce
727:12 806:14	759:12	872:5	746:20,23	824:18 825:22
856:2 970:18	information	inside 787:7	747:4,7,10,12	909:15
981:17 982:11	713:10 715:15	788:16	747:20,22	introduced
1003:22	721:2 735:24	insight 951:12	748:4 749:16	909:11 932:7
1033:22	745:25 763:1	install 814:17,17	758:20 759:5	932:20 957:24
indicated 716:7	768:7,8,10	978:17 992:17	795:22 838:1	introduction
718:24 724:5	769:25 772:9	1008:5 1038:3	869:13 878:7	939:9 953:4
770:1 958:20	779:4,8,9	1070:9 1075:9	884:1 968:6	inventive 891:9
962:24 967:6	782:17 793:1,2	installation	interested	inverted 824:10
968:20 974:15	793:3 798:4,5	813:24 978:23	763:12 786:2	824:12,17,24
992:12 998:7	798:8,23 800:6	991:11,14,15	817:15 887:11	826:23 962:11
1004:4 1048:9	801:15 802:4	installed 993:6	interesting	962:15 963:2,6
indicates 717:13	808:2 812:13	1039:2,2	1020:17	963:22
724:13 730:23	814:23 883:9	instance 890:9	interests 874:11	1002:15
740:14 852:16	911:5 913:7	895:15 971:13	876:4	1047:25

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1048:2,11	874:17,17	791:11,13	1011:25	765:3,7,11,14
1049:13	878:23 932:13	792:6 800:18	1036:24	765:22,25
1066:8,19	952:1 953:18	811:5 819:15	job 1063:21	766:4,6,22
invest 838:21	953:19 962:16		jobs 867:5	767:3,6 768:17
839:16	976:3 998:21	J	John 703:3	768:19,20,23
investigation	999:5,10	J 701:20 707:4	join 821:9	769:2,11,11,17
907:19	1001:2,6	707:15,16	joined 820:5	769:18 770:9
investment	1007:22	708:1 1078:2	joins 877:15	770:11,14
730:23 748:17	1042:23	1081:12,13,16	jointly 877:4	771:2 772:11
748:18 847:6	1056:23	James 702:15	Jones 711:11	772:17,19,23
859:10 997:23	1068:1,10	795:2,18	Joseph 703:17	773:2,4,6,7,10
investments	issued 714:25	1078:20	JRW10 730:18	774:17 775:2
839:7,9 859:7	715:7 716:17	1083:10,12,14	730:22	779:19,20
877:1 1037:16	732:19 735:4	Janet 718:14	JRW7 761:2	782:14,23,24
1071:3,9	741:17 744:11	1082:22	Judge 701:14,15	785:7,10
invoices 778:18	issues 706:20	January 709:25	705:2 706:1,9	786:25 789:10
778:22,23,24	722:2,11 769:4	712:23 714:8	706:12,18	789:14,17,19
involve 823:21	769:19 770:15	714:25 715:9	707:9,12	790:22,24
involved 819:6	770:17 794:4	715:12 716:19	708:18,20,25	793:7,8,15
853:14 921:24	805:7 808:21	717:20 718:5	709:2,4,5,6,7	795:7,11
968:18 971:10	808:24 809:25	718:23 733:8	709:10,12	796:25 797:3,8
1039:22	810:24 811:1,3	736:12 737:9	713:13,15	799:21,22,23
involving	811:7,21 812:1	811:23 835:18	716:1,5,11	799:24 802:18
1009:8	812:1,3,10,15	1046:18	717:23,25	802:19 804:4,5
in-camera 787:3	812:18,24	1082:20	720:7,22 721:4	804:8,14,16,17
IRP 923:24	813:12 816:12	Jefferson 701:7	721:5,19,22	804:19,21,23
irrelevant	816:20 817:6,6	701:24 702:7	722:14,15	805:16,19,23
751:20	819:7,23 820:4	702:12,17	723:2,4,10,19	806:3,21,25
isolate 893:22	820:13,15	704:6,10	723:21 726:1,3	807:2,8,9,10
isolation 800:13	821:9 825:10	734:11 741:12	731:4 734:21	807:14,18,19
issuance 712:8	829:23,24	754:6 1063:14	734:22 737:14	807:20 808:13
issue 733:21	844:13 857:3	Jester 838:17	737:15,24	808:15,17,23
734:3,5 751:9	858:9,9 876:22	841:9,11,21	738:11,14,17	809:3,19
762:22 769:12	877:8,14 919:3	877:6 878:23	738:23 739:2,8	810:10 811:13
769:16 770:3,4	966:12 974:12	878:25 879:5	740:20,25	813:17 816:9
770:5 774:19	999:1 1005:21	879:16,23	741:21,22	817:20,23
774:21 811:6	1040:10	904:10 909:10	742:19,22	819:1,16,20,22
812:20 813:11	item 723:8	918:15 919:8	745:2,3 753:23	820:7,10
817:10 823:14	763:16 766:14	1024:15	754:2 757:6	821:11,14
825:15 830:23	859:6	1073:20	758:8,11,12,15	822:1,7,10,14
842:11 848:23	items 706:6	Jester's 882:4	761:13,16,17	822:19,25
856:25 857:4	708:14 717:14	914:11 918:18	761:19,23	823:3,8,13
859:12 864:19	717:19 775:14	918:20 1073:1	762:1,2,4,9,19	827:16,19
864:22 866:24	776:15 777:5	Jim 795:14,19	762:22,23	831:3 832:7,10
870:1,3,15,16	784:20,23	796:7 830:20	763:13,21,23	832:12 845:24
870:17 871:23	786:13 791:6,6	966:15	764:5,18,23,25	846:2 848:13

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

848:17 853:8	1013:12	948:20 954:17	1002:9 1008:7	1079:21
853:10 856:7,9	1015:20,23,25	Karl 702:18	1016:19	1080:21
872:7,9,11	1016:2	721:25	1030:20	kept 1054:16,17
876:7,9 883:15	1036:10,12	KCP&L 705:3	1039:8 1048:5	Kevin 702:3
883:19,22,24	1039:7	709:8 716:13	1062:8	key 802:1
884:2,14,16	1049:20	718:2 720:9	1065:25	878:11
885:13,16,21	1062:19,23	721:6 723:12	1082:12	kick 840:25
885:23 896:17	1064:1	726:5 734:25	1083:1	killing 867:5
896:19,24	1065:11,13,15	738:25 739:21	KCP&L's 803:1	kilowatt 833:15
897:9,13,16	1065:17,19,20	741:13 754:10	823:9 828:16	833:22 834:8
898:11,13	1065:21,25	756:10,22	829:1,1 830:15	834:12,19,22
900:16,18,25	1067:4	784:12,13	833:12 842:3	835:13 859:25
901:17 902:22	1075:13,21,23	785:8 789:2	847:13 857:16	865:3 866:6
904:4,6 907:1	1077:11	791:14,22	859:16 866:18	871:4,7 961:25
925:3 926:4	Judge's 741:5,7	792:2 793:4	877:8 878:23	1002:22,22
927:2,5 929:11	July 835:17	799:24,25	902:17 906:4	1068:8
929:15 932:2,5	1024:18	800:25 802:13	919:12,20	kilowatts 833:23
932:9,22 933:2	jump 889:22	803:21 804:19	920:2 932:3	Kim 900:2
934:20,23,25	891:25	807:22 810:13	933:5 937:11	kind 706:20
937:3 939:20	1029:24	817:25 819:15	938:12 958:7	710:5,19 735:3
939:22,23	jumps 742:3	822:9 823:15	979:6,7	744:23 747:1
940:23 954:1,5	June 1024:18	825:7,11 836:7	1042:18	748:7 759:7,14
956:21,25	jurisdiction	840:1,2,5,14	1076:1	764:20 769:8
957:3,5,7,9	913:6 923:5	843:1 846:9,18	keep 760:19	770:18 794:12
958:11,12	924:7,11 951:4	846:22 848:5	876:24 973:7	808:4 810:3
969:24 970:4	jurisdictional	849:20 858:23	1032:10	830:17 835:22
971:25 972:2	801:19 888:22	860:11 861:9	1057:3	842:9 865:4
972:17 973:24	jurisdictions	863:10,24	keeping 831:16	880:3 913:13
975:11,18,23	953:2,9	864:9,11	874:13 875:3	913:19 915:7
979:11,12,15	justify 873:18	867:18,25	1003:15	915:17 919:22
981:2,5 982:10		871:3,24	1054:7	924:23 944:19
986:18,20,21	K	879:14 881:24	Kenney 701:19	946:4 948:19
986:23,25	K 954:10	882:10,15	754:2,5 757:3	949:3 950:6
987:3,4,5	1042:18	883:13 885:19	789:13 807:19	956:15,16
996:21,24	Kansas 701:10	886:23 905:21	807:20,21	964:5 971:21
997:1,2,3	702:14,20,22	913:8 919:24	808:3,11	973:7 994:8,25
998:1 1001:21	702:23 741:15	921:2 923:1	817:22,23,24	995:2 996:12
1001:25	800:7 851:11	924:6,10	818:8,12,19,24	1004:23
1002:2,4,6,9	854:9,12	925:16 928:19	848:16 954:4,5	1020:20
1002:10	855:25 864:11	929:13,14	954:7,9,16	1026:8
1004:12	868:13 872:12	932:20 934:11	1062:23,25	1031:11
1008:17	884:19 897:7	937:5 952:1	1063:23	1048:7 1056:3
1009:2,5,10,24	897:25 918:13	954:17 955:4	1075:21,24	1056:8,18
1011:6,16	919:10,12,20	958:20 968:10	1076:6,15,20	1058:8 1059:6
1012:24	927:18 937:6	987:3 990:7	1077:1,3,6,9	1059:8
1013:2,7,10,11	937:11 948:8	991:1,9,23	1078:8	1060:23

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1061:9,17	763:6 764:13	1022:14,22,23	1037:9 1042:7	layer 983:15
1063:2	765:4,10,15	1024:2 1027:1	1042:8	lays 798:13
Kindred 981:11	770:16 783:13	1027:20	1043:18	lead 866:15
Kliethermes	783:15,19,21	1029:4,17,18	1046:7,19	920:18
829:19 830:19	785:25 787:2	1031:6	1048:21	1064:18
853:20 945:20	788:24 791:24	1032:10	K-l-i-e-t-h-e-r...	leads 800:6
946:6 972:19	806:4,7 812:8	1035:2	974:4 1011:21	845:16,20
973:16,17,19	827:4 834:9,16	1038:18	L	855:22 862:14
974:3,5 975:7	835:13 836:15	1039:16	label 822:21	868:2
975:9 976:2	836:24 837:15	1040:8,20	labeled 974:7,9	leaps 852:1
979:18 981:9	839:12,19	1041:10	974:10,20	learned 747:5
994:19 996:20	840:19 841:4	1042:3,8	1011:24	882:20
1002:13,24	841:18 842:13	1043:10,14	1012:3,4	learnings 924:9
1003:8	842:14,23	1044:13,13,16	Labor 716:17	leave 845:21
1004:16	843:1,4,6,7,14	1044:19,20	717:7,8	859:22 860:4
1006:17	845:1,3,4	1046:3 1047:3	Lacine 861:9	869:10 876:5
1009:13	862:3,3,8	1047:5 1051:3	lacks 852:10	949:19
1011:7,8,9,11	863:11 866:25	1057:7,11	867:13	left 752:14 849:2
1011:20,22	871:23 874:25	1058:23	laid 719:10	867:15 972:9
1016:6	875:22 886:21	1063:15	932:7	legal 842:6
1036:17	888:8 891:8	1065:5,7	language 820:3	Legislature's
1039:11	895:22 901:7	1066:13,16	large 827:23	882:22
1049:19	913:17 915:8	1068:3 1070:5	830:3,3 839:2	lessen 881:3
1059:7	919:1 921:8	1072:2	855:2 858:11	lessons 882:20
1062:18	927:22 934:8	1074:19	866:4,4,13	letting 1022:11
1063:5,7,17	934:17 937:8	1076:15	870:4,9 871:11	let's 742:25
1064:6 1066:4	943:11 947:18	knowing 945:5	873:23 950:21	758:9 793:12
1067:9	948:12 950:23	knowledge	1005:12,23	856:10 858:2
1075:14,15	951:6 952:22	708:15 800:23	1017:21	860:21 868:9
1076:24	953:20 955:12	885:11 975:1	1046:16	869:16 870:23
1080:3,14	955:25 956:5,7	1012:19	1070:4	891:11 896:23
1081:5,7	956:17 958:5	1016:21	largely 812:19	905:20 913:24
Kliethermeses	967:25 968:3	1017:3	833:8	920:25 940:5
1063:13	970:11 972:7,8	knowledgeable	larger 830:5	947:8 948:7,17
know 710:25	972:10 973:1,6	1067:17	913:3 930:23	948:17 949:19
711:1,16,16	973:10,13	known 1006:15	1045:18	958:15,15
727:7 732:2	980:23 984:21	knows 907:3	largest 717:20	960:10 961:4
736:11 739:25	993:21 994:4	Krull 906:9,19	late 1039:14	963:16 972:5
746:16 747:6,9	997:22 998:10	907:7 908:13	launch 1009:25	983:25
747:13,20,20	999:4 1003:20	Krull's 908:2,10	lavish 924:9	1029:24
748:16 749:7,8	1008:2,6	908:17 909:21	law 701:15	1052:5,13
749:10,10	1014:22	KWH 1019:24	703:4,9,13,18	1074:10
751:23 753:14	1015:7 1020:3	1020:7 1029:5	703:23 704:5,9	level 711:6
756:10 757:19	1020:3,10,19	1029:5	795:22 958:3	725:10,11
759:3,8,12,16	1021:4	1032:15,15	lawyer 850:11	775:12,13,15
760:12,12	1022:11,13,14	1035:20		775:17,21

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

779:5 831:17	786:12 788:18	957:4 1002:3	861:22 862:5	734:13 735:8
888:1 934:10	791:5 807:24	1016:3,5	863:6,13	736:5 737:7
999:24 1007:3	835:11 870:8	1036:8	864:13 865:17	738:3 742:25
1020:25	872:17 873:17	1065:20	865:18,21	746:10 749:11
1029:5 1030:3	888:21 889:23	1072:12	866:1 871:1,12	749:25 750:2
1042:2 1053:1	892:1,14	1074:10	875:8 882:7	752:6,11,22
1053:19	893:21 895:19	1079:17	883:12 921:13	753:14 757:24
1055:11	896:2 907:8,9	1080:17	929:18 938:25	761:5 764:15
1060:10	907:10,17	list 705:5 732:11	939:8,11,12	764:17 765:20
1065:3	910:16 916:6	858:9 900:4	949:6 950:3	775:17 776:13
levels 803:20	919:1,6 926:9	996:1 999:1	956:1 961:6	776:14 777:17
879:2 908:24	942:11 948:12	listed 735:12	964:18,19,20	777:21,25
938:1 1044:3	948:14,19,24	777:11	966:5 970:25	778:7,12,17,18
LGS 871:7	949:24 950:1	listen 874:22	976:13,15,23	778:20,24,25
LGSLP 857:22	950:22 951:12	listing 792:20	977:12,23	780:11,16
lies 827:25	953:6 954:24	849:2	980:1,3 997:18	782:8 784:2,5
life 758:4 769:16	954:25 957:19	listings 767:13	1007:23	784:7 786:15
light 701:10	984:1,4,14	lit 956:16	1008:8 1045:8	792:7,8 798:23
702:14,22	994:17 1006:1	literal 903:8	1045:12,12	806:4 839:10
735:13 737:22	1009:8	literally 984:22	loads 861:13	861:8,17
741:16 800:7	1014:12	litigated 735:20	local 874:20	862:12 865:10
854:9,12	1018:9	998:21 1001:2	lock 1026:14	866:21 867:17
864:15 897:7	1024:11,22	Litigation	logo 932:20	868:18 871:5
897:25 927:18	1028:7 1030:2	701:23	lonely 808:4	875:14 882:12
938:6	1033:7,7,20	little 710:10	long 719:6	896:19 912:7
lighting 823:18	1037:1,6	720:21 730:3,5	771:12 793:25	912:14 914:19
823:19	1043:25	750:17 754:22	827:2 839:6	918:24 927:25
lights 863:12	1067:21	784:6 788:8	841:19 878:19	928:3,23 947:9
Light's 851:11	1073:23	808:4 811:7	879:14 913:13	969:17 971:13
855:25	1076:1,11	833:6 851:21	913:15 968:1	971:22 976:8
Likewise 902:12	lines 785:20	951:11 952:11	1000:6	982:13,25
limit 775:24	887:12 894:4	952:15 953:20	longer 774:21	991:10 996:8
880:14 895:10	913:25 917:12	966:19 967:23	863:4,7 864:1	1004:24
1025:22	922:16,17,19	968:8 995:20	939:10 949:7,8	1033:4,4
limitations	946:1 981:15	live 747:11	long-term	1056:19
1006:5	982:25 983:19	770:16 794:22	714:20 719:4	1060:23
limited 733:20	1013:22	lively 837:22	719:12 747:15	1061:9
736:25 812:24	1024:11	LLP 702:19	758:19 759:3	1066:10
892:17 899:19	1037:5 1054:6	load 764:2	759:11,13,15	looked 714:14
limiting 895:4,6	1058:15	790:10 798:20	759:19,23	722:12 724:2,4
line 705:17,22	1070:22	799:11 802:6	look 709:21	746:5 748:10
709:23 718:17	Linhares 703:22	828:9,16	710:23 713:12	755:14,15
730:23 731:24	883:24 884:2	839:15 851:22	715:20 719:3	763:15 766:14
740:23 747:9	927:4,5,7	852:11,19	721:10,16	774:8,10 775:3
760:5 763:16	929:11 932:2,9	853:2,6,18	723:23 724:1,7	775:23,24,25
766:14 773:21	933:2,3 934:18	854:1 861:10	730:20 734:3	776:9,15,17,19

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

779:23,25	lot 712:25	726:14 730:2	major 766:11	734:25 741:23
780:20 782:1,3	714:12 732:4	749:7 750:9	majority 928:7,7	771:19 772:21
789:1 899:21	747:18,19	753:2 759:15	928:8,9 961:22	791:4 884:23
913:1 914:23	748:18 753:19	759:24 760:3	1017:16,18,19	884:24,25
931:6 960:11	761:9 782:17	839:1 875:21	making 730:8	897:3 898:19
969:6,11	810:23,24	904:12 919:23	875:13 886:19	market 710:8
971:20	863:18 867:19	921:5 1028:14	936:10 949:6,6	717:3 720:13
1015:12	870:6 874:4,9	1028:23	956:8 973:14	725:16,22
1017:5	938:25 968:6	1031:24	983:17 991:12	726:13 727:24
looking 736:3	971:19 978:22	1034:15,24	991:13	748:8,11,12
744:8 750:11	981:12 988:19	1035:7,12,14	man 937:8 938:9	755:24 760:13
759:18 775:11	993:13 1006:6	1035:21	management	760:22 768:7
775:12 776:12	1007:13	lowering 905:17	776:10,19	799:6,7,9,11
777:4,8 778:13	1021:6	lowest 852:20	777:23 780:18	799:17,18,19
778:21,23	1039:16	lows 732:12	992:9 1057:11	801:18,24
786:12 787:11	1057:7	LP 870:16 871:6	Manager 899:4	802:1 923:25
787:12 788:8,9	1063:22	LPS 870:16	manner 798:6,9	939:9,12,13,14
808:8 819:23	lots 916:1 967:2	1010:6	798:11 866:5,8	964:7 977:8
836:24 844:25	990:15	lucky 994:21	871:13,13	978:1 980:22
861:25 888:20	loud 937:15	lunch 793:23	924:21 936:14	1007:17,19
892:1 911:16	938:16	794:3 809:12	Mantle 770:2	1008:5
913:10,19	1024:13,14	882:14	manual 814:6,8	marketed 951:2
915:4 917:11	Louis 703:5,14	Lutz 937:8	814:21,22	marketplace
919:25 946:10	Louisiana		873:1	863:23 864:3,5
979:2 986:8	868:20	M	manually	864:16 938:7
1026:3,4,11	low 751:1	M 701:18	814:20	939:2 990:8
1030:2	753:16 759:5	702:15 746:20	map 948:6,11	markets 718:24
1038:25	831:17,18	757:17	March 717:21	802:7 939:7
1039:1	832:4,4 839:2	Madison 702:6	719:1 721:12	market's 719:12
1057:15	841:5 844:10	702:11,16	725:5	married
1068:7	844:20,21	MAIDA 701:20	Marisol 821:19	1063:17
1074:18	851:22 852:19	main 702:19,22	825:14 884:9	Martin 835:1
1077:6	874:15 875:3,7	807:24 839:9	884:19,21	838:16 880:10
looks 712:25	875:20 879:7	884:19 1026:6	1079:13	900:13 910:3
735:7 760:21	881:2 882:8	1076:1,11	1082:14,15,17	969:6 1032:21
774:25 793:10	905:14 908:14	mainstream	mark 712:13	Martin's 911:16
859:5,6,7,7	909:7,12,17,17	751:18 851:18	734:20 737:18	Maryland
901:1 910:18	992:21,22	852:7 855:12	752:21 879:20	735:14 737:11
910:19 967:14	1028:21	855:21 857:20	896:17 898:17	737:12,20
972:3	1029:9,10,15	867:12	1019:24	738:21 740:6
lose 964:8	1034:14	maintain 801:8	Marke 831:15	Master's 849:6
970:25	1035:6,25	921:17 922:10	831:23	match 1051:25
loses 964:18	1036:3 1054:7	930:10	1075:17	matches 853:7
lost 949:1 964:9	1054:17	maintaining	marked 708:4,6	material 775:6
970:20 999:15	1074:23,24	930:11	712:15,18	775:21 776:2
1045:8	lower 710:1	maintains 821:3	714:23 717:6	777:18 778:8

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

780:13 materials 768:1 math 995:8 matter 701:10 770:13 817:3 828:7,14 829:10 948:15 950:25 951:5 956:3 961:7 974:8 977:11 977:11 997:17 1011:25 matters 955:23 mature 758:5,5 maximum 850:7 985:13 ma'am 808:17 808:23,25 MBA 849:7 Mealy 701:23 1084:7,21 mean 710:25 711:2 714:9,10 714:20 716:21 726:18,25 727:15 730:6 731:8,9,22 732:3 736:3,4 736:5 739:24 744:3 746:5 747:18,19 748:15 751:16 752:18,22 753:1,2,13,18 755:20,24 757:2 758:3 760:10 764:12 765:14 766:24 775:19 808:3,5 815:2,9 819:14 825:21,25 886:8 894:23 932:20 936:9 936:12 944:25 945:15 946:19 950:13,17	951:14 956:15 959:5 962:18 970:9,21 983:24 984:22 995:7,9 1015:7 1015:14 1017:18 1019:22 1028:15,17 1030:24,25 1031:21 1035:6,9 1038:15 1048:16 1059:1 1061:24,24 1062:7 1066:24 1067:16,19 1071:23 1072:1 1074:17,21 1076:3 meaning 899:21 meaningful 809:8 867:13 means 741:2 840:10 894:5 980:18 1000:8 1004:20 1026:3 meant 935:8 950:18 1014:8 measurable 887:21 measure 851:15 866:1 1007:1 measured 913:11 measures 753:15 850:24 MEBCOS-R-5 849:19 MEB-COS-R-5 851:19 MECG 704:8	709:7 810:13 820:11 856:9 868:7 934:25 957:7 971:2 978:8 981:3 998:2 999:8,19 1001:1 1015:21 1065:13 MECG's 1001:10 mechanism 769:23,24 1025:21 median 731:8,10 medium 990:13 MEEA 829:17 882:22 924:1 925:10 941:18 941:22 958:21 1068:2,7,9 meet 753:3 756:2,12 790:9 792:14 828:16 839:15 847:22 847:24 850:10 852:3 864:23 865:7,18,21 900:6 907:23 939:8,10 977:24,25 978:3 meeting 718:23 719:17 721:12 725:5 752:19 756:16 852:5 865:24 925:10 meetings 718:16 meets 829:2 857:2 megawatt 798:25 933:23 933:24 977:2 Meisenheimer 899:4 900:11 members 828:4	874:18 876:17 Memorandum 755:8 memory 810:12 902:18 955:8 1009:15 1069:9 mention 760:19 800:15 1018:9 mentioned 720:12 722:3 736:20 737:5 825:14 860:7 860:25 881:9 923:4 936:8 940:7 1007:12 1018:7 1062:15 merely 770:12 1009:21 merited 744:18 Mers 702:5 819:3,4 met 828:18 1040:9 meter 813:20,23 813:24 814:12 814:18,19,20 814:21,25 815:4,13,24 959:23 968:14 1070:9 metered 1072:14,16 metering 882:16 meters 816:2 818:1 923:7 method 829:4,7 844:1,4,6 849:13,22,23 850:2,6,14 851:10,11,13 851:14,16,20 851:25 852:6 852:16 854:10 854:12,13,18	855:5,13,13,15 855:17,21,23 855:25,25 857:15 860:22 860:24 861:6,7 862:22 864:6 865:16,21 867:9,11 868:4 868:5 873:2,6 937:17,19 938:19,20,22 939:15 977:4 977:18 978:2 978:12,13 984:16 methodologies 867:12 873:16 methodology 774:24 790:19 847:11 848:6 850:17 851:3 854:19 857:11 857:16,19 860:10,15 861:3,4,5,18 862:14,20 863:3,22,25 864:9 865:9 866:10 867:2,8 867:14,19,25 868:3,8,10,12 868:14,24,25 869:3,5 872:24 953:20 987:13 988:11 989:8 methods 851:16 851:21 854:7 863:18 978:8 MI 868:7 Michael 1017:13 Michigan 754:25 microphone 822:16 middle 750:10 901:2
---	--	--	---	---

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

Midwest 701:23 856:19 908:16 908:22 967:19	858:5,6,12 869:20 1005:19,19 1052:6,6,9,11 1052:12,14 1055:16,16	754:11 771:11 802:9 824:22 832:12,20 838:18 842:3 842:10,19 843:18,24 846:22 849:25 851:4 854:11 855:14 867:4,5 872:17 874:13 876:17 877:4 878:21 883:23 884:3,20 886:23 897:24 898:23 899:5 904:11 913:8 924:6,11 927:3 932:25 938:21 957:3 968:16 986:21,25 987:11 1002:2 1002:6 1003:15 1016:2 1017:24 1034:13 1060:22 1063:14 1065:19,22 1083:6 1084:3 1084:9	model 711:24 712:6 728:22 728:25 729:4 729:14,15 757:13,19,22 790:3,4,5,6 862:7 938:3,3 1000:19 1001:4 models 757:15 757:21 modest 842:4 962:13 modified 750:14 995:15 modify 749:21 749:24 949:4 952:1,12 990:25 993:24 moment 864:24 865:6 896:20 902:7 953:13 979:21 momentarily 793:18 Monday 973:11 money 761:9 841:6 874:2,7 monitor 750:4 801:23 monitoring 749:14 802:2,2 Monnie 701:23 1084:7,21 month 711:2 714:9 715:10 724:3 814:11 814:13,25 815:15 833:23 834:13,22 837:3,11 841:16 865:8 875:24 880:1 961:9 1026:17 1026:19 1027:7 1029:3	1029:6 1037:10 1055:10 monthly 714:20 714:24 835:12 835:15,19 889:25 898:1,8 903:12,18 960:12,14,16 968:21 1082:19 months 709:24 711:3 717:14 717:19 719:4 726:15,21 756:13 830:14 830:16,17 835:17 836:16 836:19 837:5 837:10 838:12 838:13 839:12 880:8 887:20 913:16 929:21 929:23 946:7 946:11 947:6 969:13,15,19 1019:9 1024:17,25 1025:2,3 1027:6 1033:24 1041:22 1057:18,23 1074:3 Montrose 861:9 morning 705:2 705:11 709:15 709:16 722:12 724:8 728:17 745:8,9 757:10 757:11 762:4 773:13,14 785:14,15 793:15 794:1 795:14,15 797:11,12
MIEC 704:3 709:5 810:13 848:18,22 857:23 860:12 865:23 868:3 869:3,5,11 934:23 957:5 976:10 978:8 979:13 997:2 1001:10 1006:11 1013:11 1065:11 1083:9	millions 931:20 934:16 mind 765:15 853:13 856:24 1024:6 1037:5 mindful 860:2 mine 730:4 983:13 1015:12,12 mini 808:24 810:21 minimal 992:17 993:7 minor 881:17 minority 1021:15 minutes 722:4 724:11 761:19 761:21,23,25 809:5 897:12 972:5 misallocates 852:1 mischaracterize 1017:7 mischaracteri... 969:22 1004:7 1035:5 mispronounced 981:12 misrepresent 798:1 misrepresents 976:20 missed 783:6 missing 736:11 740:16 Missouri 701:1 701:7 702:2 703:2,21,21	Missouri's 967:21 mitigate 942:24 943:1 944:4 945:17,18,19 946:8,12,21,22 1054:22 1069:10 mitigates 1055:2 MO 701:24 702:7,12,17,20 702:23 703:5 703:14,24 704:6,10 903:12	model 711:24 712:6 728:22 728:25 729:4 729:14,15 757:13,19,22 790:3,4,5,6 862:7 938:3,3 1000:19 1001:4 models 757:15 757:21 modest 842:4 962:13 modified 750:14 995:15 modify 749:21 749:24 949:4 952:1,12 990:25 993:24 moment 864:24 865:6 896:20 902:7 953:13 979:21 momentarily 793:18 Monday 973:11 money 761:9 841:6 874:2,7 monitor 750:4 801:23 monitoring 749:14 802:2,2 Monnie 701:23 1084:7,21 month 711:2 714:9 715:10 724:3 814:11 814:13,25 815:15 833:23 834:13,22 837:3,11 841:16 865:8 875:24 880:1 961:9 1026:17 1026:19 1027:7 1029:3	1029:6 1037:10 1055:10 monthly 714:20 714:24 835:12 835:15,19 889:25 898:1,8 903:12,18 960:12,14,16 968:21 1082:19 months 709:24 711:3 717:14 717:19 719:4 726:15,21 756:13 830:14 830:16,17 835:17 836:16 836:19 837:5 837:10 838:12 838:13 839:12 880:8 887:20 913:16 929:21 929:23 946:7 946:11 947:6 969:13,15,19 1019:9 1024:17,25 1025:2,3 1027:6 1033:24 1041:22 1057:18,23 1074:3 Montrose 861:9 morning 705:2 705:11 709:15 709:16 722:12 724:8 728:17 745:8,9 757:10 757:11 762:4 773:13,14 785:14,15 793:15 794:1 795:14,15 797:11,12
Miller 705:20 805:12 821:19 821:24 825:14 884:5,6,9,19 884:21 886:1 897:5,11,17 898:21 900:23 901:20 902:2 903:20 904:9 906:21 916:22 924:24 925:4 926:7 927:10 928:19 929:17 933:4 940:2 957:13 958:15 972:4 991:3 992:2,12 995:19 1016:17 1079:13 1082:14,15,17 million 788:21 803:19,20 811:2,16,20,24 812:7,22 858:2				

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

802:24,25	1025:9	836:4 891:21	1059:8	Nicole 702:5
809:21 822:12	1033:24	891:22 964:25	needn't 988:3	night 720:16
1075:18	1034:4 1057:3	965:9 1027:20	needs 822:6	724:8 868:22
1076:19	multiple 825:7	1028:4,17	844:2 863:11	1048:20
1077:13	985:14,21	1041:14	900:6 1060:6	nine 741:12
Morris 848:23	1004:22	1074:22	1064:17	754:8 1033:6
motion 762:6,15		necessary	negative 751:22	nodding 936:1
762:16,17	N	935:13 995:8	752:1,3 756:21	nods 809:13
move 713:13	N 702:1 703:1	1000:22	760:7 816:15	non 787:10
715:24 717:23	704:1 705:1	1058:10	833:19 837:6	non-coincident
720:5 721:20	1078:1 1079:1	1060:18	873:24 874:3	851:1
726:1 737:9	1080:1	need 705:18	940:15 1069:1	non-detailed
772:19 830:13	name 706:15	738:5 764:21	negatively	987:23
869:14 878:15	707:13,15	765:21,21	1070:16	non-profit
878:19 879:15	771:6 795:16	768:17 779:15	negotiations	876:16
885:14 923:1	795:17 829:18	779:21 787:1	794:18	non-retail
932:2 961:8,11	832:19 846:7	796:19 805:9	net 802:9	950:21
994:20 1015:2	848:21 869:6	810:7 812:14	netted 798:19	non-revenue
1015:13	876:13 884:17	812:15,17,18	netting 769:14	811:5,7
1033:11,17	902:2 974:2	813:9,11 817:8	799:12,17	non-summer
1034:7	981:11 989:17	817:14 841:3	801:12	830:16 838:12
1044:11	1005:3	865:20 872:21	1007:25	1024:25
1050:19	1011:19,20	877:11 885:4	net-based	1073:8,9,14,15
1051:16,20,22	named 937:8	901:8 921:4	768:10	1073:15,17,19
1054:20	938:9	922:6 941:17	neutral 836:3	1073:20
1058:20	narrowly 769:22	943:9 977:24	935:9,18,23	1074:3
1060:8,14	narrows 859:25	992:3 993:7	940:9,14	Non-unanimous
1066:22	NARUC 872:25	994:14 996:10	neutrality	769:5 794:8
1068:17	nation 846:16	996:10	930:10	805:6 809:23
1073:8,18	national 876:16	1002:14,19	never 743:22	810:4,18
moved 772:14	nationally 827:3	1003:1,10	744:2 747:22	999:18
819:8 826:14	native 764:2	1007:16,17	747:25 799:15	non-weather
960:8,8	790:10	1031:9	802:9 853:13	1067:25
1042:17	natural 703:12	1038:16	856:14 867:8,9	noon 793:24
1054:25	972:7	1039:2	nevertheless	Noranda 970:20
1068:23	nature 863:2,7	1040:24	968:9	norm 747:1
movement 819:7	871:2 1022:10	1060:1 1061:3	new 810:9 834:9	normal 947:14
847:15 995:2	1045:22	1061:21	838:4 916:18	1026:15
moves 1043:7	NCP 985:14	1068:12,19	991:10,11	1043:8,9
moving 729:25	near 740:23	1076:25	1042:11	normalize
770:18 834:3	919:14 930:6	needed 762:6	1044:15	1043:9
838:11,12	972:6 1019:13	793:1 850:21	1060:10	normalized
878:23 879:6	1044:13	880:6,7 883:9	news 717:6,9	746:23,25
917:17 936:3	nearly 876:17	922:10 924:21	751:22 752:1,3	748:6,14,19,25
953:10	necessarily	995:4 1038:7	1082:20	749:5 896:13
1005:20	714:18 730:6	1040:6,11	Nick 1075:18	898:1,8 912:19

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

968:21 969:1 1026:5,11 1043:13 1067:24,25 North 736:15,20 Nos 885:19 nose 991:4 note 718:6 784:5 806:13,13 825:3 832:2 901:4 985:8 noted 709:24 711:19 783:9 852:8,18 853:1 879:9 932:23 1006:9,12 notes 718:22 852:15 878:25 967:17 notice 742:20,23 833:3 836:18 837:2 904:2,7 926:2,5 1059:14 Noticeably 858:25 noticed 769:6 1040:6 notify 954:10 noting 899:18 novel 871:22 872:4 November 734:9 899:6 NP 708:6,19,22 708:24 768:21 768:22 796:10 796:12,16,18 797:1,5,5,6 806:22,24 1083:10,12,14 NRDC 883:20 934:21 957:5 986:23 1002:4 1036:10 1065:21	nuclear 978:21 979:8 1008:6 number 711:16 714:13 744:21 744:23 745:15 748:6 750:17 751:4 760:20 768:2 769:24 777:12 784:5 812:3,22 818:6 826:4 827:5 839:2 859:25 920:12,17 923:23 956:6 958:23 980:24 1016:21 1048:5 1051:14,15 1052:5 1053:20 1055:10 numbers 715:23 731:24 732:1 732:15 746:10 752:20 760:16 786:6,10 788:25 796:6,8 805:19 919:20 929:20 940:10 numerous 824:3 924:13 1049:9 NVEC 783:13	767:6 768:23 772:23 807:3 898:14 904:5 932:22 969:21 1008:25 1009:11,25 1016:9 1018:1 1018:13 1023:8 1025:24 1026:22 1027:5,11,14 objections 716:1 717:25 720:7 738:24 742:22 764:7 767:8 768:16 797:4 823:3 885:17 900:18 904:4 926:4 975:12 1013:3 objective 839:4 objectives 878:11 1030:5 1037:19 1044:5 objects 739:13 observation 714:19 observes 843:4 obtain 822:11 1075:5 obtained 849:5 obvious 991:7 obviously 705:18 715:19 729:7 760:10 794:15 813:11 838:4 966:18 972:25 1059:12 occasion 795:25 occasionally 712:12 occur 725:23 1010:20	1067:24 occurs 993:19 994:14 October 745:21 745:22 746:1 749:16,21 750:13 odds 829:14 offer 708:19 738:19 752:21 765:5 767:2,4 796:25 805:17 822:24 825:13 849:3 898:12 900:16 922:21 923:14 924:13 925:20 975:6,8 992:9 1012:22 offered 708:24 716:13 718:2 719:21 720:9 721:6,23 723:12 726:3,5 738:18,23,25 764:7 768:25 772:25 807:15 822:22 823:6 831:15,24 854:9 877:6 885:20 892:16 898:13,16 900:21 932:25 975:12,14,20 1013:3,6 1081:2 1082:3 1082:13 1083:2,7,9,16 offering 737:25 766:3 925:17 offerings 925:21 offers 831:23 office 702:9,11 740:5 743:8 763:3 872:18 873:21 official 742:20	904:2 off-system 798:2 799:1 oh 739:12 740:16,18 745:15 749:18 757:18 785:24 789:7 982:14 1005:2 1006:20 1009:7 1015:10 1017:18 1019:22 1021:17 1025:8 1050:20 1061:8 1069:15,21 1073:15 1076:20 okay 706:9,11 706:22,25 709:11,17,19 711:19,23 713:13,25 715:3,6,14,24 717:5,12,17,23 718:10 720:5 720:20 721:19 724:1,4,9,12 724:25 725:15 725:22 726:1 727:2,18 728:19 729:2 729:23 730:16 730:22 731:2 731:13,17 732:17,22,24 733:13,24 735:2,8,17 736:19,24 737:3,10 738:10,19 739:13,21 742:18 743:17
--	--	---	---	---

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

743:25 744:16	893:11,17,20	954:22 956:19	1049:16,17	861:4 903:10
744:25 748:21	894:1 895:1,11	957:16 958:10	1053:4	1017:25
748:23,24	895:18,23	959:4,17	1054:19	1034:13
749:19 750:11	896:1,5,6,6,11	960:10 962:24	1055:9,22	1082:2
751:3,13 753:6	896:16 897:21	965:14 967:24	1057:15	OPC's 892:4
753:21 755:10	897:23 898:11	974:19,24	1058:15	open 952:25
755:14 756:1	899:1,11,18	975:3 979:18	1059:6	opening 742:2
757:5 758:7	900:2,9,15,22	979:23 980:10	1060:15,17	742:12 808:20
763:21 764:18	902:16,19	980:20 983:21	1062:16,18	821:16 822:8
764:25 765:3,3	903:3,7,25	986:18 988:5,9	1063:4,25	823:9,11
765:25 767:22	904:16,22	990:6,23	1065:10	827:20 831:5
768:5,15 770:9	905:1,8,10	994:17 995:14	1067:3,21	832:16 842:8
770:14 772:19	906:1,16 907:5	999:6,25	1068:16	846:2,4 848:9
773:20 776:16	908:1,23 909:5	1000:5,10,17	1069:15	848:18,19
780:1,5 781:16	909:9,15 910:9	1001:15	1070:22	856:9,15
783:16,19,22	910:13 911:11	1004:10	1071:11,15	860:23 872:13
783:22 784:4	912:16,18,24	1005:4,4	1072:9,11,21	876:10 883:19
784:11,17,17	913:2,18,24	1009:7	1072:25	886:12 960:1
785:2,14,20,24	914:7,16	1012:21	1073:7,15,25	976:3,5 1079:3
786:14 787:9	915:17,21	1013:21	1074:10	1079:4,5,6,7,8
787:12 788:6	916:4,11	1014:8,25	1075:23	1079:9,10,11
788:10,14,20	917:10,22	1015:7,10,15	1076:6,6	openings 810:21
788:24 789:6	918:10,23	1015:17,18	1077:5,8	832:22
790:21 791:13	919:7,8,18,19	1016:11	Oklahoma	operates 1005:3
791:17 792:2	920:11 921:3	1017:15,22	868:20	operating
793:6 796:9,15	922:2,4,9,14	1018:9	old 816:3	1007:16,18
800:2 801:3	922:19 923:20	1019:11	older 875:9	operation 759:6
802:17 804:5	924:12,24	1020:11	Olive 703:14	operational
804:14 805:14	925:15,20,25	1021:23,23,23	once 713:16	955:15 956:11
806:3,3,21,25	926:25 927:22	1023:3 1024:2	780:23 794:15	operations
808:11 809:2,2	928:1,4,9,23	1024:5,13,15	858:4,10,11	731:25 732:6
810:10 813:15	929:7 930:2,14	1024:15,21	874:23 916:16	829:9 886:23
814:14 815:19	930:18 931:8	1025:7,14	993:14	937:5 992:13
816:8 817:2,17	931:16,20	1026:15	ones 946:11	operators 956:8
817:19 818:12	932:1 933:8,12	1027:15,23	one-half 898:3	opinion 738:21
818:19,24	933:15,21	1028:10	one-time 716:21	741:19 742:6
821:11 822:7	934:6,15,18	1029:18,23	ongoing 750:4	747:9 760:22
822:12,25	935:12,23	1030:1 1031:1	881:20 886:16	792:19 893:11
823:3 827:15	936:3,12,17,24	1031:8,22	943:23	938:18 945:8
856:10 886:21	937:4 938:11	1032:11	on-peak 882:2	992:9,10
887:2,7,19,23	938:18 940:7	1033:1,1,8,17	op 1022:11	1029:20
888:5,12,15,19	940:23 941:24	1033:21	OPC 739:7,9,13	1038:21
889:6,10,20,20	942:13 944:13	1034:1,7,19	743:8 764:16	1041:2
890:4,14,20,24	947:8,12	1036:7 1037:7	782:15 810:13	1066:17
891:4,14,24	948:17,22	1037:7,20	838:25 858:25	Opitz 702:10
892:4,24	949:11 950:25	1039:4 1040:4	860:17,25	709:4 762:22

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

762:24 765:11	opting 1022:8	1020:19	788:16 790:6	page 709:21
765:24 769:17	option 881:25	1032:4	899:22	711:19 713:1
769:18 773:6,8	1024:4	1038:11	overall 710:22	721:11,11,14
773:9,12	1031:20	1049:6 1050:7	715:11 734:1	721:14,15
774:23 775:3	1057:16	1054:7	737:4 879:17	730:18,22
779:16,19,22	OPTIZ 789:21	1068:11,13	882:25 892:15	739:5 740:13
782:16,22,24	957:8 1013:10	1072:23	919:23 920:7	740:13,17,23
789:19 790:21	opt-in 1031:3,12	1083:5	922:5 935:15	742:4,5,13,16
791:19 797:8	opt-out 813:20	ordered 829:22	970:15 977:2	742:25 743:16
797:10 799:20	815:7,10	907:18 923:17	1053:2 1055:5	743:17 744:8
804:16 805:15	1021:15	923:21 942:7	1055:14	759:2 761:1
805:16,20,21	1022:10,12,25	993:14	1056:6	773:18,19
806:1,9,24	1031:4,12	1047:21	1060:12	774:1 775:4
807:1,6 819:21	opt-outs	orders 842:25	1061:9 1065:6	776:5 777:3
819:22 831:6,7	1041:11	843:5,6 988:17	1070:2	782:9 785:17
832:10,11	orange 780:1,2	988:22	overblown	785:21 786:16
939:22 976:1	784:7,15,20,23	oriented 739:10	841:10	787:12,24
979:10,12	791:13	original 812:7	overdue 878:20	797:16 801:5
997:1 1007:11	order 737:20,25	830:20 910:25	overhead 955:1	801:14 835:23
1064:3,5	738:4 739:14	911:8	955:6	850:1 851:5,19
1065:10	741:17 742:3	originally	overrule 775:2	853:5,15,15,21
1078:14,17,22	742:11,21,25	791:14	overruled	854:5 887:8
1079:5 1080:5	769:13,14	1036:24	716:11 723:11	888:19 889:22
1080:22	797:16,20	1069:7	932:23 970:4	890:14,24,25
opportunity	798:1,4,7,7,13	originated	overview 794:12	891:25 893:17
764:9 841:4	800:8,14,16,17	967:14	794:21 809:22	894:3,15,16,17
842:24 881:4	800:20,24	OSAGE 1084:5	810:4,18	895:11,18
897:18 992:8	801:4 802:13	ought 723:3	832:24 842:9	896:3,4 899:2
oppose 833:8	810:17 812:21	outcome 1052:9	842:13	903:2 907:6,7
877:16 953:16	836:7,12	1055:13	overwhelmingly	907:9,10,17
opposed 823:24	843:15 845:7	1056:17	865:9	908:10,10,12
825:20 830:13	850:15 851:5	outlier 755:15	over-contribu...	908:13,20
942:17 943:6	855:8 858:20	755:17 854:13	1069:18,22	909:25 910:15
944:18,18	860:21 864:18	860:11 862:18	over-recovery	916:4 917:11
947:2 1006:3	879:13 881:24	862:20	1071:18	918:25 919:3,5
1018:18	887:15 888:2	outliers 836:25	owner 1047:6	919:6,16
1027:21	893:13 902:17	outline 951:20	ownership	922:16,16,18
1071:12	902:20,24	outlined 896:14	828:22 921:16	925:8 926:9
opposes 769:16	903:5,16 904:2	934:4 953:12	owns 1006:21	929:18,19
opposite 860:16	904:7 907:7,13	992:2		930:3,6 935:4
opposition	907:19 908:2,7	outlying 863:2	P	935:12 937:14
943:17 944:4	924:21,25	output 790:3,5	P 701:19 702:1,1	938:15 940:3,4
opt 1020:15,25	925:6,8 926:2	outside 744:17	703:1,1 704:1	945:25 946:1
1021:18,18,22	987:15 989:2	744:20 751:18	704:1 705:1	947:9 951:25
1022:4,7,17,17	995:5 1001:18	770:6 777:11	978:6 997:8,11	952:6 976:6
1022:19,24	1002:15	781:6 787:7	Pacific 755:6	979:19 980:10

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

980:15 981:14 982:11,12,25 982:25 983:23 983:23 985:1,3 985:25 986:5 997:12 1008:11,20 1013:20 1018:7 1024:8 1028:3,7,7 1029:23,25 1032:23,25 1033:1,2,3,17 1036:22 1037:1,6 1042:14 1043:25 1057:16 1058:9,13,15 1072:21,25 1078:2,12 1079:2,13 1080:3,14 pages 730:18,19 738:1,6 742:2 742:9,12 766:7 850:5 852:9 855:9 856:5 871:17 879:14 1034:8 1084:14 pan 991:25 panel 837:25 paper 980:22 paperclipped 783:24 papers 767:14 911:17 913:1 918:16 969:7 969:17 paragraph 713:18 717:13 717:17 733:14 739:7 798:12 801:3,7,13 851:5 903:4	parameters 883:7 paraphrase 1013:25 pardon 714:5 721:13 726:20 731:4 742:2 744:7 parlance 918:2 part 746:16 767:13 783:6 801:1,5 803:10 858:3,10,18 864:18 870:12 870:13 875:3 877:24 886:24 887:1 897:25 916:2 918:16 921:2 943:11 948:3 952:18 955:12 984:9 990:8 991:22 994:12 1020:23 1026:12,23 1027:4 1034:23 1051:8,23 1052:6,20,21 1060:3 partial 806:16 participate 1047:2 participated 736:1 participation 968:8 particular 722:22 723:7 777:5 788:24 798:9,11 799:13,16,17 839:21 840:4 853:22 854:18 887:11 895:2 895:16 948:24	949:7 950:2 951:2 991:21 993:11 particularly 824:12 945:25 1043:21 particulars 873:7 parties 706:18 709:10 764:6 764:19 765:17 765:18 793:20 805:1 808:19 809:24 810:23 813:4 819:5 821:19 828:3 829:15 838:2 859:13 862:10 863:19 877:16 937:20 998:10 999:18 1005:10 1053:25 partly 968:13 parts 857:25 party 707:22 794:11 799:25 860:24,25 861:1 1005:14 1014:20 1030:16 pass 722:6 paste 980:24 patience 972:1 patterns 947:7 966:18 pay 814:12 815:14 852:4 852:11 890:17 894:17 991:8 992:16,17,19 1050:17 paying 760:11 852:13 997:16 1032:18 1035:21	Payne 702:5 822:10,15,18 822:22,23 823:2 827:21 827:22 831:3 939:24 940:1 940:21 957:10 957:12 973:23 973:25 974:1 975:6,13,16,22 1004:13,15 1008:16,19 1009:2,3,7,17 1010:3 1011:4 1011:15,17,18 1012:21 1013:1 1067:6 1067:8 1075:11 1076:12,18 1077:2,5,8 1079:4,19,22 1080:4,12,15 1080:24 pays 1006:22 PC 702:16 peak 829:2,3 839:10,20 840:11 847:11 847:22,24 848:1 850:10 850:12,25 851:1,23 852:3 854:23 855:17 864:13,23,24 865:8,10,13,21 865:24 866:1 867:18 869:8 879:18 880:1 882:7,24 883:12 921:1 921:13 929:3 929:21 930:22 933:13 934:1 938:1,19 939:6 964:18,20	977:20,24,25 978:3,9,10,16 981:21 982:3 982:16,18,19 982:21 983:2,6 984:11,11,16 984:20 985:6 985:12,19,20 986:1,9,12,14 989:9 1008:2,3 1010:10,23,25 1029:21 1037:14,24 1038:1,8 1044:22,25 1045:4,9,14 1048:15,16 peaker 1038:21 peaking 828:19 828:23 848:5 861:12,16 863:6,14 920:4 921:4,6,17 976:24 983:3 983:10 985:22 1007:12,14 1038:4 peaks 828:11 855:4 866:12 985:11 peanut 832:15 peel 990:15 penalize 831:19 866:10 penalized 963:14 penalizes 866:3 penalizing 870:25 pending 987:25 Penn 743:19 Pennsylvania 707:20 people 746:24 815:14 849:8 874:22 972:10
--	--	--	---	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

994:15	842:3 869:16	721:12,17	perspective	planning 876:19
1045:13	869:19,21,24	722:2,5,11	769:18 800:17	921:20,25
1063:22	879:25 880:2	724:5 786:6	810:18 857:24	plans 818:21
1066:9	880:15,15	888:23	873:21 891:19	828:10 972:11
people's 825:10	882:15 888:22	percentile	942:15 945:4	plant 828:22
percent 710:8,9	889:2,12 898:3	836:23 837:3	951:1 959:19	829:5 849:14
710:10,15,16	910:14 911:13	880:16	perspectives	849:24 850:4,9
710:17 711:6	911:13,16,18	1025:23	819:24	851:14 853:18
712:2,5,10,11	911:21 912:7	1027:9	pertained 924:3	854:1,8 855:16
713:5,6,7,20	919:13,14	perfect 881:12	969:10	861:8,9,11,11
713:23 714:2	920:3,17	perfectly 860:18	phase 818:18	861:12,22
714:16,17	929:24,25	perform 779:2	phone 899:12	863:13,14,14
715:10,11	930:2 933:13	performance	900:9,10	921:1,4,6,17
716:19 717:14	934:7 935:15	774:14 775:7	phrase 1035:2	937:22 976:13
717:19 718:25	935:20,25	775:22	phrasing	976:15,23,24
720:14 724:6	940:10 947:14	performed	1034:25	976:25 977:3
724:16,17	948:9,10	791:21,24	pick 873:15	978:20,21
725:5,7,18,21	959:10 969:10	835:4,6,20	972:9,25	983:2,3,10,15
726:12 730:1,1	996:4,11	860:7 1005:10	1045:8	989:3,8,21
731:9,10,14,15	1000:11	performing	picked 745:15	990:12,14
731:18 732:1,3	1025:22	845:6 886:16	picture 723:17	997:7 1004:18
732:5,9,12,13	1026:11,15,16	913:5	801:17 835:23	1004:19,21
732:16 733:16	1026:17	performs 782:5	pictured 940:8	1006:23
733:21 735:22	1027:8	period 710:5	1037:6	1038:4,16,22
736:10 740:15	1050:13,14	747:2 748:7	piece 869:7,7	plants 828:15,19
740:21 741:7,8	1051:17	781:11,20	pieces 708:9	828:24 829:9
743:3,6,6,9,11	1052:22,24	798:16 818:13	885:4	851:21 852:3
744:6,10,10	1054:2 1056:4	865:2,5 879:18	pilot 819:13	853:2,6 859:11
745:12 746:19	1061:1,2,3,15	888:4 983:2	953:12 992:1	861:14,15,16
748:15 749:1	1061:15	984:11 985:6	994:9	862:5 863:5,7
749:10,12	1072:2	985:12 986:9	place 818:4	863:9,18
750:5 752:7,9	percentage	986:14 1029:7	894:7,10 991:6	864:22 865:7
752:16,19,23	720:12 761:6	1045:14	1028:5,13,23	865:18,23
753:1,11,19	786:3 787:5,7	1067:12	1029:11,15	866:1 977:1,6
754:15,20,24	788:4 789:23	periodic 716:24	1034:23	990:2,4,6
755:3,8,23,23	790:2 817:25	732:19	1038:14	997:10
756:8 759:17	818:3 823:16	periodically	places 831:18	1004:24
759:18,20	823:22 830:2	734:18 735:4	890:15	1007:12,14,19
761:1,3 775:10	831:10 873:19	periods 777:9	Plains 752:22,23	1008:6,7
788:5 789:24	889:12 928:1	781:13 782:1,4	753:18 757:2	plant's 852:12
790:11,17	933:18 934:1	824:2 882:3	plan 864:14	play 706:20
818:9,9,15,22	959:14	permitted 723:3	872:23 925:20	769:19 901:8
833:20 834:1	1000:23	person 790:5	926:19 938:6	1067:20
834:17,24	1017:10,11	816:1 955:23	planned 850:9	plays 828:5
835:24 837:4	1041:19	personally 789:5	972:22	please 707:1,2,9
841:13,15,25	percentages	873:4 1084:10	planners 955:22	707:14 751:11

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

765:10 770:21 771:6 786:9 795:1,16 823:14 827:22 831:7 832:18 846:6 872:15 874:10 876:13 884:7,8,17 892:12 893:1 896:20 898:24 902:18 903:4,6 905:8 907:5,9 908:21 917:10 919:5 920:15 930:4 937:16 938:17 973:18 974:1 1009:12 1011:10,18 1013:20 1024:14 1032:20 plenty 877:13 plus 729:6 podium 810:16 point 724:15 732:10 740:5 743:12 744:6,7 752:24 753:10 755:20 760:20 773:18,19 831:22 836:1 836:22 842:24 860:10 871:16 889:18,19 890:12 902:9 913:9 917:2 984:17 1003:5 1016:13 1018:4 1029:11 1036:22 pointed 732:11 789:24 pointer 833:1 pointing 842:18 842:21	points 710:13,14 711:5,10 718:12 725:4,7 725:18 730:13 731:21 733:25 739:18 740:8 746:8,11,21 747:16 748:12 750:1,18,19,20 753:8 754:17 835:14 policies 838:15 956:10 957:20 policy 741:1 824:7 838:11 838:14 839:4 873:22 874:25 878:11 879:5 888:7,13 922:20 936:5 943:9 949:14 953:16 964:25 997:15 1030:5 1044:5 1051:20 Pool 798:17 803:12 population 759:15,24 970:12 portfolio 933:5 933:9,9,12,16 934:11,11 938:24 portion 738:12 874:14 875:4 875:16 878:3,9 894:18 905:13 905:14 937:13 938:14 978:10 990:20 1006:16 1010:7 portions 974:6 1011:23 position 780:23	812:23 813:2 816:12,14,20 817:5,5,8,13 817:13 829:21 847:1 862:14 883:25 889:11 890:5 942:15 943:4,24 946:16 947:2 952:9,24 953:22 1001:10 1050:2 1073:7 positions 829:15 positive 726:8 838:1 1000:3,6 1000:10 possibility 826:17 953:4 1074:11 possible 813:7 813:10 831:17 915:12 940:13 940:15 943:22 948:6,10,13,18 973:7,14 1008:9 1020:13 1021:3,13,20 1045:19 1056:22 1057:5 1070:15 1075:3 possibly 756:23 postage 959:22 potential 914:4 923:25 928:20 929:13 932:3 967:11 1067:22 potentially 913:17 922:23 924:23 961:19 962:3 964:6 1057:14	1071:18 power 701:10 702:14,22 735:13 736:8 736:16 737:22 741:15 790:9 797:24 798:2 798:17,20 799:1,14 800:7 801:24 802:14 803:12 821:2 830:3 850:9 851:11 854:9 854:12 855:25 858:11 859:11 863:5,9,10,17 897:7,25 927:18 982:18 984:10 1007:22 1048:19 powerful 882:7 Powerpoint 879:21 967:13 1032:22 practical 997:17 practice 994:13 precedents 867:13 preceding 1084:14 precise 895:12 precision 937:21 precooling 1071:8 predict 747:21 747:22 predicted 720:13 predicting 747:7 prefer 928:3 947:1,3 preferable 840:12 preference 763:12 764:5	822:2 925:16 prefiled 909:11 premium 729:2 729:5,6,8,13 729:15 730:11 730:13 746:25 748:8,11,13 757:20,20 prepare 729:2 729:12 795:25 prepared 708:2 708:2 728:20 728:21,24 729:17,24 750:2 764:22 771:16,21 805:17 845:22 928:20 929:14 932:10 974:6 996:8 1012:2 preparing 715:16 716:9 763:23 780:10 preponderance 845:14 875:9 present 701:17 756:24 808:1,9 808:9 908:21 1010:17 1057:16 1084:10 presentation 929:13 967:13 presented 745:24 829:10 829:21 838:6 908:17 945:10 976:10 989:1 presents 837:7 Presiding 701:14 pressures 728:8 728:9 pretty 744:1 750:3 756:14 764:24 815:17
--	--	---	---	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

818:2 853:25	PRIDGIN	810:10 811:13	1008:17	probably 746:15
868:6 916:18	701:14 705:2	813:17 816:9	1009:2,5,10,24	767:25 794:1
972:3	706:1,9,12,18	817:20,23	1011:6,16	818:14 822:6
prevailed	707:9 708:20	819:1,16,20	1012:24	827:13 895:8,9
816:14	709:2,5,7,10	820:7,10	1013:2,7,11	897:14 912:11
prevent 881:15	713:15 716:1	821:11,14	1015:20,23,25	913:9,15 915:5
previous 715:4	716:11 717:25	822:1,7,14,19	1016:2	931:15 942:11
715:10 724:16	720:7 721:5,22	822:25 823:3,8	1036:10,12	953:20 961:11
926:22	722:15 723:4	827:16,19	1039:7	961:14 969:6
previously	723:10,21	831:3 832:7,10	1049:20	982:22 994:10
732:25 748:16	726:3 734:22	832:12 845:24	1062:19,23	1005:11
830:21 863:5	737:15 738:14	846:2 848:13	1064:1	1015:5 1043:6
864:10 877:20	738:17,23	848:17 853:10	1065:11,13,15	1044:7,11
906:22 938:20	741:22 742:22	856:7,9 872:7	1065:17,19,21	1057:7 1059:2
pre-cooling	745:3 753:23	872:9,11 876:7	1065:25	1075:2
1071:3	754:2 757:6	876:9 883:15	1067:4	problem 861:21
pre-filed 772:8	758:8,12	883:19,22	1075:13,23	866:2,3 869:18
904:17	761:13,19,23	884:2,14	1077:11	871:3 1022:5
pre-marked	762:2,4,9,19	885:16,21	PRIDING 793:8	1023:19
771:22	762:23 763:21	896:19,24	primarily	1039:13
price 716:18	764:5,18,25	897:9,13,16	757:18	problems
830:6 838:20	765:3,7,14,22	898:13 900:18	primary 842:17	753:12 825:10
847:4 855:18	765:25 766:6	900:25 901:17	844:17	847:7 861:21
879:10 914:20	766:22 767:6	902:22 904:4,6	principle 847:3	procedure
922:21 930:11	768:17,20,23	925:3 926:4	848:2 865:22	814:18
961:16 967:7	769:2,17 770:9	927:2,5 929:15	892:8,15,22	proceed 705:7
969:8,12	770:14 771:2	932:22 934:20	893:4 931:9	1009:12,25
1003:10,22	772:17,23	934:23,25	971:6 1049:3	proceeding
1004:4	773:4,7,10	937:3 939:20	principles	772:15 778:16
1022:25	775:2 779:20	939:23 940:23	847:16 875:13	885:1
1033:9	782:14,24	954:1,5 956:21	965:5	proceedings
1037:23	785:7,10	956:25 957:3,5	print 720:22	701:3 762:3
1048:13,15,25	786:25 789:10	957:7,9 958:11	721:10	793:14 809:18
1049:5 1061:3	789:14,17	969:24 970:4	prior 744:12	842:20 867:10
1061:15	790:22 793:15	972:2,17	756:15 777:9	876:18 901:16
1062:13,13	795:7,11 797:3	973:24 975:11	781:13 830:17	937:19 972:16
1069:1	799:22,24	975:18,23	939:6 950:18	1077:15
priced 1010:23	802:19 804:5,8	979:12 981:2,5	987:18,20,24	1084:10,12
prices 728:12	804:14,17,19	982:10 986:18	998:13	process 730:19
752:9	804:21,23	986:21,23,25	Pro 762:6	751:23 764:21
pricing 728:24	805:19,23	987:3,5 996:21	probabilities	814:6,10 828:1
729:4,14	806:3,21,25	996:24 997:2	724:18	845:5 944:24
757:12,19,21	807:2,8,10,14	998:1 1001:21	probability	1004:21
852:2 905:19	807:18,20	1001:25	724:15 725:4,6	processes
916:19 923:11	808:13,17,23	1002:2,4,6,9	725:9,17,20,23	814:19 883:6,8
953:23	809:3,19	1004:12	probable 725:16	953:6 956:11

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

produce 850:21 862:1 883:9 915:1 977:16 1000:23	programs 819:13	831:9 832:23 835:5 836:8,20 837:17,17 838:5,8,25	880:10,14,21 883:4 893:4 906:4 910:4 912:22,25	842:4 882:1 886:14 894:2 898:1 915:22 945:8 950:3,6
produced 915:21	progress 973:8 1048:5	841:12 844:6 869:24 886:18 893:8 916:23	913:21 914:13 914:18 915:10 916:15 917:8 919:21 928:10	950:22 951:19 992:24 1042:1 1042:4 1060:1
producing 828:5	project 950:9,11	946:20 948:24 949:13 951:6 952:8,21	928:13 1018:16 1024:23 1027:6	provided 747:25 749:3 751:8 769:25 782:18 798:5 835:8
product 713:19 714:1 727:3 758:4 828:2 1048:24	projected 726:13 730:24 731:24	953:21 959:1,2 959:12,13 962:8 965:25 966:1,4,24	1030:16 1031:25 1032:1 1033:3 1034:22 1065:2 1068:17 1073:18	845:13,18 851:8 910:5 911:5,12 933:23 939:7 948:2 954:10 1041:7,17,19 1043:4 1069:7
production 829:20 847:12 847:21 848:3,8 849:14,23 851:21 853:24 855:15 859:11 861:8 864:7,22 865:7,14 868:15 937:22 937:25 939:15 976:12,14 977:3,6 981:18 981:23 983:1 984:17 989:24 998:17,22 999:2 1001:3 1005:1,7,8 1010:9	projections 732:15	1004:6 1016:10 1017:23 1018:16 1032:6 1033:2 1034:12 1035:6,11,16 1041:1,4 1057:20,21 1058:5,8,9 1059:3 1065:7 1073:2 1076:5	proposes 833:14 869:16,19	provides 801:16
productive 871:12	promise 845:1 1032:24	proposals 823:24 838:3	proposing 832:24 833:4,9 833:10 834:5 834:15,23 838:8,20 840:15,22 889:14 912:9 942:2 945:12 949:9 952:23 959:6,7 1057:25 1073:20	providing 824:20 842:13 925:11 960:13 1000:3,6
productivity 759:16	promote 847:5	propose 833:7 841:2 845:8 881:24 882:19 916:18 924:21 953:7	proposition 977:20	provision 802:1 1058:9
Professional 1084:8,22	promotes 879:7	proposals 823:24 838:3	propositions 821:7	proxy 730:24,25 731:10,11,13 731:22
Professor 707:19 743:19	promotional 907:20	propose 833:7 841:2 845:8 881:24 882:19 916:18 924:21 953:7	proposition 977:20	provisions 821:7
profile 927:14	promptly 994:23	proposals 823:24 838:3	proposition 977:20	prudence 778:5 778:10,11,13 778:19 779:2 791:18,21,25 792:3 793:1
program 813:20 818:3,16 819:13 949:16 951:2,9 953:12 992:2 994:2,9 1004:6 1029:18 1076:1	pronouncing 706:15	proposals 823:24 838:3	proposition 977:20	prudent 778:14 1047:19
	proof 842:9,18 843:5,12,17,18 843:20	propose 833:7 841:2 845:8 881:24 882:19 916:18 924:21 953:7	proposition 977:20	PSC 754:25 755:5 760:4 842:11,19
	proper 802:2 879:10 908:5 932:6 949:17 970:3	propose 833:7 841:2 845:8 881:24 882:19 916:18 924:21 953:7	proposition 977:20	public 701:1 702:2,6,9,11 709:3 735:14 737:20 740:5 743:9,22 744:3 768:10 769:13 769:19 770:7
	properly 829:6 850:2,6 869:3 870:19 936:15 1053:12 1070:20	proposals 823:24 838:3	proposition 977:20	
	property 812:2 821:4,5,6	proposals 823:24 838:3	proposition 977:20	
	proponent 840:13	proposals 823:24 838:3	proposition 977:20	
	proportionate 980:5	proposals 823:24 838:3	proposition 977:20	
	proportionately 1050:9 1068:20	proposals 823:24 838:3	proposition 977:20	
	proposal 769:13 769:23 824:23 825:1,4 829:16	proposals 823:24 838:3	proposition 977:20	

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

771:11,13 773:5 774:18 782:18,20,20 787:10 789:18 797:6 801:17 804:15 817:7 817:10 819:20 820:1 831:4,8 831:22 838:14 846:15 849:10 872:18 873:21 873:22 874:18 874:20,25 875:12,12 876:18 877:23 888:7,12 936:5 939:21 957:7 964:25 975:23 987:11 996:25 997:15 1013:8 1064:2 publishes 748:18 pulled 914:21 purchase 790:9 797:23 798:2 798:19 799:1 799:14 801:9 802:14 880:7 1007:22 purchased 790:9 821:2 purchases 800:25 802:4 802:10 pure 821:1 purely 861:10 861:11,12,14 861:15 1025:10 purpose 798:10 799:11 801:14 842:12 887:13 887:17,18,24 887:24 914:22 1038:4	purposes 801:9 801:11 826:14 847:23 889:18 891:11 1010:8 pursuant 707:24 846:20 pursue 1019:21 1019:22 1020:1 1030:19 push 839:19 841:17 973:4 pushing 867:5 869:14 put 756:9 763:3 764:9 803:21 822:3 845:2 857:23,24 859:20 860:3 865:5 866:7 871:19 958:3 994:8 998:11 1002:21 1017:23 1046:10 1054:15 putting 737:24 764:2 867:3 893:9 P&A 854:19 P&L 954:10 p.m 1077:15 P.O 702:7,12 <hr/> <p align="center">Q</p> <hr/> quantification 999:9 quantified 999:10 1000:18 quantify 916:12 quantifying 916:13 quarter 713:4 713:20,22 714:10,16,16	724:14 quarterly 713:6 713:25 714:19 801:16 quarters 744:12 query 900:5 question 712:4 715:4 719:15 727:20,21,22 734:16 746:6 751:11 756:18 767:23 771:24 779:23 792:23 807:22,23 817:22 845:11 845:12 892:12 893:1 895:5 910:1 920:15 926:8 943:9 946:19 957:22 957:24 958:5 965:13,15 966:15 968:18 971:2 979:24 980:18 985:18 986:3,10,14,15 986:16 987:4 994:5 998:6 999:15 1002:14,17 1008:10 1009:1,6,9,14 1009:20 1010:2,3 1013:23 1020:20 1021:2 1023:1 1023:14,20 1029:13,14 1030:3 1034:10 1040:23 1044:1,24 1053:9 1059:7 1063:3 1066:14	1070:12 1071:4 1073:16 1075:22 1076:16 questioning 722:3 760:5 1006:1,12 1007:11 1009:8 questions 708:11 727:23 745:4 753:22 753:24,25 758:10,11,13 760:1 761:12 763:14 767:8 772:4 779:11 782:22 783:7 785:3,4,9,11 787:1 789:11 789:12,13,16 789:18 791:3 791:18 792:5 793:7 794:21 796:22 799:20 799:23 800:5 802:20 804:7,9 804:11,12,15 810:19 811:10 811:11,14 813:16,17 815:20 816:11 817:21 819:17 820:8 821:12 821:23,24 825:16,18 827:17,18 829:23 830:23 830:24 831:1,2 832:6,7,8 835:2 840:6 845:23,24 848:10,11,14 848:15,16,18 856:6,7 872:7	872:8 876:6,7 883:14,16 885:6 886:9 909:20 917:13 927:1 933:4 934:19 936:4 939:18 940:22 940:24 948:18 951:22 953:25 954:2,3,15 956:22,23,24 957:2,4 964:12 965:24 967:25 970:13 974:21 981:1,4,13 986:17,20,22 986:24 987:2,5 990:18 994:17 996:18,22,25 997:6 1001:22 1002:8 1009:19 1011:5 1012:15,16 1015:22 1016:1,3 1036:14 1039:6 1049:21 1062:17,20,21 1063:24 1064:2 1065:14,16,18 1065:22,24 1072:13,23 quick 927:11 935:4 954:8 976:8 quickly 1024:6 quite 766:20 897:2 1006:8 1039:22 quiz 996:21 quo 994:13 1031:23 1034:16,21
---	--	--	---	---

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

quote 801:13 852:18,22 853:24 854:19 859:18 861:19 862:17,21 864:1 868:19 925:9 981:19 984:1,9,17	725:14 730:3,5 743:6,8 745:14 745:15,16,18 746:7,13,15 749:11,13 750:9,9,10 751:15 752:25 873:15 876:20 951:13 985:16 985:22	831:11 832:22 832:25 833:9 833:10,12,13 833:16,20 834:3,4,4,7,8 834:20 835:25 836:8,11,13 837:13,17,21 837:23 838:7 838:19,25 839:4,21,23 840:3,10 841:1 841:10,11,20 843:1,2,2,22 843:23 844:13 844:23 845:9 845:12,16,20 846:15 847:17 848:8 850:7 851:4 856:4,4 857:23,25 858:10,17 870:16 872:18 873:19 874:5 874:24 875:13 876:22 877:8 877:10,23 878:11 879:4 879:10,15 880:10,17,19 880:22,24 881:1,2,5,11 881:25 882:1,6 882:9,23 886:18,22,25 887:3,5 889:18 890:15,17 891:1,12 892:15 893:22 894:7,8 895:12 902:17 903:15 903:21 907:11 907:14,18,20 907:20 910:4 912:10 913:20 914:13 915:2	915:14,24 916:1,8,15,23 917:8,18,18,19 918:12 919:11 919:21 923:4 924:17,22 925:21,24 926:10,16,20 928:10,13,17 928:25 929:5 930:4,19,19 931:18,18 932:11 936:6 937:18,18 942:20 943:11 943:12,18 944:20 946:4 946:25 949:2 960:22 961:1,5 962:11,15 963:6,22,22 964:5 965:7,16 965:17 967:4 968:7 971:10 971:23 973:1 974:7 977:5 980:14 987:13 987:15,16 988:18,23 995:1,10 1002:15 1005:21 1011:23 1016:9 1017:23 1018:15 1019:4,8 1020:2,13,15 1020:22,24 1021:3,14,21 1021:25 1022:16 1023:5,9,17 1024:2,16,24 1025:17,21 1027:5,8,10,12	1027:17,19 1030:7,16,20 1030:20,21,22 1031:2,3,4,5 1031:11,13,20 1031:23,25 1032:1,4 1033:3,14,24 1034:11,14,16 1034:18,22,22 1035:11,24 1036:2 1037:2 1037:8,18 1038:3,6,11,12 1038:16,22 1039:25 1040:1,5,12,14 1040:18,21 1041:5,12 1042:7,15,18 1042:19 1043:9,17,24 1044:4,5,11,14 1044:15,18 1045:21,25 1046:5,9 1047:11,20,23 1047:25 1048:3,5,7,11 1048:19,23 1049:1,9,10,10 1049:13 1050:13 1051:16,17 1052:3,21,22 1052:23 1053:23 1054:2 1055:24 1056:1,7,12,13 1056:14,15,17 1056:19 1057:5 1058:8 1061:2,12,14 1064:21 1065:8 1066:7
quoted 713:17 quotes 868:17 Q&A 888:20 892:1	rate 701:11 705:8 711:24 711:25 712:2,5 712:9 713:5,19 714:15 718:11 718:19 719:1,9 720:14 724:6 724:15 725:3,3 725:10 729:6 730:11 736:4 737:4,16 741:13,16 746:19,21,23 746:25,25 747:15,15 748:9,13,14,19 748:25 749:6 750:5,7,12 751:24 755:10 759:9,11 770:6 774:15 780:21 781:5,6 790:13 792:25 793:4 802:12 805:10 808:9,21 810:20 818:13 821:16,20 822:6 823:14 823:17 824:1,3 824:4,7,10,12 824:17,23,24 824:25 825:17 826:13,13,15 827:8,10,12,23 828:1,5 830:10 830:18,20,21			
R				
R 702:1 703:1 704:1 705:1 795:18 radical 912:9 913:20,22 924:17 961:5 966:1,10 radically 963:21 raise 707:2 753:19 770:20 794:25 884:7 973:18 1011:10 raised 718:7 719:3 752:24 840:2 844:13 864:3 876:23 890:5 939:3 962:19,19 1014:22 1025:17 raising 752:17 753:12 756:6 757:1 1047:12 ramp 803:11 ran 744:5 Randall 707:4 707:15,16 708:1 1081:12 1081:13,16 random 970:8,9 range 725:13,13				

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1066:8,8,11,19 1068:22 1070:7,18,24 1071:6,11,13 1073:8,9,13,14 1073:17,19,20 1074:1,5,8,15 1081:4 rated 739:24 834:9 947:14 ratepayers 819:9 rates 710:5 711:21 715:20 715:21 718:7 719:3,4,7,8,12 726:19,23 727:3,10,19 728:2,6,8 746:17,17 747:4,7,10,12 747:14,20,23 748:4 749:16 750:3 758:20 759:6 760:11 787:14,19 788:4,13 801:19 823:20 824:5 825:6,8 825:9,13,21,22 827:3,8 829:22 829:25 830:6 830:14 834:1 835:24 836:3 836:10 837:18 838:1,12,13 839:5 840:11 840:14,15,18 840:22 841:2 844:22,24 845:8 847:3,4 847:16 849:16 849:20 852:1 855:18 857:2 858:13 859:17 859:20,21	860:1,13 867:2 869:12,14,21 870:14,19 872:2 877:12 878:7,8,13,16 878:17,24,24 879:2,6,19 880:12,13,14 881:14,22 882:5,6,11,19 883:3,11 888:2 902:10,14 903:11,17 908:3,5 912:22 912:25 914:2,8 914:18 915:10 921:22 922:23 923:2 924:3,14 928:24 930:11 942:16 943:5,7 943:25 944:5 944:15 946:9 946:15 954:17 954:18 963:2 967:25 968:4 968:11 995:3 996:6 1003:2 1023:7,12 1032:6,14 1033:3,9,12 1035:9,15,22 1037:22 1044:10 1049:12 1052:17 1054:23 1057:3,22 1060:8,14 1061:25 1062:10 rate-making 875:21 rating 739:24,25 ratings 740:12 ratio 930:11 1037:13	rationale 1038:5 rationally 907:23 Rattled 930:3 reach 818:14 reached 844:1,7 reaches 820:16 reaching 862:8 react 1049:7 1067:17 read 720:16 736:23 739:19 785:20 786:17 786:18 814:19 815:13,24 868:17 886:5 892:11,13 903:4,6 907:9 914:5 919:15 925:13 926:12 926:14 929:20 930:5,7 936:25 937:13 938:14 981:23 984:15 1011:9 1024:11 1033:7 reader 814:12 readily 911:10 1041:14 reading 814:25 837:24 843:6 907:16 908:6 910:17 959:23 1037:5 readings 814:21 ready 707:10 709:11 754:3 763:25 771:3 773:7 783:1 795:8,12 823:10 973:25 1011:17 real 713:18,22 842:17 935:4 976:8	reality 979:2 realize 805:8 875:15 realizing 866:18 really 719:12 748:21 755:15 809:7 815:11 815:13 849:11 854:2 857:25 913:6 916:20 945:2,5,6,7,8 945:10 953:15 953:22 955:24 956:3,12 978:9 988:14,25 990:10 991:17 992:18 1017:6 1047:13 1048:12 1049:3 1055:4 1066:25 real-time 799:19 reason 736:9 842:17,17,23 881:21 910:9 910:11 940:12 953:16 1051:20 1054:13,16 reasonable 727:8,14 838:9 843:21,25 845:16,21 856:22 881:22 883:11 938:22 938:23 949:15 949:16,17 951:8 1007:1 1037:21 reasonableness 744:5,9,17 843:21 851:3 866:21 979:9 reasonably 828:17,21 829:4 1037:18	reasoning 758:2 798:13 931:3 reasons 833:9 838:11 844:17 856:1 875:2 1049:10 1055:23 rebates 941:23 rebuttal 708:4 734:8 771:21 772:5,20 773:15 796:13 797:13 801:4 801:14 849:19 850:1,5 851:19 852:9 853:5,15 884:23 889:21 894:3 917:11 945:20,22 947:9 974:8 975:7 979:20 982:7,12 983:19 984:2 1005:24 1012:3,9,10 1014:3,6 1016:14 1018:8 1024:8 1029:25 1034:8 1042:13 1043:25 1057:15 1058:11 1072:25 1073:3,4 1081:4,7,10,12 1082:15 1083:11 recalculation 1014:13,21,24 1015:1 recall 743:14,15 758:21 760:4 762:14 791:19 837:19 904:14
--	--	--	---	---

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

904:15 929:8	999:7	record 705:3	804:14 956:22	1045:4
933:22 934:14	recommend	738:5 761:24	957:11 996:24	1058:24,24
936:6 962:11	745:13 777:17	762:5 771:7	997:4 998:4	reductions
963:3,4 966:1	830:15 847:9	779:14 793:13	1002:11	839:18 879:17
968:17,22,23	1000:14	793:16 805:1,5	1064:1,4	880:3 882:25
970:16 971:4	1058:16	805:15 808:14	1066:1	883:12 919:23
976:7,9 997:8	recommendati...	809:4,17	1078:17	920:18 970:16
998:18 999:4	729:25 730:6,9	874:19 875:14	1079:22	refer 758:24
999:17,23,25	730:12,12	884:18 898:12	1080:9,10,11	771:17 800:20
1000:20,21,24	731:17 733:25	900:17 901:11	1080:22,23	849:18 851:18
1001:13,14	734:12 737:11	901:13,18,19	recurrent	853:14 900:9
1002:16	740:14 741:7	907:1 925:5	930:11	903:2 910:20
1004:8,8	743:2,5 744:16	932:8,21	redesign 925:12	924:25 929:6
1009:12	745:10,20	972:12,18	redirect 758:14	940:4 955:22
1064:8,14	746:4,9 748:2	1025:13	758:16 789:17	957:18 981:14
receive 889:11	748:3,24 749:4	1075:20	790:23,25	982:12 985:1
905:21	749:21,24	1077:14	804:21,22	1008:10
1032:17	750:14,22	recording 770:3	958:11,13	1032:19,23
1035:7,8,12,13	755:12 757:16	records 801:8	1004:12,14	reference
1035:20	760:2 786:5	809:20 822:19	1067:5,7	760:14,20
1036:1	787:8 791:10	recover 824:20	1078:10,18	890:20 957:19
1045:20	792:15,17	870:14 894:5	1079:23	982:23 984:14
1057:2	797:18 828:6	895:13 960:21	1080:12,24	1018:12
received 1057:1	869:11 892:5	961:8,12,14,24	reduce 841:12	1073:14,22
receives 846:17	917:16	962:6 965:5,17	841:14 847:18	referenced
receiving 765:15	1050:19	1052:18	878:2 905:3,13	736:7 839:23
1019:12	1051:5 1053:5	1064:13	919:13 920:13	915:19 1005:6
recess 809:16	1057:18	1071:16	922:5,23	1006:1 1073:1
901:14 972:14	recommendati...	recovered	933:13,16	references 843:4
recognition	734:10 845:2	826:12,19	946:22 982:20	907:7
1008:7	847:18 872:18	892:7,21 949:2	1037:23,25	referencing
recognize	recommended	962:21 971:3	1044:21	1074:23
740:24 828:9	739:9 743:11	993:8 1053:17	1069:6	referred 717:10
864:17 907:15	785:22	1055:12	reduced 920:9	721:17 722:10
937:21 977:9	recommending	1072:3,5	921:5 999:19	722:10 736:18
977:13,15	774:4 777:13	recovering	1029:21	739:11 801:3
1008:21	823:15 952:22	1037:9	reduces 839:5	855:8 923:17
recognized	1050:6 1051:7	recovery 824:18	880:12	983:22
736:13 877:20	1051:20	826:15,21,25	1029:19	1004:18
877:25	recommends	841:25 961:8	reducing 840:10	1072:21
recognizes	847:15 952:1	962:3 1042:20	880:5 982:20	referring 715:5
828:17 869:3,8	1033:10	1043:21	reduction 882:8	826:2,3 886:22
recognizing	reconsidered	1054:25	882:25 920:16	891:20 894:22
1037:10	740:19	1072:6	929:18 930:22	895:2,6,15
recollection	reconsidering	recross 758:9,10	930:23 934:2,2	986:4 1018:10
736:19 911:2	741:5	758:12 790:22	1044:25	refers 742:2

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

853:23 reflect 799:12 829:8 865:22 882:5 979:4 986:13 996:6 1010:4 1037:14 1049:13 reflected 715:22 717:3 728:11 728:13,16 740:11 983:4 1009:22 reflecting 828:15 975:4 reflection 842:14 reflective 1010:18 reflects 879:1 881:6 refresh 902:18 999:6 1069:9 regard 742:6 772:11 791:3 802:14 825:6 844:22 854:12 866:24 940:3 regarding 737:21 791:18 807:24 829:24 830:23 870:3 899:12 900:11 909:21 954:11 954:16,22 958:16 959:1 970:2,14 1002:14 1009:19 1016:13 1017:22 1023:9 1082:6 1082:8,11 regardless 794:19 830:7 1050:21	1051:5 1072:7 regards 845:12 1025:18 region 948:7 993:11 regions 827:14 Registered 1084:8,22 regressive 877:18 regularly 876:17 regulated 732:4 regulator 1063:21 regulatory 701:15 732:18 733:8 734:19 735:4 771:10 849:10 867:10 927:12 reject 855:24 867:25 rejected 797:25 857:17 861:5 862:11 863:25 864:9 866:17 867:24 873:2 988:21 rejecting 864:10 rejects 851:10 relate 1005:21 related 749:15 797:23 800:18 816:12 829:20 865:14 892:18 893:9,23 923:23 994:1 1038:1 1054:23 1063:5,14,23 1068:13 relates 769:12 relationship 909:5 978:1 996:12,13 relative 710:4	748:13 879:1 relatively 727:17 740:2 837:21 relay 765:17 release 712:21 717:6,10 724:10 1082:17,21 released 713:21 relevant 820:15 932:14 reliability 847:23 reliably 865:21 reliant 865:9 relic 872:23 relied 757:18 relief 819:13 839:1 926:11 926:12 relies 716:8 868:5 relieve 839:19 rely 713:10 715:15 757:17 838:6 858:21 915:8 964:22 relying 913:7 967:3 remain 780:24 831:16 remained 892:18 906:6 remaining 769:4 894:6 remains 794:22 remarks 845:22 remember 736:21 737:13 741:11,14 746:16 837:24 886:19 929:2 933:14 992:4,6 1060:4 1071:19	remembering 1032:3 remit 884:1 remote 853:12 removal 957:24 958:1 remove 869:19 942:6,8,9 958:21 999:11 1025:24 removed 770:8 957:19 removing 1005:19 rendered 814:23 renew 703:21,21 838:18 877:4 878:21 883:22 904:11 927:3 932:25 957:3 986:21 1002:2 1016:2 1017:24 1034:12 1060:21 1065:19 1083:6 renewable 876:21 renewables 997:14,16,18 rent 1006:22 renter 963:16,20 963:24 1046:25 repeat 892:11 905:8 920:15 999:15 1070:12 1071:4 repeatedly 878:6 repetitive 783:8 rephrase 977:19 1026:22 replaced 993:20	993:20 replacement 1076:2 replacing 1075:25 report 708:4,9 714:1,24 715:5 716:6,17 720:23 721:25 723:8 730:17 732:23 733:9 733:11 734:3 737:6,20,25 738:4 741:17 742:3,11,20,25 748:6,16 751:10 758:3 758:25 759:2 759:14 763:19 763:20 765:2 766:9,9,21 767:12,15 771:19 772:13 772:14 785:16 794:16 800:25 801:16 805:4 810:3,9 830:22 842:25 850:15 851:4 855:8,12 879:13 902:24 904:2,7 907:12 918:11 924:25 925:6 926:2 951:21,25 974:6,12,17 975:8 980:15 980:16 990:17 990:20 997:13 1011:24 1036:20,24 1081:3,4 1082:19 1083:5 reported 701:22 714:6 798:8 reporter 712:18
---	--	--	--	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1011:19	802:9 850:21	720:14	1010:5	951:22 990:18
1063:11	882:10 952:5	reset 737:8	1016:19	response 706:12
1084:7,8,9,22	requirement	residence	1017:6,20,20	715:4 805:18
Reporter's	708:3 742:4,14	950:15	1017:22	815:21 892:4
1080:25	771:18 777:19	1045:18	1020:14	893:2 898:7
1084:1	778:9 780:13	1070:4,15,15	1021:12	899:12,15
reporting	782:6 785:17	residential	1023:21,23,23	911:3,8 919:15
798:11,15,22	811:17 816:13	824:1,4,14,25	1031:11	966:23 998:6
801:15	820:13 824:19	830:3,9,11	1033:12,15	1002:25
reports 716:24	827:25 828:16	831:13 832:25	1041:6,7	1030:2,10
732:18 734:18	828:18 829:13	833:5 839:13	1050:3,12,12	1054:12
764:10	858:1,15,16	840:23 841:12	1050:24	responses
represent 733:7	870:14 935:11	841:14 845:12	1051:24	887:23
791:14 795:22	961:12 995:16	849:16 852:17	1052:3,4,11,17	responsibility
846:17 848:22	995:23 996:4	855:6 858:6	1053:17	829:4 1000:15
876:14 899:4	1005:16,19	860:13,14	1055:5,6,15	1043:2
representative	1006:8 1050:8	862:13 866:11	1060:13	responsible
970:10,11	1050:10,22	869:12,19,21	1069:17	831:21 982:19
representing	1051:6 1053:3	869:25 873:8	1072:19	984:11 989:20
832:20 846:8	1053:7	874:4,6,12	residents 881:18	1052:11
981:12	1054:10	876:22 877:8	resolution 820:2	responsive
represents 790:8	1055:14	877:10,17	820:16,23	763:14
833:19,25	1066:6,7,11,18	878:23 879:24	resolve 769:10	RESRAM
835:11	1070:2 1081:3	880:16 881:5	794:6 812:15	941:18,23
request 701:10	requirements	881:11,25	812:18	958:21
769:20 805:18	774:14 792:9	882:16 883:3	resolved 774:19	rest 785:3
812:7 813:5	792:14 865:19	889:1,25	774:22 794:5	1007:25
829:13 897:6	888:3 921:14	895:21 896:8	794:14,17,22	1018:25
897:24 899:15	939:8,11,13	896:12 898:4	805:13 806:16	result 726:7
926:23 968:18	981:22 982:4	903:11,17	812:11 988:19	741:6 753:16
968:20	requires 760:23	905:23,24	resolves 811:9	756:24 782:18
1083:17	798:7,8 800:10	906:2 910:14	resource 876:19	844:1,7,10
requested	800:12,24	911:18 912:2	921:24	875:24 879:19
743:12 763:1	937:25	918:12 920:2	resources	880:3 889:6
791:14 822:12	requiring	923:3 924:14	703:12 839:14	894:18 905:4
900:12 905:22	798:10 825:13	926:16,20	876:20	916:14 919:23
959:11	989:8 993:5	927:14,17,23	respect 800:9,12	920:8 925:23
requesting	RES 1052:17	928:24 930:4	916:11	940:9,13,16
770:8	research 732:18	935:24 941:6	respectfully	943:23 970:15
requests 769:25	733:8 734:18	941:12 944:16	847:9 1030:12	988:18 1053:1
782:19,21	735:4 868:22	954:11 961:6	1044:7	1055:11
820:24 821:7	921:20	971:23 999:9	respectively	1057:2,2
require 760:13	researching	999:11,14,19	771:23 797:23	1060:10
763:6 779:7	808:1	999:22,23	responded	1061:7
798:5 866:7	Reserve 711:20	1000:1,2,7,11	719:14	1067:13
required 751:24	718:6,14,23	1000:19	responding	1068:20

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1074:14 resulted 729:24 735:21 741:17 resulting 928:12 929:4 1071:18 results 739:10 741:3 756:21 836:20 845:17 845:21 851:17 855:18,22 857:9 860:6,8 860:19 862:12 862:13 863:1,2 868:2,6 873:17 882:13 889:16 893:13 914:25 935:20 988:2 1005:9,18 1006:8 1053:20 1055:16 resume 706:22 793:12 794:2 901:21 1075:18 1077:13 resuming 705:3 retail 714:7,24 715:8 933:25 retain 921:9 retained 740:6 795:21 retire 921:6 return 706:13 715:16 728:10 730:24 733:14 737:4 738:2,12 740:15 742:15 743:1 751:24 755:25 756:1,5 760:13,24 866:20 1000:4 1000:7,10 1062:1 1064:14 returns 728:3	731:8 732:8,20 752:2 756:5,7 rev 1064:17 reveal 923:12 revenue 708:3 742:4,14 771:18 774:14 776:17 777:19 778:9 780:13 782:6 785:16 811:1,3,16 812:19 816:13 820:13 824:19 827:25 829:11 829:13 836:2 840:4 841:25 842:2 858:1,3 858:7,15,16,17 858:18,20 859:4 870:12 870:14 888:3 888:22 905:21 916:7,9,11,13 917:7 930:10 935:8,10,18,23 940:9,14 944:21 945:13 961:12 964:8,9 964:23 995:16 995:22 996:4 1000:14 1003:18 1005:15,19,20 1006:8 1025:18 1026:1 1040:2 1042:19 1043:2,16 1050:8,10,22 1051:6 1053:1 1053:2,7 1054:10,25 1055:12,13,14 1055:21 1057:1 1060:6 1060:10	1064:17,23 1066:6,6,10,18 1068:25 1070:2 1081:3 revenues 705:8 732:6 797:24 798:2 821:21 822:4 841:22 842:3 859:7 871:15 899:25 935:19 996:16 1000:22 1005:13,15 1006:7,22 1016:23,24 1039:18,19 1042:21 1043:11 1065:6,9 review 715:18 724:22 765:21 778:10,12,13 778:19 779:2 781:2,5,8 791:18,21,25 792:3 793:1 842:24 897:18 908:11 915:15 915:17 967:12 1033:19 reviewed 906:21 924:3 reviewing 903:21 reviews 828:25 revise 902:14 revised 714:13 714:13 reward 876:1 907:15 rewarded 907:21 Richard 846:22 rider 733:21 736:25 1068:9 right 707:2	722:5 733:20 735:18 738:14 751:25 752:8 752:14 754:15 758:8,13 761:13 763:17 764:11 766:22 770:20,21 775:2 784:9 785:7 786:20 791:15 792:16 793:15 794:25 794:25 805:25 807:8,18 809:3 809:14,14,15 811:18 815:1 816:17 818:21 818:24 819:2 820:10 821:14 822:9 823:9 832:23 855:18 884:3,6,8 885:16 894:14 894:22 897:2 897:13 901:14 911:18 912:20 918:16 919:3 926:25 928:14 929:14 932:22 956:20 958:23 960:19,23 972:2,14,17 973:17,18 975:17 977:21 977:22 980:25 984:24 986:7 989:18 996:17 997:24 1003:6 1004:16 1009:24 1011:6,10 1013:2 1014:19 1017:17 1021:7 1022:13,21	1025:10 1028:9 1030:6 1030:9 1032:3 1033:18,23 1037:6 1039:7 1039:13 1042:21 1046:20,24 1048:13,15,25 1049:20 1050:21 1058:7 1059:16 1061:13 1062:16 1067:1,2,4 1070:19 1071:13,23 1072:11 1075:6,6,11,13 1077:11,13 right-hand 833:18 929:20 Riley 763:2 rise 718:25 rises 775:20 Rishi 703:8 846:7 981:12 rising 876:25 risk 729:2,5,6,6 729:7,12,15 730:11,13 740:3 743:13 746:24,25 748:8,9,11,12 748:13 750:5 753:14,15,16 757:20,20 1064:12 1067:10 risking 1062:3 risky 967:19 Rivers 703:13 ROA 737:6 road 841:1 857:2
--	--	---	--	---

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

Robert 702:4 1063:23 1078:2	813:2 1000:11 1000:23 1083:4	rules 799:9 ruling 813:5,8 813:14	1082:11,19 sample 835:7 895:21 896:8	1058:16 1061:20
Roberts 703:18 808:15,15,18 809:2 876:11 876:12,13 901:24 902:1,3 902:23 903:1 904:1,8,9 907:5 925:2,4 926:1,6,7,25 957:2 986:20 1002:1 1016:1 1065:18 1079:11,16	ROEs 732:7,11 739:16 740:6 741:4 744:11 751:5 753:8 760:4 Roger 702:21 role 828:5 roll 818:22 rolled 818:4,17 818:21 rolling 923:6,8 RONALD 701:14 room 703:9 793:12 849:8 942:13,18 969:5 976:3 1004:2 Roos 706:15 761:15 762:21 766:23 769:2 770:19,20,22 771:5,6,8,15 772:12,21 773:3,13 779:22 782:23 785:6 787:1 789:22 791:2 791:17 793:9 1078:12 1081:9,10 rose 717:14,19 rough 1017:10 roughly 958:22 roundly 851:24 RPR 701:23 RTO 798:16,18 799:2,2,6,9,11 799:13 802:7 rubber 857:2 rule 762:6,15 1028:18 ruled 762:11,13	run 747:10 767:9,21 782:5 783:10,14 794:10 811:24 811:25 815:23 816:15,21 818:4 828:10 839:6 841:19 1057:10 Rupp 701:19 757:6,7,9 761:11 789:14 804:11 1078:9 rural 818:5 Rush 938:9 R-o-b-i-n 1011:20 R-35 797:23	896:12 898:2 899:19 900:4 900:11 910:10 910:13 911:20 912:17 969:9 969:10 970:6 995:21 San 755:7 Sarah 829:19 972:19 973:19 974:3,5 1059:7 1063:5 1080:3 Sarver 783:18 Sarver's 763:19 766:8 767:14 saturated 803:13 save 841:5,7 917:24 saves 1029:19 saving 918:3 savings 839:18 844:10 880:4 925:12 saw 819:7 836:11,13 837:9 916:16 935:25 967:13 1015:16 saying 714:14 714:18 725:15 753:3 768:12 842:7 843:9 862:19,25 863:21 893:7 946:23 978:16 999:16 1004:8 1014:6 1020:5 1021:17,19,24 1021:25 1022:15 1027:20,21 1030:23	says 713:18 739:7 759:5,5 782:10,11 784:11 801:7 806:19 854:17 861:13 863:25 869:6 889:1,4 890:19 894:12 894:21 900:8 908:19 909:8 929:18 930:3 954:12 980:18 1014:12 1033:2 scanned 762:10 scared 795:10 856:12 scenario 1070:4 1070:14 1074:13 scenarios 947:15 schedule 761:1 803:11,11 805:9,10 849:18 851:19 874:21 972:22 scheduled 805:13 schedules 766:8 767:14 1081:20 Schmidt 848:9 850:13 851:7 851:24 863:20 978:14 983:18 Schmidt's 863:21 981:20 982:1 984:1 school 958:3 science 873:12 1053:24 SCOTT 701:19 screen 853:11 856:11
		S		
		s 701:23 702:1 703:1 704:1 705:1 766:8 1081:1 1082:1 1083:1 1084:7 1084:21 safe 762:14 930:21 943:16 988:6 1017:15 safety 922:6,11 sake 964:24 965:2 1009:23 sale 798:19 799:14 801:9 919:14 sales 714:7,24 715:9 797:24 798:2 799:1 800:25 802:4 802:10 806:11 919:13 920:2,9 920:16 921:5 933:25		

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

season 920:4 1037:12	845:13 853:10 853:17 856:10	sending 830:6	810:21 817:25	848:24 853:8
seasonal 717:15 946:11	860:9,9,11 861:21 863:1	sense 866:23 876:4 951:8	821:17 823:21 823:23 824:21	857:3 901:5 912:1,6 913:3
seat 707:10 773:9 884:15	867:15 868:6 869:11 871:2	990:6 991:19 993:14,16,17	825:17 828:9 828:14 830:3,4	915:9 1060:25 1061:1 1066:6
951:7 973:25 1011:17	872:11 873:10 884:3 888:24	1022:8 1038:12	830:22 846:9 846:18,21	1066:11 1084:11,14
second 721:13 737:6 751:4	888:25 905:15 906:4 931:7	1070:1 sensitivity 913:8	847:13 849:17 849:21 851:9	sets 946:6 setting 787:10
783:23 787:12 834:18 835:21	933:20 952:5 973:8 984:2	924:5 sent 961:17	855:11 858:22 859:5 860:14	settle 805:7 810:25
835:22 836:16 841:23 858:3	986:5,6 999:6 1010:15	sentence 737:6 801:21 894:16	887:14,18,25 888:6,10 889:7	settled 794:20 810:1 811:19
863:3 870:12 877:9 929:9,19	1023:11 1029:24	895:17 898:7 1037:25	889:16,17,24 890:10 893:5	811:21 812:1 812:10
935:7,12 944:24 947:8	1037:3 1054:5 1067:12	sentiment 874:20 875:12	893:13,15 902:8,13	settlement 706:6 798:16 805:2
978:19 979:15 982:13,17	1074:10 seeing 728:8	separate 914:17 1021:12	907:25 919:12 921:21 935:14	812:6 821:8 settles 811:4
986:14 996:14 1010:6 1018:6	758:13 809:13 844:25 845:1	separately 775:8 799:18 808:10	948:19 958:17 959:1,18,20	settling 706:19 set-up 813:23
1018:11 1037:13	896:20 seek 848:6 856:2	976:23,24 1021:9 1022:3	960:4 962:9,14 962:20 974:7	814:15 seven 794:10
1070:9 1074:7	seeking 806:18 seen 716:4	1072:14,16 separates	974:17 980:15 987:12,15	severe 962:1 shake 819:24
seconds 842:1	722:18,20,21 722:22 723:7	859:12 September	1000:20 1001:12,13	shakes 931:25 shaking 1032:10
section 738:2 916:6 1038:19	897:21 899:6 932:17	835:17 844:24 882:11	1011:24 1014:7	share 846:13 852:5,12,13
sections 1036:23	1046:13 sees 727:4,6	1024:18 series 898:22	1036:20 1038:25	906:14 921:16 sharing 769:23
secure 977:24	selecting 881:21 self-authentic...	1040:9 1042:6 1083:18	1049:4 1050:24,25	769:24 sharp 1061:18
security 759:21 1064:23	716:6 722:8 723:9	1052:3 serve 922:6,10	1051:2 1052:2 1052:3,19,19	sharper 1061:21 sharpness
see 706:21 721:15 723:24	sell 939:11 semicolon	1052:3 977:23 991:10	1053:18 1054:4	1066:21 shaving 1048:16
724:7 728:12 742:16 743:15	1024:12 Senate 719:21	1052:3 937:19 947:17	1054:4 1069:18,22,23	sheet 762:11 770:5 788:15
743:23 751:7 758:9 759:17	send 779:7 847:4 852:2	1010:9 service 701:1,12	1049:4 1050:24,25	1084:11 sheets 766:12
762:11 764:6 764:20 766:12	855:18 879:10 1033:9	702:2,6 708:4 735:14 737:20	1051:2 1052:2 1052:3,19,19	833:2 954:12 995:24 1076:8
781:10 793:25 807:3 810:19	1037:23 1069:1	763:19 766:9 771:11,13,18	1053:18 1054:4	she'd 821:24 she'll 825:15
814:24 833:18 835:9,10		772:13 785:17 805:11 808:21	1054:4 1069:18,22,23	994:21
837:10,14 839:11,18			services 701:23 714:25 801:19	
			846:19 serving 920:7,14	
			959:21 1008:9 set 801:4 814:6	
			814:16,18 842:10,19	

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

shift 841:21,24 877:12 878:5 997:17 999:23 1000:1 1051:2 1051:24 1054:3	showing 845:14 845:19 908:14 908:23 909:12 1010:7 1075:17	794:13 810:4 810:14	situation 720:2 1038:10,13	1032:10
shifted 977:8 1043:3	shown 841:8 844:8,9 970:2	signed 819:6	six 711:3 719:4 753:18 832:14 890:1	somewhat 952:20 1027:11
shifting 1042:19	shows 721:12 747:6 763:15	significant 776:23 824:7 824:16 871:9 949:6 1062:3	size 899:19 900:11 911:20 950:7,8,10 951:16 969:9 970:6	soon 813:7,10 973:7,13
shifts 856:4 1000:15 1041:19 1054:1	766:13,16,18 766:21 787:14 787:15 803:23 835:23 849:15	significantly 751:5 752:1 760:3 803:17 951:15 1017:16	slide 854:17 857:7,23	sooner 925:17
shock 847:17 880:17	849:19 853:5 869:11	similar 748:15 749:10 851:17 855:22 883:25 917:12 932:12 952:19 983:14 988:3 1019:13 1023:14 1076:7	slight 837:11 954:19	sorry 723:4 725:8 740:16 742:8 748:19 762:7 763:22 766:23,25 782:12 784:25 790:4 807:10 816:10 822:10 822:23 825:21 826:10 835:9 854:17 895:22 903:6 905:11 919:2 920:15 921:22 934:14 936:2 944:10 958:2 965:13 975:13 981:11 982:14,17,17 982:24 986:2 990:3 1003:25 1004:9 1005:4 1009:3 1010:2 1023:3 1025:8 1028:8 1036:12 1039:12 1058:12 1069:15,21 1070:14,24 1072:23 1073:4 1076:13
short 706:7 761:17 808:20	shrinks 878:10	855:22 883:25 917:12 932:12 952:19 983:14 988:3 1019:13 1023:14 1076:7	slightly 750:15 750:16 834:6 835:18 852:13 894:1	sort 714:14 715:21 721:1 759:4,22,24 760:18 761:9 764:2 783:25 805:4 922:15 977:25 993:22
shorten 764:20	side 928:24 929:20	simple 817:4 937:24 954:14	slope 954:19	
shortfall 1003:19	Sierra 703:12,16 808:16 838:18 876:9,14,16,23 877:3,15 878:8 878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17	simply 805:5 806:23 809:8 809:11 854:3,3 869:15 874:10 946:10,20 978:7 983:7 1010:3,7 1019:6 1021:2 1023:2	slow 788:7	
Shorthand 1084:7	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17	single 837:25	small 790:6 834:14 895:20 896:8 910:12 910:13 965:22 970:8 1001:10 1064:22	
shortly 972:20	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17	sinter 1033:25	smart 924:4	
short-term 719:7,8 747:15 759:6,9 879:24	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17	sir 705:24 707:1 707:3,9,11,14 707:18 709:11 712:19 730:20 757:4,10 760:20 762:9 762:23 771:2,3 783:2 823:10 848:17	smaller 810:23 870:8 911:15	
shoulder 946:7 1057:18 1058:1	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17	sit 746:13 766:23	social 759:21	
show 717:5 719:18 720:20 723:16 732:24 733:3 741:18 742:12 761:2 765:8 766:20 788:15 793:11 805:23 807:14 822:19,20 843:20 856:22 857:19 860:12 861:1 909:2 936:24 969:18 1015:11	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17	site 722:20 724:19,23	software 840:17 841:3 899:24 912:11	
showed 715:9 837:25 899:16 1069:17	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17		solar 941:23 997:21,23	
	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17		sole 949:21 1038:4	
	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17		solely 853:8 865:18 944:21 945:12	
	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17		solution 871:17	
	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17		somebody 765:9 994:11 1076:22	
	878:21 880:9 881:23 883:1 883:25 901:23 902:3 904:10 909:10 957:1 964:13 965:24 970:14 986:19 1001:25 1015:25 1017:25 1034:13 1065:17		Somebody's	

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

sought 811:15 820:18,19 821:5	987:22 998:24 1002:23 1009:9 1029:6 1029:11 1038:8 1041:5	827:25 spreadsheets 735:3 1083:3	1005:1,14,22 1006:3 1013:5 1014:9,12,17 1017:12 1037:21 1040:6,24 1050:6,18 1051:6 1054:6 1068:17 1069:17 1076:7 1081:1	1038:21 1050:2 1051:4 1053:5 1054:1 1076:4 1081:22
sounded 964:14	specifically 817:12 820:16 828:12 838:24 880:9 888:15 890:21 904:21 918:1 933:19 1005:13 1007:4 1009:18 1016:12,22 1074:23	SPS 1001:6,8 ss 1084:4 St 703:5,14 stable 727:17 stacking 983:11 staff 702:2 705:12 707:23 708:3,5,6,19 708:23,23 730:17 743:5 761:15,18 763:15 765:8 766:15 767:4 767:18 768:25 770:12 771:16 772:25 774:3 782:5,6 784:12 784:14 785:16 785:22 791:24 792:1,6 799:22 804:17 807:12 807:15 810:13 817:7,9 819:2 819:10,17 823:6 827:19 828:4 830:13 830:19 831:13 840:2 851:20 852:23 853:17 853:20 856:21 856:23 858:24 860:23 862:21 866:9 911:6,7 938:19 939:23 941:16 951:21 952:1,15,21 954:10 957:9 969:6 972:18 975:14,20 981:17,20 982:2 999:13 999:17,17 1000:18,21	stage 758:5 stakeholder 881:18 882:20 883:6,8 Stallman 1017:13 stand 705:10 706:3,24 736:24 762:21 763:7 764:22 766:24 769:3 793:17 809:15 835:1 899:23 899:23 901:14 972:19 994:22 1011:8 1015:8 1063:10 standard 756:3 815:6 843:25 standards 752:20 753:4 842:10,18 843:5,12,17 standing 756:11 standpoint 1039:1 Star 849:25 855:14 868:13 953:5 start 744:7 773:21 814:6,9 842:7 896:23 940:5 958:15 972:9 973:14 994:19 started 746:6 814:20 894:16 911:16 915:4 956:14,14 starting 888:20 889:23 892:1	
sounds 724:18 955:8	specifically 817:12 820:16 828:12 838:24 880:9 888:15 890:21 904:21 918:1 933:19 1005:13 1007:4 1009:18 1016:12,22 1074:23	SPS 1001:6,8 ss 1084:4 St 703:5,14 stable 727:17 stacking 983:11 staff 702:2 705:12 707:23 708:3,5,6,19 708:23,23 730:17 743:5 761:15,18 763:15 765:8 766:15 767:4 767:18 768:25 770:12 771:16 772:25 774:3 782:5,6 784:12 784:14 785:16 785:22 791:24 792:1,6 799:22 804:17 807:12 807:15 810:13 817:7,9 819:2 819:10,17 823:6 827:19 828:4 830:13 830:19 831:13 840:2 851:20 852:23 853:17 853:20 856:21 856:23 858:24 860:23 862:21 866:9 911:6,7 938:19 939:23 941:16 951:21 952:1,15,21 954:10 957:9 969:6 972:18 975:14,20 981:17,20 982:2 999:13 999:17,17 1000:18,21	1005:1,14,22 1006:3 1013:5 1014:9,12,17 1017:12 1037:21 1040:6,24 1050:6,18 1051:6 1054:6 1068:17 1069:17 1076:7 1081:1 staff's 739:9 766:9,10 767:9 767:11 771:18 772:12,14 783:10,13 786:7 790:4 791:10 812:12 812:23 816:12 816:13,15 817:5,13 819:4 828:8,11,14,17 828:25 829:19 829:20,21 830:21,22 831:8 851:10 852:9 853:1 855:24 857:11 859:1 860:10 860:15,18,22 862:7,13,17,19 863:3 865:9 867:1,14 868:25 869:2 873:20 941:11 942:11 946:16 946:20 947:1 958:23 974:6 974:12 975:4 980:14 981:19 984:16 990:17 999:8 1001:4 1001:12 1011:23 1012:22 1036:19	1038:21 1050:2 1051:4 1053:5 1054:1 1076:4 1081:22 stage 758:5 stakeholder 881:18 882:20 883:6,8 Stallman 1017:13 stand 705:10 706:3,24 736:24 762:21 763:7 764:22 766:24 769:3 793:17 809:15 835:1 899:23 899:23 901:14 972:19 994:22 1011:8 1015:8 1063:10 standard 756:3 815:6 843:25 standards 752:20 753:4 842:10,18 843:5,12,17 standing 756:11 standpoint 1039:1 Star 849:25 855:14 868:13 953:5 start 744:7 773:21 814:6,9 842:7 896:23 940:5 958:15 972:9 973:14 994:19 started 746:6 814:20 894:16 911:16 915:4 956:14,14 starting 888:20 889:23 892:1
source 782:10 782:11 963:18 967:17	specifically 817:12 820:16 828:12 838:24 880:9 888:15 890:21 904:21 918:1 933:19 1005:13 1007:4 1009:18 1016:12,22 1074:23	SPS 1001:6,8 ss 1084:4 St 703:5,14 stable 727:17 stacking 983:11 staff 702:2 705:12 707:23 708:3,5,6,19 708:23,23 730:17 743:5 761:15,18 763:15 765:8 766:15 767:4 767:18 768:25 770:12 771:16 772:25 774:3 782:5,6 784:12 784:14 785:16 785:22 791:24 792:1,6 799:22 804:17 807:12 807:15 810:13 817:7,9 819:2 819:10,17 823:6 827:19 828:4 830:13 830:19 831:13 840:2 851:20 852:23 853:17 853:20 856:21 856:23 858:24 860:23 862:21 866:9 911:6,7 938:19 939:23 941:16 951:21 952:1,15,21 954:10 957:9 969:6 972:18 975:14,20 981:17,20 982:2 999:13 999:17,17 1000:18,21	1005:1,14,22 1006:3 1013:5 1014:9,12,17 1017:12 1037:21 1040:6,24 1050:6,18 1051:6 1054:6 1068:17 1069:17 1076:7 1081:1 staff's 739:9 766:9,10 767:9 767:11 771:18 772:12,14 783:10,13 786:7 790:4 791:10 812:12 812:23 816:12 816:13,15 817:5,13 819:4 828:8,11,14,17 828:25 829:19 829:20,21 830:21,22 831:8 851:10 852:9 853:1 855:24 857:11 859:1 860:10 860:15,18,22 862:7,13,17,19 863:3 865:9 867:1,14 868:25 869:2 873:20 941:11 942:11 946:16 946:20 947:1 958:23 974:6 974:12 975:4 980:14 981:19 984:16 990:17 999:8 1001:4 1001:12 1011:23 1012:22 1036:19	1038:21 1050:2 1051:4 1053:5 1054:1 1076:4 1081:22 stage 758:5 stakeholder 881:18 882:20 883:6,8 Stallman 1017:13 stand 705:10 706:3,24 736:24 762:21 763:7 764:22 766:24 769:3 793:17 809:15 835:1 899:23 899:23 901:14 972:19 994:22 1011:8 1015:8 1063:10 standard 756:3 815:6 843:25 standards 752:20 753:4 842:10,18 843:5,12,17 standing 756:11 standpoint 1039:1 Star 849:25 855:14 868:13 953:5 start 744:7 773:21 814:6,9 842:7 896:23 940:5 958:15 972:9 973:14 994:19 started 746:6 814:20 894:16 911:16 915:4 956:14,14 starting 888:20 889:23 892:1
South 736:20	specifically 817:12 820:16 828:12 838:24 880:9 888:15 890:21 904:21 918:1 933:19 1005:13 1007:4 1009:18 1016:12,22 1074:23	SPS 1001:6,8 ss 1084:4 St 703:5,14 stable 727:17 stacking 983:11 staff 702:2 705:12 707:23 708:3,5,6,19 708:23,23 730:17 743:5 761:15,18 763:15 765:8 766:15 767:4 767:18 768:25 770:12 771:16 772:25 774:3 782:5,6 784:12 784:14 785:16 785:22 791:24 792:1,6 799:22 804:17 807:12 807:15 810:13 817:7,9 819:2 819:10,17 823:6 827:19 828:4 830:13 830:19 831:13 840:2 851:20 852:23 853:17 853:20 856:21 856:23 858:24 860:23 862:21 866:9 911:6,7 938:19 939:23 941:16 951:21 952:1,15,21 954:10 957:9 969:6 972:18 975:14,20 981:17,20 982:2 999:13 999:17,17 1000:18,21	1005:1,14,22 1006:3 1013:5 1014:9,12,17 1017:12 1037:21 1040:6,24 1050:6,18 1051:6 1054:6 1068:17 1069:17 1076:7 1081:1 staff's 739:9 766:9,10 767:9 767:11 771:18 772:12,14 783:10,13 786:7 790:4 791:10 812:12 812:23 816:12 816:13,15 817:5,13 819:4 828:8,11,14,17 828:25 829:19 829:20,21 830:21,22 831:8 851:10 852:9 853:1 855:24 857:11 859:1 860:10 860:15,18,22 862:7,13,17,19 863:3 865:9 867:1,14 868:25 869:2 873:20 941:11 942:11 946:16 946:20 947:1 958:23 974:6 974:12 975:4 980:14 981:19 984:16 990:17 999:8 1001:4 1001:12 1011:23 1012:22 1036:19	1038:21 1050:2 1051:4 1053:5 1054:1 1076:4 1081:22 stage 758:5 stakeholder 881:18 882:20 883:6,8 Stallman 1017:13 stand 705:10 706:3,24 736:24 762:21 763:7 764:22 766:24 769:3 793:17 809:15 835:1 899:23 899:23 901:14 972:19 994:22 1011:8 1015:8 1063:10 standard 756:3 815:6 843:25 standards 752:20 753:4 842:10,18 843:5,12,17 standing 756:11 standpoint 1039:1 Star 849:25 855:14 868:13 953:5 start 744:7 773:21 814:6,9 842:7 896:23 940:5 958:15 972:9 973:14 994:19 started 746:6 814:20 894:16 911:16 915:4 956:14,14 starting 888:20 889:23 892:1
Southern 755:6	specifically 817:12 820:16 828:12 838:24 880:9 888:15 890:21 904:21 918:1 933:19 1005:13 1007:4 1009:18 1016:12,22 1074:23	SPS 1001:6,8 ss 1084:4 St 703:5,14 stable 727:17 stacking 983:11 staff 702:2 705:12 707:23 708:3,5,6,19 708:23,23 730:17 743:5 761:15,18 763:15 765:8 766:15 767:4 767:18 768:25 770:12 771:16 772:25 774:3 782:5,6 784:12 784:14 785:16 785:22 791:24 792:1,6 799:22 804:17 807:12 807:15 810:13 817:7,9 819:2 819:10,17 823:6 827:19 828:4 830:13 830:19 831:13 840:2 851:20 852:23 853:17 853:20 856:21 856:23 858:24 860:23 862:21 866:9 911:6,7 938:19 939:23 941:16 951:21 952:1,15,21 954:10 957:9 969:6 972:18 975:14,20 981:17,20 982:2 999:13 999:17,17 1000:18,21	1005:1,14,22 1006:3 1013:5 1014:9,12,17 1017:12 1037:21 1040:6,24 1050:6,18 1051:6 1054:6 1068:17 1069:17 1076:7 1081:1 staff's 739:9 766:9,10 767:9 767:11 771:18 772:12,14 783:10,13 786:7 790:4 791:10 812:12 812:23 816:12 816:13,15 817:5,13 819:4 828:8,11,14,17 828:25 829:19 829:20,21 830:21,22 831:8 851:10 852:9 853:1 855:24 857:11 859:1 860:10 860:15,18,22 862:7,13,17,19 863:3 865:9 867:1,14 868:25 869:2 873:20 941:11 942:11 946:16 946:20 947:1 958:23 974:6 974:12 975:4 980:14 981:19 984:16 990:17 999:8 1001:4 1001:12 1011:23 1012:22 1036:19	1038:21 1050:2 1051:4 1053:5 1054:1 1076:4 1081:22 stage 758:5 stakeholder 881:18 882:20 883:6,8 Stallman 1017:13 stand 705:10 706:3,24 736:24 762:21 763:7 764:22 766:24 769:3 793:17 809:15 835:1 899:23 899:23 901:14 972:19 994:22 1011:8 1015:8 1063:10 standard 756:3 815:6 843:25 standards 752:20 753:4 842:10,18 843:5,12,17 standing 756:11 standpoint 1039:1 Star 849:25 855:14 868:13 953:5 start 744:7 773:21 814:6,9 842:7 896:23 940:5 958:15 972:9 973:14 994:19 started 746:6 814:20 894:16 911:16 915:4 956:14,14 starting 888:20 889:23 892:1
Southwest 798:17 803:12	specifically 817:12 820:16 828:12 838:24 880:9 888:15 890:21 904:21 918:1 933:19 1005:13 1007:4 1009:18 1016:12,22 1074:23	SPS 1001:6,8 ss 1084:4 St 703:5,14 stable 727:17 stacking 983:11 staff 702:2 705:12 707:23 708:3,5,6,19 708:23,23 730:17 743:5 761:15,18 763:15 765:8 766:15 767:4 767:18 768:25 770:12 771:16 772:25 774:3 782:5,6 784:12 784:14 785:16 785:22 791:24 792:1,6 799:22 804:17 807:12 807:15 810:13 817:7,9 819:2 819:10,17 823:6 827:19 828:4 830:13 830:19 831:13 840:2 851:20 852:23 853:17 853:20 856:21 856:23 858:24 860:23 862:21 866:9 911:6,7 938:19 939:23 941:16 951:21 952:1,15,21 954:10 957:9 969:6 972:18 975:14,20 981:17,20 982:2 999:13 999:17,17 1000:18,21	1005:1,14,22 1006:3 1013:5 1014:9,12,17 1017:12 1037:21 1040:6,24 1050:6,18 1051:6 1054:6 1068:17 1069:17 1076:7 1081:1 staff's 739:9 766:9,10 767:9 767:11 771:18 772:12,14 783:10,13 786:7 790:4 791:10 812:12 812:23 816:12 816:13,15 817:5,13 819:4 828:8,11,14,17 828:25 829:19 829:20,21 830:21,22 831:8 851:10 852:9 853:1 855:24 857:11 859:1 860:10 860:15,18,22 862:7,13,17,19 863:3 865:9 867:1,14 868:25 869:2 873:20 941:11 942:11 946:16 946:20 947:1 958:23 974:6 974:12 975:4 980:14 981:19 984:16 990:17 999:8 1001:4 1001:12 1011:23 1012:22 1036:19	1038:21 1050:2 1051:4 1053:5 1054:1 1076:4 1081:22 stage 758:5 stakeholder 881:18 882:20 883:6,8 Stallman 1017:13 stand 705:10 706:3,24 736:24 762:21 763:7 764:22 766:24 769:3 793:17 809:15 835:1 899:23 899:23 901:14 972:19 994:22 1011:8 1015:8 1063:10 standard 756:3 815:6 843:25 standards 752:20 753:4 842:10,18 843:5,12,17 standing 756:11 standpoint 1039:1 Star 849:25 855:14 868:13 953:5 start 744:7 773:21 814:6,9 842:7 896:23 940:5 958:15 972:9 973:14 994:19 started 746:6 814:20 894:16 911:16 915:4 956:14,14 starting 888:20 889:23 892:1
space 824:13 825:5 927:23 963:7,23 964:7 964:19 966:5 966:14,18,20 1016:13,20 1017:8,20 1018:1,7,14,14 1018:21 1019:5,6,10,12 1019:15 1020:14 1021:9,11,15 1021:21 1022:2,14 1023:9,18,21 1023:23,25 1026:23,25 1027:1,4 1046:14 1072:13,15,18	specifically 817:12 820:16 828:12 838:24 880:9 888:15 890:21 904:21 918:1 933:19 1005:13 1007:4 1009:18 1016:12,22 1074:23	SPS 1001:6,8 ss 1084:4 St 703:5,14 stable 727:17 stacking 983:11 staff 702:2 705:12 707:23 708:3,5,6,19 708:23,23 730:17 743:5 761:15,18 763:15 765:8 766:15 767:4 767:18 768:25 770:12 771:16 772:25 774:3 782:5,6 784:12 784:14 785:16 785:22 791:24 792:1,6 799:22 804:17 807:12 807:15 810:13 817:7,9 819:2 819:10,17 823:6 827:19 828:4 830:13 830:19 831:13 840:2 851:20 852:23 853:17 853		

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

892:14 893:21 895:18 899:2 907:8,9 916:6 918:25,25 919:6 926:9 984:14 1024:11 1033:20 1037:1 state 701:1 707:13,20 732:20 743:20 754:11 771:6 795:16 846:15 861:2 862:9 866:17 873:5 884:17 889:22 890:14,25 892:4 893:21 894:17 895:11 895:19 896:11 899:18 910:15 911:13 914:1 922:20 926:9 951:4 974:1 984:4,13 1011:18 1028:3 1084:3 1084:9 stated 712:9 716:8 724:24 725:2 727:23 738:20 856:1 860:23 865:11 894:5 925:9 928:11 statement 743:25 813:2 821:16 823:11 827:20 831:5 832:16 846:4 848:9,19 851:6 856:15 860:23 863:20 872:13 876:10 881:12 886:12,13,19	887:24 890:21 894:23 917:14 926:15 952:5 960:1 966:10 976:5 984:5,9 984:15 992:7 1079:3,4,5,6,7 1079:8,9,10,11 statements 808:20 822:8 960:1 976:3 1037:20 states 717:18 733:13,17 743:18 801:14 828:8 846:14 846:19 854:3 857:13 866:20 866:22,25 867:3 868:16 868:23 873:3 888:21 1005:2 state's 800:22 Statistics 716:17 717:7 status 821:3 994:13 1031:23 1034:16,21 statute 846:20 1003:15 statutory 843:25 stay 972:14 1031:19 stayed 1055:19 steady 855:2 Steel 970:20 Steiner 702:21 706:5,10 763:23 764:15 765:19 767:25 768:6,13 786:16,20 787:4,9 806:6 806:12 807:25 808:7 810:6,22	811:18,22 812:8,12,17,25 813:3,9,21 814:1,5,17 815:3,7,12,17 815:22 816:3,5 816:17,22 817:1,17 818:2 818:10,16,20 821:18 1076:4 stenotype 1084:12 step 761:14 793:9 804:24 859:15 972:4 983:16 1011:7 1033:9 1075:14 STEPHEN 701:18 steps 823:25 1067:18 stimulate 874:9 Stip 987:17 988:19 999:18 Stipulation 769:5 774:20 785:1 794:8 805:6 806:17 809:23 810:5 810:12,19 813:6,18 817:21 819:2,5 820:6 886:24 stock 710:7 728:12 752:9 stocks 755:22 761:4 STOLL 701:18 753:25 789:12 804:9 813:19 813:22 814:4 814:14,24 815:5,8,16,19 815:25 816:4,7 819:19 821:13	827:18 831:2 832:8 883:18 954:3 996:22 1062:21 stopped 915:8 storage 1071:3,9 store 958:6 straight 900:5 1058:17,20,23 1059:4 strange 914:25 stratification 989:3 990:14 1004:19,20,21 Street 702:6,11 702:19,22 703:14,19 704:5,10 760:18,21 884:19 strengthen 843:15 strictly 1076:14 stricture 826:14 strike 788:25 789:7 951:20 strive 922:5 strong 727:5,7 stronger 714:7 strongly 874:13 878:8 structure 812:18 824:1,10,12,17 824:24 826:13 831:24 832:3 877:10 880:10 894:8 907:20 907:21 910:4 916:19 928:11 942:20 943:13 944:20 945:8 946:4,25 960:22 961:2,5 961:16 962:4 962:11,15 963:2,7,14,22	963:22 964:6 965:8,16,17 966:22 968:7 969:20 971:23 995:1,10 1002:16 1021:14,21 1023:5 1024:17 1030:22 1031:11,20,23 1035:25 1037:18 1040:15,21 1041:13 1042:15 1045:21,25 1046:9 1047:11,21,23 1048:1,7,11 1049:14 1058:8 1066:7 1066:8,19 1070:11,18,24 1070:25 1071:1,7 structured 1027:8,10 1041:9 structures 824:5 827:8,10,12 907:11 1039:25 1040:5,19 struggling 958:2 studies 748:10 824:3,8 825:7 825:12 829:10 857:9 858:22 860:7,9 862:18 873:10,13 881:17,20 883:7 886:16 892:16 912:6 913:5 923:12 923:23,25
---	--	--	--	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

924:2,9 925:24	1007:9,14	880:4 1040:13	1030:11	super 875:8
943:12 967:4	1021:6	1040:17	summarized	superb 848:24
968:10 990:11	1040:14,18	substantially	918:18	superior 926:11
1003:11	1047:19	751:18 772:6	summarizes	Supervisor
1004:5 1005:9	1060:18	792:10 883:25	766:10 908:13	927:12
1005:10	1061:4,22	907:24 932:11	summary 721:1	supplement
1046:14	1062:2	964:3 1046:22	766:8 781:18	799:6
1048:5	1067:11	substations	781:19,22	supplemental
1053:23	1069:17	993:20	783:25 786:18	911:4
1062:6,11,14	1083:8	subsume 1058:5	855:11 908:16	supplied
study 728:21	studying 881:10	subsumed	1034:20	1046:17
746:20 747:6	stuff 748:19	1057:20	1081:20	support 767:14
828:9,11,14,17	760:21	subtle 989:14	summer 710:15	831:24 835:4
828:25 844:24	sub 775:19	subtract 935:19	824:2,15,24	873:20 878:19
845:1,3 847:14	subaccount	subtracting	826:20 833:12	914:1,2 924:1
858:25 859:1,5	766:14 775:12	940:9	833:15,22	945:2,9 1054:9
860:11,12,12	775:14 779:5	subtraction	834:1 838:13	supported 868:8
860:17,18,19	784:3	940:16	839:10,12	1017:24
860:21 873:20	subaccounts	suddenly 759:11	848:5 878:16	1034:12
882:11,13,20	779:1 784:21	suffer 860:5	880:7,12,20	supports 831:8
883:6 886:22	subgroups	suffers 862:22	919:13 920:2	880:9 882:24
887:3,14,25	1041:6	Suffice 857:1	920:16 921:5	889:24 1054:7
888:6,10 889:8	subject 805:13	sufficiency	945:7 946:12	suppose 993:2
889:16,17,24	847:16 948:15	840:4	962:2 963:10	1018:12
890:11 893:13	955:23 956:2	sufficient 950:5	969:13,15,19	1020:16
893:15 902:9	submit 779:3	suggest 809:11	995:1 1002:16	supposed 955:4
911:25 915:19	822:13 916:12	881:17	1017:23	955:6
915:21 916:2	submitted	suggested	1026:13	sur 1012:10
918:12,19	830:21 995:10	964:13 1041:1	1027:6 1032:8	sure 742:10,10
919:9,9,25	subsequent	1068:18	1032:12	744:1 761:19
920:1 921:21	744:22 838:3	1069:13	1033:16,24	766:6 779:12
923:4,16,17,21	subsequently	suggesting	1034:2,22	805:25 808:12
924:5 928:20	917:6	967:21	1035:19	810:22 816:22
928:23 929:2,6	subsidies 847:19	1043:20	1037:12,14,24	817:1,2 883:2
929:13 930:19	subsidized	suggestion	1038:1,4	892:13 897:15
931:6 932:3	860:14 869:12	809:11	1041:23	904:20 906:23
966:23 967:8	subsidy 847:7	suggests 747:20	1042:11	907:4 908:19
967:12 970:1,2	869:20,25	755:24 760:17	1043:15	909:23 913:17
990:12,14	999:9,12,14,19	suitability 864:6	1048:3	919:25 921:19
995:21 999:4	999:22 1000:2	939:15	1057:22,25	927:25 929:6
1001:7,12,13	1000:7,8,12,13	Suite 701:24	1058:3	930:25 931:1,2
1003:23	1000:16	702:16,19	1059:15,18	934:4 936:10
1004:18,23	substantial	703:14,23	1061:1 1065:7	942:25 943:8
1005:6,18	774:13 824:11	704:5,10	1066:25	946:10 948:11
1006:2,3,6,7	824:20 826:4	summarize	1071:25	965:12 969:5
1006:17,25	845:14,18	1019:3,4	1073:13	972:21 994:12

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

995:13 1003:1 1006:15 1018:6 1021:5 1024:7 1052:5 1059:18 1063:2 surprised 866:16 surprises 971:16 1063:15 surprising 784:6 surrebuttal 708:5 709:20 711:20 713:1 718:5 727:24 734:10 760:15 771:22 772:5 772:20 796:16 841:9 852:23 853:21 877:4 878:22 879:16 884:24 891:25 893:18,19 895:24,25 909:24 910:16 913:25 914:12 916:5 922:15 922:16 926:8 974:9,18,20 975:7 976:6 981:15 983:25 985:2 1008:11 1008:21 1012:4,10,11 1013:17 1014:23 1015:9 1027:25 1072:22 1081:6,8,11,14 1081:18 1082:16 1083:13 surrogate 988:24 survey 715:15	724:19 surveys 719:25 suspect 1003:8 sustain 1009:11 sustained 920:12,17 swear 793:18 973:15 swings 776:23 switch 947:8 990:17 switcher 1005:22 switching 993:19 1044:15 sworn 707:1,2,5 770:19,21,23 794:24 795:1,3 884:7,8,10 972:20 973:18 973:20 1011:10,12 symmetry 852:10 system 798:9,19 799:14 800:19 806:11 828:11 847:22 848:1 850:18 866:5,8 869:9,23 871:12 900:5 919:24 921:10 922:5 923:9 952:4 964:21 965:21 970:19 984:20 1028:6 1028:13,23 1045:12,16 1047:2,7,14 1082:11 systems 797:24 855:4 system's 1037:10 S-a-r-a-h 974:3	T	T 701:19 1081:1 1082:1 1083:1 table 742:13 761:18 776:5 776:13 777:3 777:12 835:21 835:22 837:7 853:5,16 854:5 888:24 935:7 935:12 940:7 979:19,21 980:10,18 1008:20,23 1009:9,18,22 1010:4,5,6 1033:19 1046:17 tail 826:15,22 834:23 871:5 871:19 961:11 965:17 1003:13 1018:20,21 1020:7 1034:4 1042:20 1043:3,5,17 1058:24,25 1066:22 take 706:7,19 709:21 737:7 738:3 739:25 742:20,23 752:22 786:8 793:10,19 814:21 819:23 823:25 860:21 877:21 883:13 897:14 904:2,6 905:20 908:18 913:13 915:15 920:25 926:2,5 947:1,9 953:6 963:16 972:3,5 972:13 977:18 978:2 995:22	1000:18 1011:8 1067:18 1068:4 taken 793:17 810:24 829:15 850:22 867:15 980:21 999:20 takes 705:9 706:2,24 762:21 769:3 793:25 967:2 talk 736:15 760:16 763:7 764:19 787:10 802:3 857:8,15 857:18,22 858:8,18 860:22 868:9 870:10 965:7 994:15 talked 728:17 761:6 762:25 806:6 820:13 870:12 969:9 1053:25 talking 706:6 759:21 834:2 843:22,23 853:25 857:5 861:20 910:21 921:20 951:14 951:14 956:14 956:15 960:7 1009:16 1027:7 1029:4 1029:6 1042:23 1047:24,25 1076:9,10 tardy 762:17 target 724:20 725:2,3,10 tariff 705:17,18 705:21,22 770:5,7 790:15	790:16 825:5 925:9 930:9 949:24 952:2 952:19,19 953:8,11 954:11 955:9 955:15,18 958:8 959:6 990:25 995:24 1076:16 tariffed 959:4 1032:6 tariffs 822:11 843:20 923:14 952:10,13 954:18 995:6 1059:10 1060:19 1081:24 task 937:24 tax 812:2 821:5 taxes 821:4,6 TC 787:13 teach 958:3 team 778:19 900:3 technical 1040:9 technology 816:3 853:14 856:12 968:14 tell 733:2 742:8 760:7 780:2 781:25 782:10 790:1,7,11,14 796:6 850:11 856:22 870:1 871:21 891:4,9 931:19,23 933:14 935:8 935:13 936:9 937:4 948:23 951:10,11 976:13 985:5 985:18 986:7 986:11,13 994:3,20
--	--	----------	---	--	--

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

1014:25	735:17 736:13	853:15 854:6	1027:25	800:2 802:17
1016:18	737:12 743:22	861:20 863:21	1029:25	802:19 804:7,8
1051:22	744:2 770:24	871:18 877:4,7	1032:21	804:10,13,16
telling 1060:4	772:16 795:4	878:18,22	1034:8	804:18,23,24
temper 1050:18	884:11 902:8	882:4 884:22	1041:19	806:25 807:8
ten 724:14	904:11 909:10	884:23,25	1042:13	807:17 809:1,2
746:11 747:7	973:21	885:4,7 886:10	1057:15	809:16 810:10
750:18 761:19	1011:13	887:9,12	1058:11	816:8 817:19
771:14 789:3	1042:17	888:20 889:21	1062:15	818:25 819:16
803:2 837:9	testifies 851:7	892:9,10,14	1073:1,23	819:18,22,22
tend 758:5	testify 707:5	893:24 894:4	1076:3 1081:4	820:7,10,12
904:22 905:15	734:12 770:23	894:25 896:7	1081:6,7,8,10	821:11,13
909:2,12,17	795:3 884:10	896:15 904:14	1081:11,13,15	823:13 827:15
tender 708:25	973:20	904:15,17	1081:19	827:16,19
773:2 797:1	1011:12	906:9,12,19,21	1082:13,15,16	831:3 832:10
885:15 975:16	testifying 727:22	906:22,25	1082:22	832:11 845:25
tendered 1013:8	736:6 886:6	907:6 908:2,11	1083:10,12,14	846:1,6 848:11
tends 879:11	testimonies	908:17 909:11	Texas 868:20	848:13,17
1006:17	771:22 772:5,8	909:16,21,25	873:5	856:8,17 872:6
tens 931:21	772:20	910:16 911:14	thank 705:25	872:8,9,10
term 919:14	testimony 708:4	912:20 913:25	706:23 707:9	876:5,8,9
957:14,17,18	708:5,9 709:20	914:12 916:5	707:12,18	883:13,15,17
terms 725:23	713:1,3 719:10	916:12,22	708:25 709:2,4	883:18,19,22
729:16 732:8	719:20,23	917:1,6,11	709:12 719:14	884:2,14,16
752:4 758:4	734:8,11	918:18,20,21	719:18,18	886:4,8 887:7
776:16,18	739:15 741:15	918:24,25	726:24,24	888:5 889:20
803:3,6 839:24	747:5,25 749:3	919:3 922:15	727:18 734:15	894:14 897:1
928:1 933:13	752:6 756:9	922:24,25	734:15 738:10	897:13,16
933:18 942:4	759:14 760:15	926:9 935:5	741:25 745:2,3	900:22,25
953:23 959:10	764:8 770:1	937:10 938:12	751:13 753:22	901:14 902:23
966:14,20	771:16 772:2	940:3,4 945:21	753:23 754:1,2	903:19,25
980:7 985:9	772:12 773:16	945:22 947:9	757:3,4,7	904:8 906:8,17
986:11 995:7	777:3 780:10	969:14,22	758:7,8,15	908:1,9 909:9
1017:10	792:7,8 796:1	974:9,18,25	761:11,13,14	909:20 913:24
term-rates	796:3,9,13,20	975:10 981:15	761:23 762:1	917:10 918:10
719:7	796:23 797:14	982:1,7,23	762:18,19	919:8 920:11
territory 817:25	797:19,21	983:19 984:2	765:25 766:22	922:4,14
846:10,18	801:5 803:19	995:11	768:15 771:2	924:24 925:25
919:12,20	803:23 804:2	1005:24	773:2,4,6	926:6,25 927:2
test 777:9	820:15 830:20	1008:11	782:23,23,24	929:16 933:2
781:10,12,20	831:15,23	1012:3,4,7,15	783:1,3 785:5	934:19,20
887:19 888:1	832:2 838:16	1015:6,9	785:7 789:9,10	936:3 938:8
890:21	838:17 839:22	1016:14	790:21 793:7,8	939:17,20,22
testified 707:6	841:9 844:9,14	1018:5,8,25	793:9,12 795:7	940:21,23
711:4 718:14	849:2 851:9	1024:9 1025:4	797:3,8 799:21	953:25 954:1
722:10 726:10	852:9,23,24	1025:18	799:22,24	954:22 956:20

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

956:24,25	862:21,25	794:20 801:25	1028:15	758:17 761:16
957:6,8 958:10	864:1,11	802:21 803:19	1029:9 1032:9	761:20,21
958:11,12	866:24 869:2	804:3 805:3	1032:14	762:1 1078:3,5
972:1,2 973:24	952:20 964:15	807:13 809:5	1037:25	1078:10
974:19 975:11	967:1 971:21	809:21 810:6	1038:24	thoroughly
975:22 979:10	990:10 993:22	812:8 813:9,10	1039:14	857:6
979:12 981:2	1019:15	815:12,14	1040:17	thought 755:15
985:1,17	1042:12	816:7,24 818:2	1041:7,16	755:16 816:25
986:18 996:19	1043:15	818:5,16,20,21	1043:4 1044:9	819:9,14
996:20,24	1076:19	820:13 843:11	1044:24	954:20 1009:7
997:1,25 998:1	things 709:8	843:14 844:2	1046:2,4,17,18	1032:11
1001:20,21	714:12 718:21	845:6,11	1047:3,19,22	1033:2 1048:9
1002:5	732:2 749:22	849:11 853:11	1049:17	thoughts 949:11
1004:10,10,12	750:4,6 784:6	857:14 867:25	1053:15,25	949:12 992:1
1004:13	784:7,8,14	872:21 873:9	1054:14,15,15	thousand
1005:4,25	786:24 811:12	873:22 874:19	1059:17,19	1016:20
1006:11	820:20,24	875:13 888:8	1060:20,21	1017:8 1029:5
1007:11	857:7 858:8	892:10 894:25	1061:3,5,16	1046:4,7
1008:18	873:16 877:25	896:24 897:1	1064:15,15	1059:24
1011:4,6,16	931:10 959:22	901:4 906:15	1066:20	thousands
1013:2,10	963:7 976:25	907:1 910:24	1067:15	931:21,22
1015:19,20,21	993:13	911:15 920:21	1068:6	934:16
1019:11	1005:20	921:22 932:6	1074:16,17,22	three 721:3
1034:19,19,19	1027:16	938:15 945:4	1076:4	726:15,21
1036:7,7,9	1028:11,19	946:19 948:23	thinking 818:8	744:11 747:4
1039:4,7	1037:23	950:18 951:10	950:19 1017:4	749:12 820:20
1049:18,19,21	1038:7,8	952:9,21,25,25	third 713:22	820:24 854:7
1062:17,18	think 712:14	953:3,19	714:16 721:14	857:25 867:15
1065:10,11,12	716:3 719:14	955:17 959:25	776:21 834:21	867:16 871:24
1065:20	720:12 722:12	962:8 964:12	841:23 842:1	877:7 894:13
1067:3,4,6	723:2 727:12	967:13,16	858:10 864:16	894:14 983:10
1070:3 1072:9	730:2,3 734:15	969:25 970:3	866:2 877:11	983:15 989:1
1075:12,13,14	734:16 736:6	976:18 988:20	946:7 961:19	990:2,4,5
1077:9,14	738:4,17	988:23 991:2,4	961:22 982:14	1041:21,23
thanks 709:6	744:21 746:6,7	999:1 1004:3	996:14	three-part
813:16 820:9	750:15 751:21	1007:21	Thompson	926:10
832:9 905:9	751:25 752:11	1009:5,10,11	702:3 705:21	thresholds
930:13 931:16	753:5 754:22	1014:5 1017:5	705:24 707:8	834:10
934:24	754:24 756:10	1017:6,7	707:10,12,13	thrown 951:6
1020:11	756:13,21,24	1018:17,19,24	708:18,25	Thursday 899:5
they'd 1075:9	758:25 762:6	1021:23	709:2 716:2	973:3
thing 715:21	764:5,23 765:7	1022:21	721:24 722:7	tie 996:16
738:9 747:5	765:20 768:1	1023:11,18,19	722:14,17,24	1003:2
759:4,22,24	769:8,15	1023:25	723:4,6 727:22	Tier 930:12,12
760:18 808:7	786:20,20	1025:1,11	734:6 738:3,7	ties 763:18
856:23 861:25	787:9 794:7,11	1026:3,4	738:10 758:15	765:1 861:10

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

Tim 938:9	1030:13,16,20	tonight 972:11	trackers 1057:8	749:15
time 705:20	1030:24	1076:21	1057:12	treated 800:18
708:18 709:25	1031:1,3,5,6	1077:7	1066:15	1010:9
711:12 719:3	1031:12,12	tool 876:24	tracking 819:8	treatment
724:2,14 735:8	1044:10,16,18	899:22,23,24	1067:24	820:18 978:21
735:9 738:20	1048:10,17,19	913:10 1006:4	tracks 1021:9	trend 710:22,23
743:13 747:2	1049:12	1030:5 1042:1	trade-off 962:10	714:10,21
748:8,12	1051:15	1044:4	962:14	716:22 726:15
756:16 759:8	1067:11,17	top 711:11	trading 710:17	726:17,22
762:10,24	1070:13,23	743:16 746:7	711:14	803:4,7 909:2
765:20 782:1,4	1071:5,6,11,13	749:13 908:11	transactions	920:11
793:10,11,21	1084:12	908:20 930:4	798:18 801:10	trends 710:24
793:22 809:8	timely 924:21	985:25 986:5	transcribed	717:1 726:8,9
810:24 813:12	times 714:12	1008:20	1084:13	727:9 803:3
821:25 824:2,5	878:8	1010:5 1028:3	transcript 701:3	tried 1009:12
825:2,6,8,9,13	Timothy 702:10	1028:9	736:23 837:24	tries 859:8 861:7
827:8 828:10	tinkering 827:7	1058:15	transformer	861:8 965:8
829:22 830:8	tired 1063:1	topic 1042:25	1006:21,23	trip 815:22
830:25 837:15	today 705:7	tops 897:12	transformers	trouble 757:1
840:11,14,15	708:12 711:14	total 786:21,22	870:7	1022:9
840:18,22	711:17 726:13	786:22 787:18	transition 864:2	1053:15
844:22,24	726:14 730:4	787:25 788:1,3	880:11 881:15	truck 815:23
845:8 855:6,7	734:11 746:22	788:11,15,20	939:1	true 708:14
857:5,10,12	755:18 763:24	983:6,6,7	transmission	711:21 716:16
864:24 865:2,5	764:4 772:5	1026:1 1029:3	764:1 786:4	727:2 729:20
867:19 870:2	779:24 794:18	1051:3	787:5,13,25	743:25 772:8
877:12 878:14	796:23 800:8	1053:18	788:12,15,16	790:9 792:2
879:14 881:24	858:8 885:8	1054:10	788:18 789:2	799:1,12
882:4,9,11,19	901:6 911:11	1065:9	789:23 802:15	802:14 861:23
883:3,10 884:1	959:6 960:21	1069:23	803:1,9 806:10	885:10 943:3
884:1 886:6	967:23 982:15	totals 786:12	812:2 820:19	974:25
901:1 902:4	992:3,21 994:4	TOU 988:24	820:20,21,22	1007:22
913:15 917:5,5	994:14 1015:8	1064:21	820:25 821:4	1012:16,18
922:23 923:2	1015:10	touch 814:8	826:5,19	1026:21
923:14 924:3	1036:6	833:6 842:6	829:17 847:12	1028:4 1040:1
924:14 925:9	1041:21	844:12	847:21 848:4,7	1040:15
925:12,17,21	1048:18	trace 801:11	865:15 960:5	1068:19
967:25 968:4,7	1075:24	track 999:15	960:18 983:1	1070:7
968:9,10 972:3	1076:8,14	1057:4	1082:9	true-up 767:9
974:14 975:8	today's 1035:22	tracked 1022:3	trashing 867:14	767:12,17
987:11,14	told 864:8	tracker 820:21	travel 1063:20	770:13 783:14
988:16,24	868:11 869:4	820:25 821:5	treasuries	812:12,13,16
990:11 993:24	957:16 996:3	949:1 994:1	710:12	812:17,20
1012:7,21	tomorrow 973:1	1056:23	treasury 711:5	813:13 888:4
1022:13	973:9 1076:22	1066:5,10	726:9,11	truly 849:11
1029:2,7,11	1077:4	1067:22	728:13 746:22	863:7,16

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

980:23 Truman 701:24 truth 707:5,6,6 770:23,24,24 795:3,4,4 884:10,11,11 967:1 973:20 973:21,21 1011:12,13,13 try 706:13 709:7 747:22 761:8 813:12,12 825:17 842:16 877:14 940:18 972:6 995:20 995:23 1048:23 1049:4,4 1061:25 1070:5,16 1071:6 trying 751:23 760:13 836:25 872:2 896:22 946:23 965:5 972:10 991:5 992:15 1035:23 1056:8 turbine 978:18 978:18 turbines 979:7 turn 730:16 739:5 773:19 863:12 887:8 888:19 889:21 891:24 907:6 909:24 913:24 917:10 929:17 930:3 945:25 1013:20 1024:8 1029:23,25 1036:22 turned 713:7 turning 783:22	785:16 890:24 928:10 935:4 turns 866:9 Tuxedo 703:5 tweaks 881:17 two 733:10 747:4 750:6 762:25 766:7 783:6,23 797:21 820:17 826:12 836:18 862:25 868:2,3 894:12,14 895:7,9 937:18 941:25 953:13 953:17 961:1 980:7 985:2,9 988:4,5 995:23 1009:16,19 1030:21 1036:6 1063:13 1076:17 two-page 783:25 786:19 two-part 895:12 type 713:9,10 715:14 829:5,5 875:21 949:5 979:3 994:2 1018:21 1047:1,4,23 1060:1 1066:20 types 723:24 768:3 828:23 829:9 842:11 863:17,18 982:19 983:10 983:11,15 989:21 990:5 997:10 1023:7 1040:11 typical 1046:25 typically 740:8 768:9 912:12	1047:6 <hr/> U Uh-huh 911:24 922:19 923:16 1037:4 UI 899:22,23 913:10 1042:1 ultimate 1044:11 ultimately 991:24 995:17 1010:14 1030:14 Um 1061:23 unchanged 892:18 unclear 825:8 952:11 underground 955:1,3,5 underlying 936:6 undermines 882:24 understand 751:11 764:13 806:21 824:22 825:4 835:22 857:6 864:18 864:19,21 892:25 897:23 908:7 914:9 916:20 946:23 953:5,22 956:3 956:12 986:2 986:10 994:16 1021:24 1035:4 1042:13,16 1063:20 Understandable 908:9 understanding 755:8 768:13 770:12 772:13	772:18 783:11 789:6 790:18 793:20 887:2 891:15 893:8 914:4 915:23 919:19 941:5 947:12 952:14 952:17 965:12 970:1 993:19 1001:19 1009:17 1021:8 1023:19 1024:23 1041:15,25 1048:4 1050:2 1053:5 1076:12,13 understood 946:19 962:8 underway 825:7 undue 873:23 unfortunately 849:1 1026:7 uniform 798:9 800:19 uniformly 726:16 unintended 824:11 1027:19 1040:5 unique 862:14 unit 929:18 989:25 United 846:14 846:19 units 939:5 1004:23 1020:21,23 1043:12 universal 726:22 862:9 University 707:20 743:20 849:7	unjustly 874:5 unknown 925:12 1026:8 1026:20 unlawful 843:10 unparalleled 848:25 849:12 unreasonably 847:20 unregulated 731:25 732:6 Unrelated 817:24 untested 924:17 upcoming 718:16 update 712:12 729:17,22,23 767:16 781:11 781:20 794:4 809:25 updated 705:5 712:12 713:2 719:17 811:25 812:4 updates 729:16 887:21 updating 767:19 770:13 upgraded 752:12 816:6 upgrades 761:6 upper 745:18 750:8,10 uppermost 985:2 upward 726:16 726:22 728:9 up-to-date 736:2 urban 716:19 urge 875:11 urgent 813:10 urges 881:23 883:1 usage 824:13,14 828:25 832:4
---	--	---	--	---

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

833:23 834:22	779:21 824:5	1018:3 1019:6	869:1 924:13	V
835:8,15	824:25 825:6,9	1019:7,13,19	977:20,22	vacate 761:17
839:13 841:17	827:8 829:22	1022:1	utility 739:22	valid 872:24
841:17 853:8	832:25 833:1	1028:12,14,16	743:23 744:3,3	valuable
853:19 855:6	834:9 835:12	1028:20,21,22	753:7 761:8	1029:19,22
865:10 879:3	835:19,19	1028:23	799:2,2 800:25	1045:1,5,7
879:17,18,24	837:13,14	1029:3,9,14,15	802:9 827:23	valuation
880:1 882:2,25	838:21 839:1	1030:7,14,16	837:18 839:9	746:24 748:18
899:21 905:6,7	840:11,14,15	1030:20,24	839:14 843:19	value 730:23
905:14 909:3	840:18,22,23	1031:2,3,5,12	846:15 848:5	731:24 751:14
909:18 914:8	841:5,7 844:10	1033:3,12,15	849:10 857:21	841:19 877:23
914:14,18,24	844:20,22,24	1044:5,10,16	858:1 861:2,3	913:23
915:3,7,14,25	845:8 847:5	1044:18	862:10,19	1007:25
917:25 919:23	850:8,10,10	1046:17,20	876:18,19,25	1010:12,13
920:23 943:2	851:10,11,23	1048:10,17,18	880:5 882:18	1020:7
947:7 961:20	851:25 853:3	1048:19,19,20	914:21 916:20	1043:18
963:8 966:17	854:11 862:4	1048:21,22,25	922:9 949:4	1066:23
969:14 970:15	865:1 866:4,12	1049:12	951:3 978:3	valued 978:25
970:18 985:21	866:14 867:13	1059:20	1038:3	979:1
986:13	868:12,14	1061:15	utility's 989:22	variability
1019:14	869:9 870:5,6	1070:23	1007:23,24	1074:4
1025:23	877:12 878:8	1071:6,11,13	1044:19	variable 870:20
1029:10	879:7 880:23	useful 921:10	utilization 799:3	870:22,23
1030:3	887:19 889:18	user 875:19	799:12 923:10	871:3 872:3
1031:24	891:13 899:24	users 837:10	949:18 990:12	905:13 920:10
1034:14,24,25	904:23 907:15	874:3 875:8,8	utilize 864:14	936:18,18
1035:6,8,12,13	909:13 912:1,6	881:2 908:22	938:5 939:4	965:18 971:3,4
1035:25	912:11,12	uses 834:12	1048:24	977:14
1036:3	922:22 923:14	851:12 855:12	utilized 799:8	varies 828:22
1037:11	924:3,4 925:9	861:1,2,3	938:19,20	855:6 951:15
1043:5 1044:3	925:17,21	862:22 866:9	1010:22	977:10
1046:6	938:24 939:6	868:4,13 905:1	1011:3	variety 812:3
1060:24	939:10 961:18	978:14	utilizing 799:6	874:25
1064:12,15	963:13 965:25	1007:23	utterly 852:24	various 757:20
1067:25	967:18 968:10	1028:5	854:4	814:15 828:19
1074:7	969:11 977:1	utilities 733:15	U.S 703:7 714:4	829:9 836:13
1075:10	978:11 980:14	737:5 739:17	714:5 715:8	847:12 854:23
usages 947:5	982:18 984:10	739:19 740:7,9	716:7 717:7	857:9 859:9
1074:6	988:24 989:20	752:6,15 753:8	719:21 743:3	873:10 874:11
use 711:25 712:2	990:11 991:5	753:10 755:21	846:2,8,16	888:1 915:23
712:4 717:4	995:24 998:9	756:5,25 758:4	851:8 855:20	vary 985:15
746:19,23	999:3,5	760:25 761:7	901:22 957:1	varying 825:13
748:6,14,19	1000:13,15	801:8 847:24	981:5 1001:22	881:25 882:5,9
749:12 750:5,9	1003:12	850:9 854:11	1005:5	882:11,19
757:15,23,25	1006:2,4	857:14 862:11	1015:23	883:3,10
758:5 760:18	1017:6,19,20	862:25 868:12	1065:15	977:15

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

vehemently 943:14	841:20 842:2,4 916:7,9,11,13	857:7,22 860:22 862:8	1071:3,9 way 724:24	724:19,23 Wednesdays
verbatim 892:13	917:7 942:19	866:24 908:11	725:2 744:21	762:25
verify 765:9	942:24 943:18	927:10 931:7	761:18 799:9	week 715:7
932:18 973:2	944:15,17,22	953:5,20 973:6	812:5 813:1	718:15 719:22
versa 798:21	945:14 962:16	992:11 996:4	819:9 825:9	805:18 973:5
1007:10	962:25	1016:8 1017:7	853:17 859:15	973:12 995:23
version 729:5	1025:18,25	1017:12	864:14 869:14	weeks 710:18,24
757:19 806:22	1026:7	1022:7,11	869:16 870:18	733:10 783:7
806:24	1041:20	1027:13	891:22 892:11	842:8
versus 725:12	1054:22,24	1030:11	895:12 926:12	weighted 976:20
817:5,13 955:1	1056:23	1056:2,11	927:11 938:5	978:11 979:25
989:16	1057:17	1060:25,25	964:10 965:7	989:22,23
1010:10,10	1058:20	1063:1 1066:4	970:11 983:14	1010:11,13
1015:4	1064:19	1074:21	1020:4 1023:6	weightings
1048:18,20	1065:1	1076:21	1027:10	862:24
1055:1	1066:18	wanted 758:23	1034:25	welcome 754:6
1070:23,24	1069:10	765:4 805:24	1035:3 1042:7	754:13 762:2
1071:7	1071:17	808:12,18	1044:8	810:16
viable 943:12	1074:9	822:21 844:12	1045:12	well-designed
vice 762:7	Volume 701:8	845:10 886:9	1049:7 1051:2	883:2
798:21	volumetric	886:13 901:7	1060:21	well-established
1007:10	903:13,15	954:14 973:13	1061:8,8	877:24
view 720:1,1	930:9 1033:12	983:24	ways 990:15	well-insulated
751:17 792:21	vulnerable	1015:10	weakness	1075:8
819:4 949:15	875:10	wanting 784:2	854:19	well-positioned
950:6 952:8	W	899:20 956:16	weather 826:16	882:18
960:2 966:6	W 701:24	1009:22	826:24 896:13	well-received
1037:18	702:21	1056:3	898:1,7 912:19	937:20
viewed 1037:8	wager 947:20,22	1061:17,17,18	943:2 945:3,5	went 719:4
violate 892:8,22	wait 817:14	1061:19	945:6 962:1	730:13 774:24
Virginia 733:18	841:1	wants 798:15	968:20 969:1	894:4 901:18
736:7,8,16,17	waive 948:24	808:5 1010:1	1018:22	1014:6
736:21,25	waived 950:5	warm 826:21	1019:16	1040:25
virtually 828:10	waiving 950:1	1043:14	1026:4,7,16,20	1050:24
866:17	Wall 760:18,21	warranted	1041:20	1066:18
visited 821:18	Wal-Mart	1065:4	1043:3,5,7,22	weren't 795:12
vital 827:24	950:16 958:7	Washington	1046:10	854:8 988:19
voir 722:14,16	want 741:3	703:10 849:7	1067:19,24	West 849:25
1078:5	764:8,12	wasn't 748:21	1071:17	855:14 868:13
volatile 776:22	765:17 767:1	793:4 915:5	1072:7	953:4
778:2 1043:6	769:8 794:21	966:10	Weatherization	we'll 705:24
1059:4	815:13 822:23	1016:17	907:11	706:20,22
volatility 824:18	833:2 841:17	Watch 721:16	weather-related	761:24 771:17
825:23 826:24	846:13 853:13	723:23	1071:22	793:25 808:7
840:4 841:10		water 865:4	web 722:20	810:20 812:8

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

826:16 840:7	923:13,23	1048:3	1079:13	718:4 720:11
897:14 901:11	924:2 960:7	1057:22,23,25	1080:3,14	721:8 722:3,9
906:16 972:8,9	965:4 1034:11	1058:4,17	witnesses 705:19	722:18 723:2
972:12 973:7	1042:23	1059:5,14	706:21,22	723:16,22
1001:17	1068:18	winters 1043:14	735:10 763:11	730:16 732:17
1025:12	1075:24	1043:15	764:21 772:15	733:7 735:2
1030:21	Whitaker	wise 1040:17	803:22 811:11	739:4,10,11
1043:9	846:23	wish 793:20	828:13 901:5	741:11 742:1
we're 705:2,3	white 1010:16	806:4 955:9	904:10 973:1,9	742:24 743:18
706:5 719:6	Whitney 702:5	wishing 709:10	woefully 972:22	743:21 754:6
728:7 741:2,2	wholesale 799:7	withdraw	Wolf 861:8	761:14 866:19
759:16,17	800:21 801:18	986:16 1049:2	989:16	1078:2
762:24 763:25	wide 873:15	withdrew	wonder 761:16	1081:12,14,17
764:2 778:13	widely 828:22	1009:1,6,9,14	856:21	Woolridge's
786:25 798:16	852:7	1009:21	wondered 891:4	739:15
808:8,9 809:16	WILLIAM	witness 705:5,6	945:17	word 810:8
833:10 834:5	701:19	709:1 716:3,8	wondering	825:23 908:18
834:14,15,23	willing 815:14	720:24 723:2,7	767:23 886:21	998:9 1000:8
838:20 843:22	willingness	737:18 738:7	894:2	1000:13,16
843:23 844:14	949:12	738:20 739:9	WOODLRID...	1073:23
844:25 858:8	wind 861:24	739:11 761:15	707:4	words 950:4
861:14 863:17	862:2 997:21	761:15 762:5	Woodsmall	992:20 996:9
867:16 869:13	997:23	782:25 786:1	704:9 767:7,16	work 767:14
889:14 902:5	wins 842:21	797:2 804:25	767:22 768:5,9	799:10 810:23
903:2 913:5,7	winter 824:2,14	805:12 821:20	768:15 783:1,3	814:7,16 815:2
921:20 923:5	825:1 826:21	822:5 825:15	783:5 785:4	828:3 861:6
932:12,14	830:14,16	828:7 829:19	795:8,10,13	864:16 900:3
942:2 944:21	834:5,16	830:19 831:23	804:1 817:3	911:17 913:1
944:22 959:6,7	878:16 880:13	834:25 838:16	820:12 856:10	918:16 949:22
967:3 972:8	880:20 919:14	840:1 848:22	856:16,17,18	950:20 953:6
985:8 987:21	945:6 946:12	862:16 877:5	872:9,10,22	969:7,17
988:15 1007:1	963:11 964:19	879:20 880:10	935:1,3 937:1	973:10 980:22
1022:4 1027:7	966:19,21	885:15 902:20	937:4 939:18	1057:9,12,13
1032:24	995:3 1018:23	903:9 906:9,18	939:20 940:2	1068:2
1039:1	1019:18	906:19 907:2	981:4 998:3,5	worked 743:22
1061:24	1022:1	925:2 929:12	1015:22	933:9
1063:19	1024:24	931:25 932:17	1065:14	working 754:11
1076:9,23	1025:2,9	937:2 969:21	1078:15	767:18 948:3
we've 728:17	1026:13,24	972:19 975:16	1079:9,18	works 828:4
754:14 769:22	1032:9	982:9 1011:8	1080:10	855:5 856:14
806:6 808:8,23	1033:13	1013:7	Woolridge	1066:14
808:24 818:17	1034:3	1017:13	705:6,9 706:2	worksheet 983:5
827:7 834:2	1035:19	1023:15	706:14,23,25	workshop
844:13 870:12	1045:25	1063:10	707:16 708:2	1076:5
871:24,25	1046:3,14	1075:15,18	712:17 714:22	worlds 953:7
875:17 901:2	1047:11,16	1078:2,12,20	716:15 717:9	worn 1063:2

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

worrisome 870:10	yacht 747:11	977:23 984:20	718:4 720:5,11	\$5 962:20
worse 871:7	yeah 705:11	1024:17	720:21 721:4,8	\$50 858:2
1045:13	710:4 712:24	1025:2 1043:9	721:19 722:1,9	\$60,732,000
wouldn't 750:19	714:15 731:23	1055:11	723:1,15,19,22	788:19
786:23 836:3	732:14 733:17	1056:25,25	726:1,7 731:4	\$60,732,437
861:23 866:23	739:12,23	years 741:12	731:7 734:21	788:1
888:14,17	745:5 750:8,15	747:4,7 749:5	735:2 737:14	\$7 1005:19
893:3 895:4,9	751:9,12 754:8	749:9,12 754:8	737:17,24	\$85 961:9
918:5 920:23	765:19 785:6	756:11 771:14	738:9,11,15,19	\$86 960:15,16
924:19 926:21	801:23 806:1	789:3 803:2	739:2,4 741:20	\$90 1005:18
926:21,24	814:4,24 815:8	827:6 849:9	741:25 742:1	
943:13 958:9	815:16,19,25	920:12,18	742:19,24	<hr/> # <hr/>
961:14,23	816:4 826:8	933:6 956:6	745:1,3,24	#0538 1084:8,21
970:24 996:7	840:21 888:18	968:2 988:12	751:8 758:10	<hr/> 0 <hr/>
996:15	907:4,17	989:1 999:20	758:11,18	01 1000:11
1000:13,14	910:17 911:1	year's 899:20	769:11 774:17	<hr/> 1 <hr/>
1003:17	919:2 927:21	Yellen 718:14	785:9 800:1,2	1 829:17 834:17
1008:3	928:5 933:21	719:16,20	800:4 802:18	842:3 853:5
1022:22	954:21 959:24	Yellen's 1082:22	802:19 804:3	854:5 887:12
1047:11	982:24 985:17	yellow 780:5,9	804:20 1078:4	898:3 907:13
1059:3,4	1015:10	780:12,16	1078:6,23	913:25 930:12
1064:10	1019:1,11,22	781:7 791:7	zone 744:5,9,17	930:12 934:7
1075:4	1020:12	yesterday	744:21 866:21	979:19,21
written 807:6	1024:14	718:22 721:11	<hr/> \$ <hr/>	980:10,14
885:7	1025:1	722:13 724:11	\$1.1 811:20	1028:9 1056:4
wrong 724:25	1030:24,25	724:14 725:18	\$1.14 812:22	1058:15
843:10 852:2	1033:6	764:16	\$10 858:12	1061:1,2,15
896:25 983:7	1035:23	yesterday's	930:20 931:12	1,00 1059:23
1009:15	1036:5	719:17	\$10,826,594	1,000 834:22
1060:22	1045:11	yield 711:5	787:20	1.02 929:24,25
1072:23	1049:22	911:3	\$10,828,594	930:2
1073:4	1059:25	yields 715:20	787:22	1.2 930:12
wrote 899:10	1068:9	726:9,11 727:9	\$11.88 890:2	1.4 811:2
Wynkoup	1069:15	727:16 728:2,5	1051:10	1.5 910:14
703:19	1076:15,21	728:13,14	\$12.62 830:12	911:13
W-o-o-l-r-i-d-...	year 713:7	749:15 750:1	1050:16	1.6 712:11
707:17	715:11 747:14	750:12	1068:18	752:24
<hr/> X <hr/>	751:6 752:10	<hr/> Z <hr/>	\$13.18 890:6	1.7 712:2,5
X 1061:1 1078:1	752:18 777:9	zero 834:20	\$150 813:23	1.76 841:25
1079:1 1080:1	781:11,12,20	Zobrist 702:18	814:14 951:14	1.9 712:10 713:6
1081:1 1082:1	835:12 836:16	709:9,11,12,14	\$16 941:7	713:7,19 714:2
1083:1	837:4 844:25	712:13,17	\$16.68 890:1	714:17
<hr/> Y <hr/>	855:7 882:12	713:13,17	\$200,000 951:15	1.98 841:15
Y 701:18	887:20 888:1	715:24 716:5	\$45 814:25	1:00 809:13,16
	890:21 933:17	716:15 717:23	815:14,22	10 710:8,9,10
	945:5,6 977:15			

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

746:8 750:1,21 752:13 788:21 888:21 1033:20 10th 899:6 10.0 731:9,15 10.1 755:3 10.2 731:14 10.3 755:8 10.5 731:9 10.8 888:22 889:12 935:15 935:19 940:9 10.9 959:7 10:25 793:11 10:40 793:12 100 725:20 744:6 899:19 1042:7 1000 703:9 1002 1080:11 1004 1080:12 101 702:16 704:5 1011 1080:15 1012 1081:4,6 1013 1080:16 1081:4,4,6 1016 1080:17 1036 1080:18 1039 1080:19 1049 1080:20 1063 1080:21 1064 1080:22 1066 1080:23 1067 1080:24 1084 1080:25 11 701:8 743:11 803:11,11 834:13 892:1 907:8,9 984:1 984:4 988:12 999:20 11th 811:23 918:13 11.37 744:10	11.8 831:16 11.802 811:24 11.88 930:24 1055:19 1100 702:19 111 879:14 112 879:14 12 717:13,19 752:13 756:13 833:16 837:9 861:16 887:20 889:23 985:13 1051:10 12-month 717:20 12.62 941:12 942:12 958:23 1050:5,6,15,19 1050:20,23,25 1051:7,10,21 1051:22 1052:1,17 1053:1,21 1054:21 1055:7 1056:5 1060:6 1069:5 1069:16 12.82 1050:4 12.942 816:16 120 742:2 1200 702:22 884:19 13 782:15 785:20 833:14 853:5,15,16 854:5 979:19 980:11 982:25 983:19 13.18 942:10 959:3 131 1076:8 131-L 1076:9 133 954:12 133-L 954:12 136 884:23 885:14,17,19	1082:13 137 884:24 885:14,17,19 1082:15 138 884:25 885:14,17,19 1082:16 14 782:15 833:24 869:20 888:19 889:22 890:14 892:14 893:21 894:3 908:12 935:5 935:13 940:4 15 818:22 852:9 858:6 890:24 890:25 901:5 907:6,9 908:10 908:13,20 917:11 951:25 952:6 972:5 1052:14 1055:18 15th 715:8 717:8 755:1 844:24 15-minute 901:12 150 753:7 1500 1019:24 1536 703:19 155 732:25 733:10 159 712:14,15 712:19 713:14 713:16 1082:17 16 752:9 755:22 785:20 852:9 895:19 896:2 901:5 907:10 919:1,6 938:15 947:13,17,24 982:25 983:19 984:14 16th 710:5 16.68 941:10,11	958:22 16.80 941:9 160 714:23 715:25 716:12 716:13 721:2 1082:19 1600 1019:24 1046:19 161 717:6,9,24 718:1,2 1082:20 162 719:19 720:6,8,9 1082:22 163 721:4,6,20 721:22 723:11 723:12 1082:23 164 723:17,21 726:2,3,4,5 734:21,23 1082:24 165 734:21,25 735:3,12,25 737:14,16 1083:3 166 737:19,19 738:13,17,23 738:24,25 739:5 741:21 785:17 1083:4 167 741:22,23 742:2 1083:5 17 742:4,13 850:6 896:2 910:16 918:25 918:25 919:3,6 919:16 938:15 947:9 984:14 17th 715:9 17.83 788:4 789:24 790:11 18 851:19 18th 733:8 18,626 907:13 18.5 732:3	19 855:8 946:1 980:15 1032:25 1033:4,6 1043:25 190 731:21 192,000 911:21 1971 954:13 1976 827:6 1977 827:9 1983 954:14 <hr/> <p align="center">2</p> <hr/> 2 709:21 721:11 749:11 752:24 775:10 835:23 857:7 880:2 907:10,17 926:9 930:12 933:8 934:11 980:14 982:12 983:23 1013:22 1037:6 1042:14 1050:13 1061:2,15 2.0 871:3 2.1 871:4 2.2 749:11 2.3 919:13 920:3 920:17 2.4 871:6 2.5 717:14,19 2.6 871:6 2/15/17 1082:20 20 709:23 732:1 739:5,17 740:8 742:16 759:2 811:1 850:6 889:2 922:17 922:18 1033:1 1033:3,17 1052:6 1055:16 20,000 711:12
--	---	--	--	---

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

711:17	21.88 930:8,15	237HC 1081:20	31st 887:20,21	40 738:5 748:10
200 702:6,11	210 1012:3,22	237-HC 768:24	313 703:20	750:20
771:19 899:19	1012:24	768:25	314 703:15,24	400 702:16
1081:3	1013:1,4,5	238 822:20,21	32 856:6	834:18 877:6
2006 741:18	1081:4	823:1,4,6	325 805:21,23	1059:24
2012 717:21	211 1012:4,22	1081:24	806:7,9,20	401 877:6
879:9 902:17	1012:25	25 718:12	807:4,7	402 932:4,23,25
918:14	1013:1,4,5	869:16,19,24	325HCDocum...	1083:8
2015 719:2	1081:6	26 725:7,20	1082:5	424-6779 703:6
747:14 850:15	211,000 927:19	27th 712:23	326 805:22	43 718:25
855:8 887:20	927:20	28 871:17	806:8,10 807:4	720:14 724:5
1026:21	212 974:9 975:7	29 850:15	326HCDocum...	45 814:11
2016 710:6	975:11,17,18	1036:22	1082:7	4520 702:19
712:9 713:4,8	975:20 1081:7	1037:1	327 805:22	460-2400 702:20
714:1 715:12	213 974:10	3	806:8,11 807:5	47 849:9
718:8 733:15	975:8,11,13,14	3 710:16,17	327HCDocum...	471-9973 703:24
745:22 746:1	975:19 1081:8	711:19 761:1	1082:10	5
749:22 750:13	22 701:7 740:13	773:19 851:5	33 871:17	5 750:21 752:23
754:14 755:11	740:17 742:5	857:23 911:16	3432 701:24	753:1,18
887:21 899:6	743:16,17	911:18,21	35 732:5	759:18 773:21
933:6 951:23	922:17,18	913:25 969:10	360 702:7	837:4 853:21
2017 701:7	1033:4	980:20,20	4	880:15,15
709:25 712:23	1077:16	981:14 982:11	4 715:10 730:18	910:18,25
714:8,25 717:8	221 704:5	1018:7 1024:8	730:22 746:19	911:13 917:12
733:8 1077:16	2230 702:12	1028:3,7,9	748:14 749:9	976:6 1025:22
1082:20	226 771:23	1058:15	749:12 750:5	1026:15,16,17
2018 933:6	772:21,24,25	1061:19	752:24 759:18	1027:8
202 703:10	1081:9	1072:21,25	759:20 773:18	1055:16
974:8 975:9	227 771:23	3.0 711:6	774:1 775:4	1073:23
1011:24	772:22,24,25	3.04 710:15	776:5 777:3	5,000 1042:8
1012:22,24	1081:10	726:12	850:1 851:1	5.6 715:11
1013:4,5	23 894:4 1037:1	3.4 919:14	917:12 985:1,3	5:15 972:12,15
1081:4	1037:5	3.5 713:5,23	985:25 986:5	50 710:13,14
204 704:10	231-4181 703:15	714:16	1008:11,20	711:5,10
205 703:23	232 708:5,19,21	3.7 869:21	1024:11,11	724:15 725:4
20585 703:10	708:23	3:25 901:12,15	1033:7	725:12,13,14
207 701:24	1081:12	30 730:13	1061:19	725:17 743:12
21 711:15,15	233 708:6,19,21	748:10 750:19	4CP 851:13	747:15 752:17
743:1,17 744:8	708:23	809:5	868:5 984:21	779:3 803:19
894:4 1030:2	1081:13	30-minute	984:23 985:11	858:5 947:13
21st 724:12	233NP 1081:16	706:19	985:12	948:9
741:18 745:21	237 765:8 766:2	30-year 710:12	4NCP 849:13,22	501 786:23
745:22 746:1	767:2,5 768:20	711:4 746:22	4th 951:23	52 803:19
749:16 750:13	779:10 783:9	308 704:10	4.0 748:25	55 803:20
21-A 858:9	791:4 807:12	31 856:5	4.4 752:25	556-2314 702:23
21-B 858:9	807:14			

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

556-6622 704:6	64105 702:23	723 1078:6	1058:9,13	84 801:13
565 787:13,19	64111 702:20	1082:23	8th 755:7	846 1079:7
788:19	65101 702:7,17	726 1082:24,24	8.0 732:12	848 1079:8
573 701:25	704:10	73 725:5	8.5 732:12	85 818:11
702:8,13,17	65102 702:12	73.4 724:16	8.6 740:15	882:15
703:6 704:6,11	704:6	725:18	8.65 731:18	850 796:12
583-0158 703:10	65109 701:24	738 1083:4,4	745:12,17	797:1,4
59 854:17	65201 703:24	74 1055:7	750:23 756:20	1083:10
590-1720 703:20	668 769:13	745 1078:7	760:23	851 796:15
	770:3 797:16	75 724:15 725:4	8.75 745:16	797:5 1083:11
6	798:1,5,7,8,13	725:6,12,14,17	8.8 729:25	852 796:18
6 713:1 716:19	798:22 800:8	725:20 948:10	8.85 746:14	797:1,5
752:23 753:1	800:14,16,17	751-3234 702:8	8.9 745:16	1083:13
753:18 801:5	800:20,24	751-5324 702:13	8:30 1075:18	856 1079:9
833:19 834:24	801:4	754 1078:8	1077:13	871 703:5
887:8,12	68 941:8	757 1078:9	80 801:3,7 818:9	872 1079:10
891:25 916:6		758 1078:10	962:20	876 1079:11
1013:20	7	767 1081:20	80-some 1017:8	88 841:13
1024:12	7 759:17 893:17	768 1081:20	800 835:13	879:25
1026:10	894:16 945:25	771 1078:13	896:20	88033 1083:4
1029:23,25	981:15 982:25	772 1081:9,9,10	1078:23	884 1079:14
1034:8	982:25 983:23	1081:10	801 896:21	885 1079:15
1043:25	1014:12	773 1078:14	802 896:21	1082:13,13,15
6D-033 703:9	1033:7 1034:8	783 1078:15	1078:24	1082:15,16,16
6.0 740:21	1057:16	785 1078:16	80206 703:19	898 1083:17,17
6:30 972:7	7.3 790:17	789 1078:17	803 896:22,23	
60 752:17 779:3	7.9 745:16	791 1078:18	896:24 897:1,3	9
948:9	746:14	795 911:21,23	898:12,13,14	9 732:9,15 744:6
600 833:15,23	7:25 1077:15	1078:21	898:15 910:23	752:7,13,19
834:11 899:13	70 851:5 855:9	796 1083:10,11	968:17	753:11 755:23
968:18	948:9	1083:13	1083:17	756:8 761:1,3
1002:22,22	705 703:14	797 1078:22	804 896:22	913:25 916:4
1003:5,6	707 1078:3	1083:10,11,13	898:18,19	922:16,16,18
1016:20	708 1081:12,12	797-0005 704:11	900:16,19,20	937:14 981:15
1029:4	1081:13,13,16		1083:18	1013:22
1032:15,15	1081:16	8	805 896:18	1018:9
1034:17	709 1078:4	8 752:7,12,16,18	806 1082:5,7,10	9,000 876:17
1035:20	71 855:9	753:10,10	807 1082:5,7,10	9.0 730:1 743:3
1037:9	713 1082:17,17	755:23 756:8	816 702:20,23	9.2 935:24
1059:23,24	715 1082:19	760:25 761:2	82.3 724:17	9.20 730:14
1083:17	716 1082:19	797:16 798:12	822 1081:24	9.32 743:6
614 703:14	717 1082:20	801:14 833:25	823 1079:3	9.37 744:6,10
63101 703:14	718 1082:20	894:15,17	1081:24	9.4 736:10 737:9
63119 703:5	720 1082:22,22	895:11,18	827 1079:4	9.42 743:6
636-6758 702:17	721 1082:23	896:4 909:25	831 1079:5	9.48 741:7
636-7551 701:25	722 1078:5	910:15 926:9	832 1079:6	9.5 754:20,24

MIDWEST LITIGATION SERVICES

EVIDENTIARY HEARING - VOLUME 11 2/22/2017

9.50 730:14				
9.6 737:9 754:15				
9.60 733:21				
735:22 737:4				
741:8				
9.77 733:15				
9.9 743:9				
9:45 724:13				
90 811:16 812:7				
818:8 1052:10				
1052:12				
90/10 769:24				
900 1083:18,18				
902 1079:16				
910 703:23				
92 925:8				
927 1079:17				
932 1083:8,8				
935 1079:18				
940 1079:19				
941 1079:20				
9424 737:21				
95 754:17				
1072:2				
95th 836:23				
837:2 880:16				
1025:23				
1027:9				
954 1079:21				
957 1079:22				
958 1079:23				
973 1080:4				
974 1081:4				
975 1081:7,7,8,8				
976 1080:5				
979 1080:6				
981 1080:7				
987 1080:8				
997 1080:9				
998 1080:10				

MIDWEST LITIGATION SERVICES