BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

DIRECT TESTIMONY OF

SAMUEL C. HADAWAY

ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY

IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
TO MODIFY ITS TARIFFS TO CONTINUE THE
IMPLEMENTATION OF ITS REGULATORY PLAN

DOCKET NO. 09-KCPE-____-RTS

1   I.   **INTRODUCTION AND SUMMARY OF RECOMMENDATIONS**

2   Q.   **Please state your name and business address.**

3   A.   My name is Samuel C. Hadaway and my business address is FINANCO, Inc., 3520

4   Executive Center Drive, Austin, Texas 78731.

5   Q.   **On whose behalf are you testifying?**

6   A.   I am testifying on behalf of Kansas City Power & Light Company ("KCP&L" or the

7   "Company").

8   Q.   **Please state your educational background and describe your professional**

9   **training and experience.**

1   A.   I have a bachelor's degree in economics from Southern Methodist University, as well

2   as M.B.A. and Ph.D. degrees with concentrations in finance and economics from the

3   University of Texas at Austin ("UT Austin"). For the past 25 years, I have been an

4   owner and full-time employee of FINANCO, Inc. FINANCO provides financial

5   research concerning the cost of capital and financial condition for regulated

6   companies as well as financial modeling and other economic studies in litigation

7   support. In addition to my work at FINANCO, I have served as an adjunct professor

8   in the McCombs School of Business at UT Austin and in what is now the McCoy

9   College of Business at Texas State University. In my prior academic work, I taught

10   economics and finance courses and I conducted research and directed graduate

11   students in the areas of investments and capital market research. I was previously

12   Director of the Economic Research Division at the Public Utility Commission of

13   Texas where I supervised the Commission's finance, economics, and accounting staff,

14   and served as the Commission's chief financial witness in electric and telephone rate

15   cases. I have taught courses at various utility conferences on cost of capital, capital

16   structure, utility financial condition, and cost allocation and rate design issues. I have

17   made presentations before the New York Society of Security Analysts, the National

18   Rate of Return Analysts Forum, and various other professional and legislative groups.

19   I have served as a vice president and on the board of directors of the Financial

20   Management Association.

21   A list of my publications and testimony I have given before various regulatory

22   bodies and in state and federal courts is contained in my resume, which is included as

23   Appendix A.

1 Q. **Have you previously testified in a proceeding at the State Corporation**

2   **Commission of the State of Kansas or before any other utility regulatory**

3   **agency?**

4 A. Yes, I have. I have filed testimony before the State Corporation Commission of the

5   State of Kansas and I have testified before numerous other state commissions on ROE

6   and related financial issues.

7 Q. **What is the purpose of your testimony?**

8 A. The purpose of my testimony is to estimate KCP&L's required rate of return on

9   equity ("ROE") and to support the Company's requested capital structure and overall

10   rate of return.

11 Q. **Please outline and describe the testimony you will present.**

12 A. My testimony is divided into four additional sections. Following this introduction, in

13   Section II, I present and explain the Company's requested capital structure and overall

14   cost of capital. In Section III, I review various methods for estimating the cost of

15   equity. In this section, I discuss the discounted cash flow ("DCF") model, as well as

16   risk premium methods and other approaches often used to estimate the cost of capital.

17   In Section IV, I review general capital market costs and conditions, and discuss

18   recent developments in the electric utility industry that affect the cost of capital. In

19   Section V, I discuss the details of my cost of equity studies and provide a summary

20   table of my ROE results.

21 Q. **Please describe the general approach in your cost of equity studies.**

22 A. First, my recommendation is premised upon the fair rate of return principles

23   established by the U.S. Supreme Court in *Federal Power Comm'n v. Hope Natural*

1 *Gas Co.,* 320 US 591, 603 (1944) ("*Hope*") and *Bluefield Water Works &*

2 *Improvements Co. v. Public Service Commission,* 262 US 679, 693 (1923)

3 ("*Bluefield*"). That is to say, a utility's return authorized by a regulatory body, such as

4 the State Corporation Commission of the State of Kansas, should be commensurate

5 with returns on investments in other enterprises having corresponding risks. The

6 return should also be sufficient to assure confidence in the financial integrity of the

7 utility so as to maintain its credit, and to attract capital so that it is able to properly

8 discharge its public duties. Given these legal principles, I have used several methods

9 to determine an appropriate ROE and overall rate of return for KCP&L. These

10 methods and the underlying economic models are applied to an investment grade

11 company reference group of other electric utilities generally similar to KCP&L.

12 **Q. Please explain your analysis in arriving at a recommended ROE for KCP&L.**

13 A. My ROE estimate is based on alternative versions of the constant growth and

14 multistage growth DCF model. It is confirmed by my risk premium analysis and my

15 review of economic conditions and interest rates expected to prevail during the

16 coming year. Because KCP&L is a wholly-owned subsidiary of Great Plains Energy

17 Incorporated ("GPE") and does not have publicly traded common stock or other

18 independent market data, its cost of equity cannot be estimated directly. For this

19 reason, I apply the DCF model to a large reference group of investment grade electric

20 utilities selected from the *Value Line Investment Survey.* To be included in my group,

21 the reference companies must have at least a triple-B (investment grade) bond rating;

22 they must derive at least 70 percent of revenues from regulated utility sales; they

23 must have consistent financial records not affected by recent mergers or restructuring;

1		and they must have a consistent dividend record with no dividend cuts within the past
2		two years. The companies in my comparable group are summarized in Schedule
3		SCH-1.
4		To test my DCF results, I conducted a risk-premium analysis based on ROEs
5		allowed by state regulators relative to Moody's average utility debt costs. In this
6		analysis, I also included the forecasted higher interest rates of Standard and Poor's
7		("S&P") for the coming year. S&P forecasts that long-term Government and
8		corporate interest rates will increase from current levels by 40 to 50 basis points
9		during 2009. Under current market and economic conditions, the combination of
10		DCF and risk premium models, tempered by consensus forecasts about future interest
11		rates, provides the best approach for estimating KCP&L's fair cost of equity capital.
12	Q.	**What ROE range is indicated by your DCF and risk premium analyses?**
13	A.	My reference group analysis indicates that a DCF range of 10.8 percent to 11.2
14		percent is appropriate. My risk premium analysis, which serves as a check of
15		reasonableness for the DCF results, indicates that an ROE of 11.10 percent is
16		appropriate, with other risk premium approaches indicating an ROE of 11.49 percent.
17	Q.	**What are your overall conclusions from your ROE analysis?**
18	A.	Based on the combination of quantitative model results and my review of current
19		economic, market, and electric utility industry conditions, I estimate KCP&L's cost of
20		equity at 10.75 percent. This estimate is consistent with capital market trends and
21		projections and is a reasonable estimate of capital costs that will prevail during the
22		period that the rates from this case are in effect.

| 1 | **II.** | **KCP&L CAPITAL STRUCTURE AND OVERALL RATE OF RETURN** |

2 **Q.** **Please summarize the Company's requested capital structure and overall rate of**

3 **return.**

4 A. The following table identifies the requested capital structure components and the

5 resulting overall rate of return:

	Requested Capital Structure			
Capital Components	Ratio	Cost	Weighted Cost	
Debt	43.46%	6.32%	2.75%	
Preferred stock	1.15%	4.29%	0.05%	
Common Equity	55.39%	10.75%	5.95%	
TOTAL	100.00%		8.75%	

12 **Q.** **What is the basis for the Company's requested capital structure and overall rate**

13 **of return?**

14 A. The requested capital structure, as well as the costs for debt and preferred stock, are

15 consistent with Great Plains Energy's projected capital structure at March 31, 2009,

16 assuming that Great Plains Energy's acquisition of Aquila had not occurred (pursuant

17 to Article III.3.a of the Joint Motion and Settlement in Docket No. 07-KCPE-1064-

18 ACQ dated February 26, 2008). These data are presented in more detail in Schedule

19 SCH-2, with the March 31, 2009 summary shown on page 6 of that schedule. Using

20 the parent company's consolidated capital structure is consistent with KCP&L's

21 approach in its 2006 and 2007 rate cases.

22 **Q.** **What are the key differences between Great Plains Energy's actual capital**

23 **structure as of December 31, 2007 and the requested capital structure, projected**

24 **as of March 31, 2009?**

25 A. The actual Great Plains Energy capital structure as of December 31, 2007, is shown

26 on page 2 of Schedule SCH-2. The key differences between the actual capital

| 1 | structure and the requested capital structure, projected as of March 31, 2009, are as |
| 2 | follows: |

Long-Term Debt

Net Long-Term Debt is projected to increase by $374 million, the largest components

of which consist of the following:

(a)   KCP&L issued $350 million of 10-year senior unsecured notes in March 2008

to finance construction expenditures.

(b)   KCP&L issued $23.4 million of EIRR bonds in May 2008 to finance a portion

of the Company's qualifying environmental equipment at Iatan 1 and 2.

Equity

Equity is projected to increase by **█** million, which is driven primarily by

█ million in additional equity issued through public offerings by Great Plains

Energy.

III.   ESTIMATING THE COST OF EQUITY CAPITAL

Q.   What is the purpose of this section of your testimony?

A.   The purpose of this section of my testimony is to present a general definition of the

cost of equity and to compare the strengths and weaknesses of several of the most

widely used methods for estimating the cost of equity. Estimating the cost of equity

is fundamentally a matter of informed judgment. The various models provide a

concrete link to actual capital market data and assist with defining the various

relationships that underlie the ROE estimation process.

Q.   Please define the term "cost of equity capital" and provide an overview of the

cost estimation process.

1   A.   The cost of equity capital is the profit or rate of return that equity investors expect to

2   receive. In concept it is no different than the cost of debt or the cost of preferred

3   stock. The cost of equity is the rate of return that common stockholders expect, just

4   as interest on bonds and dividends on preferred stock are the returns that investors in

5   those securities expect. Equity investors expect a return on their capital

6   commensurate with the risks they take, consistent with returns that are available from

7   other similar investments. Unlike returns from debt and preferred stocks, however,

8   the equity return is not directly observable in advance and, therefore, it must be

9   estimated or inferred from capital market data and trading activity.

10   An example helps to illustrate the cost of equity concept. Assume that an

11   investor buys a share of common stock for $20 per share. If the stock's expected

12   dividend is $1.00, the expected dividend yield is 5.00 percent ($1.00 / $20 = 5.0

13   percent). If the stock price is also expected to increase to $21.20 after one year, this

14         $1.20 expected gain adds an additional 6.0 percent to the expected total rate of return

15   ($1.20 / $20 = 6.0 percent). Therefore, when buying the stock at $20 per share, the

16   investor expects a total return of 11.00 percent: 5.0 percent dividend yield, plus 6.0

17   percent price appreciation. In this example, the total expected rate of return at 11.00

18   percent is the appropriate measure of the cost of equity capital, because it is this rate

19   of return that caused the investor to commit the $20 of equity capital in the first place.

20   If the stock were riskier, or if expected returns from other investments were higher,

21   investors would require a higher rate of return from the stock, which would result in a

22   lower initial purchase price in market trading.

1   Each day market rates of return and prices change to reflect new investor

2   expectations and requirements. For example, when interest rates on bonds and

3   savings accounts rise, utility stock prices usually fall. This is true, at least in part,

4   because higher interest rates on these alternative investments make utility stocks

5   relatively less attractive, which causes utility stock prices to decline in market

6   trading. This competitive market adjustment process is quick and continuous, so that

7   market prices generally reflect investor expectations and the relative attractiveness of

8   one investment versus another. In this context, to estimate the cost of equity one

9   must apply informed judgment about the relative risk of the company in question and

10   knowledge about the risk and expected rate of return characteristics of other available

11   investments as well.

12   Q.   **How does the market account for risk differences among the various**

13   **investments?**

14   A.   Risk-return tradeoffs among capital market investments have been the subject of

15   extensive financial research. Literally dozens of textbooks and hundreds of academic

16   articles have addressed the issue. Generally, such research confirms the common

17   sense conclusion that investors will take additional risks only if they expect to receive

18   a higher rate of return. Empirical tests consistently show that returns from low risk

19   securities, such as U.S. Treasury bills, are the lowest; that returns from longer-term

20   Treasury bonds and corporate bonds are increasingly higher as risks increase; and,

21   generally, returns from common stocks and other more risky investments are even

22   higher. These observations provide a sound theoretical foundation for both the DCF

23   and risk premium methods for estimating the cost of equity capital. These methods

1   attempt to capture the well founded risk-return principle and explicitly measure

2   investors' rate of return requirements.

3 Q. **Can you illustrate the capital market risk-return principle that you just**

4   **described?**

5 A. Yes. The following graph depicts the risk-return relationship that has become widely

6   known as the Capital Market Line ("CML"). The CML offers a graphical

7   representation of the capital market risk-return principle. The graph is not meant to

8   illustrate the actual expected rate of return for any particular investment, but merely

9   to illustrate in a general way the risk-return relationship.

Risk-Return Tradeoffs

The Capital Market Line

Expected Rate of Return

20%	
15%	Common Stocks
	Speculative Investments
10%	Treasury Bills
	Non-investment Grade Bonds
5%	Investment Grade Bonds

Higher Risk ⟶
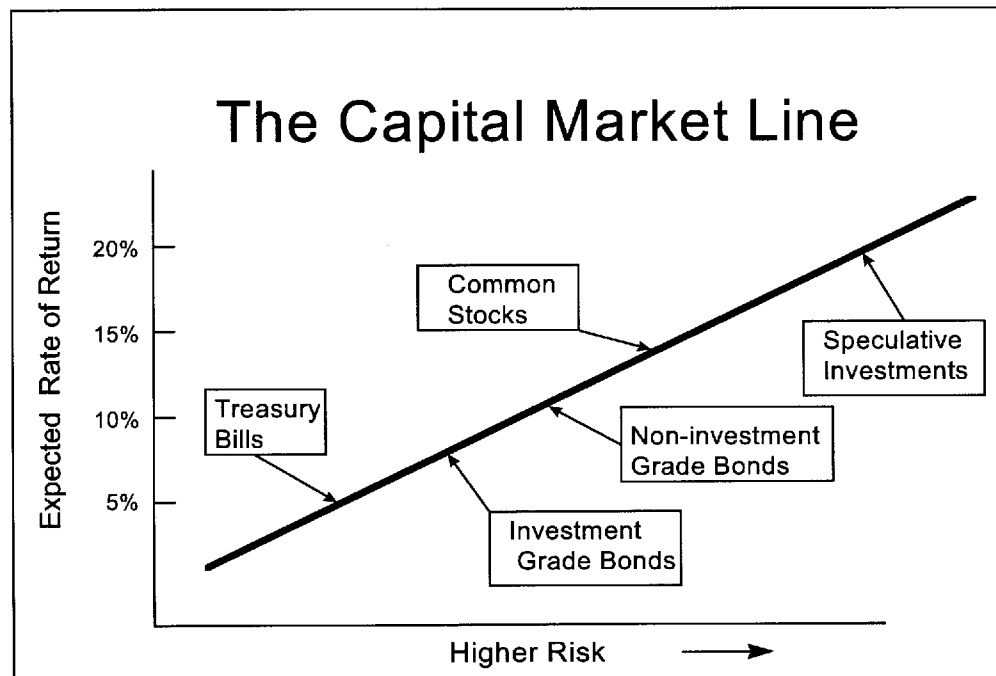
1   As a continuum, the CML can be viewed as an available opportunity set for investors.

2   Those investors with low risk tolerance or investment objectives that mandate a low

3   risk profile should invest in assets depicted in the lower left-hand portion of the

4   graph. Investments in this area, such as Treasury bills and short-maturity, high

5   quality corporate commercial paper, offer a high degree of investor certainty. In

6   nominal terms (before considering the potential effects of inflation), such assets are

7   virtually risk-free.

8   Investment risks increase as one moves up and to the right along the CML. A

9   higher degree of uncertainty exists about the level of investment value at any point in

10   time and about the level of income payments that may be received. Among these

11   investments are long-term bonds and preferred stocks, which offer priority claims to

12   assets and income payments. They are relatively low risk, but they are not risk-free.

13   The market value of long-term bonds, even those issued by the U.S. Treasury, often

14   fluctuates widely when government policies or other factors cause interest rates to

15   change.

16   Farther up the CML continuum, common stocks are exposed to even more

17   risk, depending on the nature of the underlying business and the financial strength of

18   the issuing corporation. Common stock risks include market-wide factors, such as

19   general changes in capital costs, as well as industry and company specific elements

20   that may add further to the volatility of a given company's performance. As I will

21   illustrate in my risk premium analysis, common stocks typically are more volatile and

22   have higher risk than high quality bond investments and, therefore, they reside above

23   and to the right of bonds on the CML graph. Other more speculative investments,

1	such as stock options and commodity futures contracts, offer even higher risks (and
2	higher potential returns). The CML's depiction of the risk-return tradeoffs available
3	in the capital markets provides a useful perspective for estimating investors' required
4	rates of return.

5 **Q.** **How is the fair rate of return in the regulatory process related to the estimated**

6 **cost of equity capital?**

7 A. The regulatory process is guided by fair rate of return principles established in the

8 U.S. Supreme Court cases, *Bluefield* and *Hope*:

> 9 A public utility is entitled to such rates as will permit it to earn a return
> 10 on the value of the property which it employs for the convenience of
> 11 the public equal to that generally being made at the same time and in
> 12 the same general part of the country on investments in other business
> 13 undertakings which are attended by corresponding risks and
> 14 uncertainties; but it has no constitutional right to profits such as are
> 15 realized or anticipated in highly profitable enterprises or speculative
> 16 ventures. *Bluefield Water Works & Improvement Company v. Public*
> 17 *Service Commission of West Virginia*, 262 U.S. 679, 692-693 (1923).

> 18 From the investor or company point of view, it is important that there
> 19 be enough revenue not only for operating expenses, but also for the
> 20 capital costs of the business. These include service on the debt and
> 21 dividends on the stock. By that standard the return to the equity owner
> 22 should be commensurate with returns on investments in other
> 23 enterprises having corresponding risks. That return, moreover, should
> 24 be sufficient to assure confidence in the financial integrity of the
> 25 enterprise, so as to maintain its credit and to attract capital. *Federal*
> 26 *Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603
> 27 (1944).

28 Based on these principles, the fair rate of return should closely parallel investor

29 opportunity costs as discussed above. If a utility earns its market cost of equity,

30 neither its stockholders nor its customers should be disadvantaged.

31 **Q.** **What specific methods and capital market data are used to evaluate the cost of**

32 **equity?**

1   A.   Techniques for estimating the cost of equity normally fall into three groups:

2   comparable earnings methods, risk premium methods, and DCF methods.

3   **Q.**   **Please describe the first set of estimation techniques, the comparable earnings**

4   **methods.**

5   A.   The comparable earnings methods have evolved over time. The original comparable

6   earnings methods were based on book accounting returns. This approach developed

7   ROE estimates by reviewing accounting returns for unregulated companies thought to

8   have risks similar to those of the regulated company in question. These methods have

9   generally been rejected because they assume that the unregulated group is earning its

10   actual cost of capital, and that its equity book value is the same as its market value.

11   In most situations these assumptions are not valid, and, therefore, accounting-based

12   methods do not generally provide reliable cost of equity estimates.

13   More recent comparable earnings methods are based on historical stock

14   market returns rather than book accounting returns. While this approach has some

15   merit, it too has been criticized because there can be no assurance that historical

16   returns actually reflect current or future market requirements. Also, in practical

17   application, earned market returns tend to fluctuate widely from year to year. For

18   these reasons, a current cost of equity estimate (based on the DCF model or a risk

19   premium analysis) is usually required.

20   **Q.**   **Please describe the second set of estimation techniques, the risk premium**

21   **methods.**

22   A   The risk premium methods begin with currently observable market returns, such as

23   yields on government or corporate bonds, and add an increment to account for the

1		additional equity risk. The capital asset pricing model ("CAPM") and arbitrage
2		pricing theory ("APT") model are more sophisticated risk premium approaches. The
3		CAPM and APT methods estimate the cost of equity directly by combining the "risk-
4		free" government bond rate with explicit risk measures to determine the risk premium
5		required by the market. Although these methods are widely used in academic cost of
6		capital research, their additional data requirements and their potentially questionable
7		underlying assumptions have detracted from their use in most regulatory
8		jurisdictions. The basic risk premium methods provide a useful parallel approach
9		with the DCF model and assure consistency with other capital market data
10		consistency in the cost of equity cost estimation process.
11	Q.	**Please describe the third set of estimation techniques, based on the DCF model.**
12	A.	The DCF model is the most widely used regulatory cost of equity estimation method.
13		Like the risk premium approach, the DCF model has a sound basis in theory, and
14		many argue that it has the additional advantage of simplicity. I will describe the DCF
15		model in detail below, but in essence its estimate of ROE is simply the sum of the
16		expected dividend yield and the expected long-term dividend (or price) growth rate.
17		While dividend yields are easy to obtain, estimating long-term growth is more
18		difficult. Because the constant growth DCF model also requires very long-term
19		growth estimates (technically to infinity), some argue that its application is too
20		speculative to provide reliable results, resulting in the preference for the multistage
21		growth DCF analysis.
22	Q.	**Of the three estimation methods, which do you believe provides the most reliable**
23		**results?**

1   A.   From my experience, a combination of discounted cash flow and risk premium

2   methods provides the most reliable approach. While the caveat about estimating

3   long-term growth must be observed, the DCF model's other inputs are readily

4   obtainable, and the model's results typically are consistent with capital market

5   behavior. The risk premium methods provide a good parallel approach to the DCF

6   model and further ensure that current market conditions are accurately reflected in the

7   cost of equity estimate.

8   Q.   **Please explain the DCF model.**

9   A.   The DCF model is predicated on the concept that stock prices represent the present

10   value or discounted value of all future dividends that investors expect to receive. In

11   the most general form, the DCF model is expressed in the following formula:

12                 $P_0 = D_1/(1+k) + D_2/(1+k)^2 + ... + D_\infty/(1+k)^\infty$ (1)

13   where P_0 is today's stock price; D_1, D_2, etc. are all future dividends and k is the

14   discount rate, or the investor's required rate of return on equity. Equation (1) is a

15   routine present value calculation based on the assumption that the stock's price is the

16   present value of all dividends expected to be paid in the future.

17   Under the additional assumption that dividends are expected to grow at a

18   constant rate "g" and that k is strictly greater than g, equation (1) can be solved for k

19   and rearranged into the simple form:

20                 $k = D_1/P_0 + g$ (2)

21   Equation (2) is the familiar constant growth DCF model for cost of equity estimation,

22   where D_1/P_0 is the expected dividend yield and g is the long-term expected dividend

23   growth rate.

1 Q. **Are there circumstances where the constant growth model may not give reliable**

2 **results?**

3 A. Yes. Under circumstances when growth rates are expected to fluctuate or when

4 future growth rates are highly uncertain, the constant growth model may not give

5 reliable results. Although the DCF model itself is still valid, i.e., equation (1) is

6 mathematically correct, under such circumstances the simplified form of the model

7 must be modified to capture market expectations accurately.

8 Recent events and current market conditions in the electric utility industry as

9 discussed later appear to challenge the constant growth assumption of the traditional

10 DCF model. Since the mid-1980s, dividend growth expectations for many electric

11 utilities have fluctuated widely. In fact, over one-third of the electric utilities in the

12 U.S. have reduced or eliminated their common dividends over this time period. Some

13 of these companies have re-established their dividends, producing exceptionally high

14 growth rates. Under these circumstances, long-term growth rate estimates may be

15 highly uncertain, and estimating a reliable "constant" growth rate for many

16 companies is often difficult.

17 Q. **Can the DCF model be applied when the constant growth assumption is**

18 **violated?**

19 A. Yes. When growth expectations are uncertain, the more general version of the model

20 represented in equation (1) should be solved explicitly over a finite "transition"

21 period while uncertainty prevails. The constant growth version of the model can then

22 be applied after the transition period, under the assumption that more stable

1	conditions will prevail in the future. There are two alternatives for dealing with the
2	nonconstant growth transition period.
3	Under the "terminal price" nonconstant growth approach, equation (1) is
4	written in a slightly different form:
5	$$P_0 = D_1/(1+k) + D_2/(1+k)^2 + ... + P_T/(1+k)^T \qquad (3)$$
6	where the variables are the same as in equation (1) except that P_T is the estimated
7	stock price at the end of the transition period T. Under the assumption that normal
8	growth resumes after the transition period, the price P_T is then expected to be based
9	on constant growth assumptions. With the terminal price approach, the estimated
10	cost of equity, k, is just the rate of return that investors would expect to earn if they
11	bought the stock at today's market price, held it and received dividends through the
12	transition period (until period T), and then sold it for price P_T. In this approach, the
13	analyst's task is to estimate the rate of return that investors expect to receive given the
14	current level of market prices they are willing to pay.

15	Q.	**What is the other alternative for dealing with the nonconstant growth transition**
16		**period?**
17	A.	Under the "multistage" nonconstant growth approach, equation (1) is simply
18		expanded to incorporate two or more growth rate periods, with the assumption that a
19		permanent constant growth rate can be estimated for some point in the future:
20		$$P_0 = D_0(1+g_1)/(1+k) + ... + D_0(1+g_2)^n/(1+k)^n +$$
21		$$... + (D_0(1+g_T)^{(T+1)}/(k-g_T))/(1+k)^T \qquad (4)$$
22		where the variables are the same as in equation (1), but g_1 represents the growth rate
23		for the first period, g_2 for a second period, and g_T for the period from year T (the end

1		of the transition period) to infinity. The first two growth rates are simply estimates
2		for fluctuating growth over "n" years (typically 5 or 10 years) and g_T is a constant
3		growth rate assumed to prevail forever after year T. The difficult task for analysts in
4		the multistage approach is determining the various growth rates for each period.
5		Although less convenient for exposition purposes, the nonconstant growth
6		models are based on the same valid capital market assumptions as the constant
7		growth version. The nonconstant growth approach simply requires more explicit data
8		inputs and more work to solve for the discount rate, k. Fortunately, the required data
9		are available from investment and economic forecasting services, and computer
10		algorithms can easily produce the required solutions. Both constant and nonconstant
11		growth DCF analyses are presented in the following section.
12	Q.	**Please explain the risk premium methodology.**
13	A.	Risk premium methods are based on the assumption that equity securities are riskier
14		than debt and, therefore, that equity investors require a higher rate of return. This
15		basic premise is well supported by legal and economic distinctions between debt and
16		equity securities, and it is widely accepted as a fundamental capital market principle.
17		For example, debt holders' claims to the earnings and assets of the borrower have
18		priority over all claims of equity investors. The contractual interest on mortgage debt
19		must be paid in full before any dividends can be paid to shareholders, and secured
20		mortgage claims must be fully satisfied before any assets can be distributed to
21		shareholders in bankruptcy. Also, the guaranteed, fixed-income nature of interest
22		payments makes year-to-year returns from bonds typically more stable than capital

1		gains and dividend payments on stocks. All these factors demonstrate the more risky
2		position of stockholders and support the equity risk premium concept.
3	Q.	**Are risk premium estimates of the cost of equity consistent with other current**
4		**capital market costs?**
5	A.	Yes. The risk premium approach is especially useful because it is founded on current
6		market interest rates, which are directly observable. This feature assures that risk
7		premium estimates of the cost of equity begin with a sound basis, which is tied
8		directly to current capital market costs.
9	Q.	**Is there similar consensus about how risk premium data should be employed?**
10	A.	No. In regulatory practice, there is often considerable debate about how risk
11		premium data should be interpreted and used. Since the analyst's basic task is to
12		gauge investors' required returns on long-term investments, some argue that the
13		estimated equity spread should be based on the longest possible time period. Others
14		argue that market relationships between debt and equity from several decades ago are
15		irrelevant and that only recent debt-equity observations should be given any weight in
16		estimating investor requirements. There is no consensus on this issue. Since analysts
17		cannot observe or measure investors' expectations directly, it is not possible to know
18		exactly how such expectations are formed or, therefore, to know exactly what time
19		period is most appropriate in a risk premium analysis.
20		The important point is to answer the following question: "What rate of return
21		should equity investors reasonably expect relative to returns that are currently
22		available from long-term bonds?" The risk premium studies and analyses I discuss
23		later address this question. My risk premium recommendation is based on an

1		intermediate position that avoids some of the problems and concerns that have been
2		expressed about both very long and very short periods of analysis with the risk
3		premium model.
4	Q.	**Please summarize your discussion of cost of equity estimation techniques.**
5	A.	Estimating the cost of equity is one of the most controversial issues in utility
6		ratemaking. Because actual investor requirements are not directly observable, several
7		methods have been developed to assist in the estimation process. The comparable
8		earnings method is the oldest but perhaps least reliable. Its use of accounting rates of
9		return, or even historical market returns, may or may not reflect current investor
10		requirements. Differences in accounting methods among companies and issues of
11		comparability also detract from this approach.
12		The DCF and risk premium methods have become the most widely accepted
13		in regulatory practice. A combination of the DCF model and a review of risk
14		premium data provides the most reliable cost of equity estimate. While the DCF
15		model does require judgment about future growth rates, the dividend yield is
16		straightforward, and the model's results are generally consistent with actual capital
17		market behavior. For these reasons, I will rely on a combination of the DCF model
18		and a risk premium analysis in the cost of equity studies that follow.

19 **IV. FUNDAMENTAL FACTORS THAT AFFECT THE COST OF EQUITY**

20	Q.	**What is the purpose of this section of your testimony?**
21	A.	In this section, I review recent capital market conditions and industry and company-
22		specific factors that should be reflected in the cost of capital estimate.
23	Q.	**What has been the recent experience in the U.S. capital markets?**

1 A. Schedule SCH-3, page 1, provides a review of annual interest rates and rates of

2   inflation in the U.S. economy over the past ten years. During that time inflation and

3   fixed income market costs declined and, generally, have been lower than rates that

4   prevailed in the previous decade. Inflation, as measured by the Consumer Price Index

5   ("CPI"), until 2003 had remained at historically low levels not seen consistently since

6   the early 1960s. Since 2003, however, inflation rates have increased with the average

7   for 2004 though 2006 similar to the longer-term historical average, which is above 3

8   percent. The inflation rate for 2007 was even higher at 4.1 percent and, with the large

9   recent increases in energy and food prices, for the twelve months ended July 2008,

10   the CPI increased 5.6 percent. These inflationary pressures exert a direct influence

11   on capital market expectations and result in a higher cost of capital.

12   The Federal Reserve System's monetary policy options are currently limited

13   by rising inflation and simultaneously weak economic conditions. During the period

14   from mid-2004 until mid-2006, the Federal Reserve System increased the short-term

15   Federal Funds interest rate 17 times, raising it from 1 percent to 5.25 percent. In late

16   2007, in response to the extreme turbulence in the sub-prime credit markets, the

17   Federal Reserve Open Market Committee began aggressively reducing the Federal

18   Funds rate. Since September 2007, the rate has been lowered seven times to its

19   current level of 2.0 percent. With rising inflation expectations, however, and low

20   market tolerance for additional risk, long-term corporate interest rates have not

21   declined over the past two years. Furthermore, estimates for the coming year are for

22   additional interest rate increases.

23 Q. How have long-term interest rates changed over the past two years?

1   A.   The following table, which also appears on page 2 of Schedule SCH-3, provides the

2   month-by-month interest rates paid by utilities and the U.S. Treasury:

Table 1
Long-Term Interest Rate Trends

Month	Triple-B Utility Rate	30-Year Treasury Rate	Triple-B Utility Spread
Jan-06	6.06	ND	ND
Feb-06	6.11	4.54	1.57
Mar-06	6.26	4.73	1.53
Apr-06	6.54	5.06	1.48
May-06	6.59	5.20	1.39
Jun-06	6.63	5.15	1.48
Jul-06	6.63	5.13	1.50
Aug-06	6.43	5.00	1.43
Sep-06	6.26	4.85	1.41
Oct-06	6.24	4.85	1.39
Nov-06	6.04	4.69	1.35
Dec-06	6.05	4.68	1.37
Jan-07	6.16	4.85	1.31
Feb-07	6.10	4.82	1.28
Mar-07	6.10	4.72	1.38
Apr-07	6.24	4.87	1.37
May-07	6.23	4.90	1.33
Jun-07	6.54	5.20	1.34
Jul-07	6.49	5.11	1.38
Aug-07	6.51	4.93	1.58
Sep-07	6.45	4.79	1.66
Oct-07	6.36	4.77	1.59
Nov-07	6.27	4.52	1.75
Dec-07	6.51	4.53	1.98
Jan-08	6.35	4.33	2.02
Feb-08	6.60	4.52	2.08
Mar-08	6.68	4.39	2.29
Apr-08	6.81	4.44	2.37
May-08	6.79	4.60	2.19
Jun-08	6.93	4.69	2.24
Jul-08	6.97	4.57	2.40
Aug-08	6.98	4.50	2.48

Sources: Mergent Bond Record (Utility Rates);
www.federalreserve.gov (Treasury Rates).

1

1	The data in Table 1 show that in August 2008 long-term triple-B utility interest rates
2	were higher than at any time in the past two years. More important, recent market
3	turbulence from the sub-prime lending crisis and recent bank failures, as well as
4	concerns about renewed inflation have increased interest rates spreads (the
5	differences between utility borrowing costs and U.S. Treasury interest rates)
6	dramatically. While the Federal Reserve System has reduced short-term borrowing
7	rates for banks (the Fed Funds rate) and the "flight to safety" experience has driven
8	down some U.S. Treasury rates, corporate borrows have seen just the opposite trend.
9	Increased risk aversion has caused significantly higher borrowing costs for
10	corporations such as KCP&L. While the effects of market turbulence are not always
11	well captured in financial models for estimating the rate of return, the evolving long-
12	term borrowing cost relationships for corporate entities should be considered
13	explicitly in estimates of the going cost of equity capital.

14 **Q.** **What levels of interest rates are forecast for the coming year?**

15 A. Both corporate and government interest rates are expected to rise further from present

16 levels. Schedule SCH-3, page 3, provides Standard & Poor's most recent economic

17 forecast from its *Trends & Projections* publication for August 2008. S&P forecasts

18 resumed economic growth after the first quarter of 2009. For 2008, growth in real

19 Gross Domestic Product (GDP) is projected at only 1.7 percent with nominal GDP

20 (real GDP plus inflation) at 4.0 percent. For 2009, nominal GDP growth is projected

21 at 3.1 percent. These projected growth rates compare to a real rate for 2007 of 2.0

22 percent and a nominal rate of 4.8 percent. S&P also forecasts that interest rates will

1   rise from current levels. The summary interest rate data are presented in the

2   following table:

Table 2
Standard & Poor's Interest Rate Forecast

	August 2008 Average	Average 2008 Est.	Average 2009 Est.
Treasury Bills	1.7%	1.8%	2.4%
10-Yr. T-Bonds	3.9%	3.9%	4.5%
30-Yr. T-Bonds	4.5%	4.5%	4.9%
Aaa Corporate Bonds	5.6%	5.6%	6.1%

Sources: www.federalreserve.gov, (August 2008 Averages);
Standard & Poor's *Trends & Projections*, August 2008, page 8
(Projected Rates).

14   The data in Table 2 show that interest rates in 2009 are projected to increase from

15   current levels. The average 30-year-term Treasury bond rate for 2009 is projected by

16   S&P to reach 4.9 percent in this period, relative to the current level of 4.5. Similarly,

17   the rate on corporate bonds is expected to increase from 5.6 percent to 6.1 percent, a

18   rise of 50 basis points. These increasing interest rate trends offer important

19   perspective for judging the cost of capital in the present case and illustrate why the

20   return on equity must be set at a level sufficient to reflect these rising costs.

21   **Q.**   **How have utility stocks performed during the past several years?**

22   A.   Utility stock prices have fluctuated widely. The Dow Jones Utility Average (DJUA)

23   has ranged between about 200 and 500 during the past six years. The wider

24   fluctuations in more recent years are vividly illustrated in the following graph of

25   DJUA prices over the past 25 years.

1

**Dow Jones Utility Average
(Monthly Closing Prices)**

2

3   Widely fluctuating prices for natural gas as well as recent increases in coal prices and

4   other uncertainties have created further unsettling conditions. These factors and

5   continuing concerns for the more competitive market environment for all utility

6   services will likely create further uncertainties and market volatility for utility shares.

7   In this environment, investors' return expectations and requirements for providing

8   capital to the utility industry remain high relative to the longer-term traditional view

9   of the utility industry.

10   Q.   **What is the industry's current fundamental position?**

11   A.   Many electric utilities are attempting to return to their core businesses and hope to

12   see more stable results over the next several years. S&P reflects this sentiment in its

13   most recent *Electric Utility Industry Survey*:

1   **Standard & Poor's Industry Surveys**

2   We expect the performance of both the electric utility sector and
3   the individual companies within the sector to remain volatile over
4   the next several years. However, we believe the stocks will be less
5   volatile than they were in the first few years of the decade.... The
6   performance of the sector, however, will remain sensitive to the
7   macroeconomic environment and market forces surrounding it.
8   (Standard & Poor's *Industry Surveys*, Electric Utilities, August 14,
9   2008, p. 4)

10   *Value Line* notes electric utilities' relatively poor performance this year:

11   **Value Line Investors' Survey**

12   As a group, utility stocks have held up better than the overall
13   market in recent weeks, but have performed just as poorly since
14   the start of 2008. Many of these equities appear to be fully valued
15   or even overvalued. (*Value Line Investment Survey*, Electric Utility
16   (West) Industry, August 8, 2008, p. 1781.

17   Price volatility for utility shares and credit market gyrations make it all the more

18   difficult to estimate the fair, on-going cost of capital.

19   Over the past several years, the greatest consideration for utility investors has

20   been the industry's transition to competition. With the passage by Congress of the

21   Energy Policy Act in 1992 and the Federal Energy Regulatory Commission's (FERC)

22   Order 888 in 1996, the stage was set for vastly increased competition in the electric

23   utility industry. The 1992 Act's mandate for open access to the transmission grid and

24   FERC's implementation through Order 888, including subsequent orders such as

25   Order 2000 and Order 890, effectively opened the market for wholesale electricity to

26   competition. Previously protected utility service territory and lack of transmission

27   access in some parts of the country had limited the availability of competitive bulk

28   power prices. The Energy Policy Act and Order 888 have essentially eliminated such

29   constraints for incremental power needs.

1		In addition to wholesale issues at the federal level, many states implemented
2		retail access and have opened their retail markets to competition. Prior to the
3		Western energy crisis of 2000-2001, investors' concerns had focused principally on
4		appropriate transition mechanisms and the recovery of stranded costs. More recently,
5		however, provisions for dealing with power cost adjustments have become a larger
6		concern. The Western energy crisis refocused market concerns and contributed
7		significantly to increased market risk perceptions for companies without power cost
8		recovery provisions. As expected, the opening of previously protected utility markets
9		to competition, and the uncertainty created by the removal of regulatory protection,
10		has raised the level of uncertainty about investment returns across the entire industry.
11	Q.	**Is KCP&L affected by these same market uncertainties and increasing utility**
12		**capital costs?**
13	A.	Yes. To some extent all electric utilities are being affected by the industry's transition
14		to competition. KCP&L's power costs and other operating activities have been
15		significantly affected by transition and restructuring events around the country. In
16		fact, the uncertainty associated with the changes that are transforming the utility
17		industry as a whole, as viewed from the perspective of the investor, remain a factor in
18		assessing any utility's required ROE, including the ROE from KCP&L's operations in
19		Kansas. For KCP&L specifically, its large construction program, and its heavy
20		dependence on wholesale transactions to avoid retail rate increases all increase the
21		Company's risk profile. This is true even though Kansas has not adopted retail choice
22		or other major forms of restructuring.

1 Q. **What has been the effect on KCP&L of the acquisition of Aquila, Inc. by**

2 **KCP&L's parent company Great Plains Energy Incorporated?**

3 A. I have not been able to discern any negative effect. On July 14, 2008 Standard &

4 Poor's Ratings Services affirmed the long-term ratings of KCP&L, including the BBB

5 corporate credit rating, and raised its commercial paper credit rating from A-2 to A-3.

6 On July 15, 2008 Moody's Investors Service affirmed the ratings of KCP&L.

7 Q. **How do capital market concerns and financial risk perceptions affect the cost of**

8 **equity capital?**

9 A. As I discussed previously, equity investors respond to changing assessments of risk

10 and financial prospects by changing the price they are willing to pay for a given

11 security. When the risk perceptions increase or financial prospects decline, investors

12 refuse to pay the previously existing market price for a company's securities and

13 market supply and demand forces then establish a new lower price. The lower market

14 price typically translates into a higher cost of capital through a higher dividend yield

15 requirement, as well as the potential for increased capital gains if prospects improve.

16 In addition to market losses for prior shareholders, the higher cost of capital is

17 transmitted directly to the company by the need to issue more shares to raise any

18 given amount of capital for future investment. The additional shares also impose

19 additional future dividend requirements and reduce future earnings per share growth

20 prospects.

21 Q. **How have regulatory commissions responded to these changing market and**

22 **industry conditions?**

1   A.   Over the past five years, allowed equity returns have generally followed the interest

2   rate changes. The following table summarizes the overall average ROEs allowed for

3   electric utilities since 2004:

Authorized Electric Utility Equity Returns

	2004	2005	2006	2007	2008
1st Quarter	11.00%	10.51%	10.38%	10.27%	10.50%
2nd Quarter	10.54%	10.05%	10.68%	10.27%	10.57%
3rd Quarter	10.33%	10.84%	10.06%	10.02%	
4th Quarter	10.91%	10.75%	10.39%	10.56%	
Full Year Average	10.75%	10.54%	10.36%	10.36%	10.53%
Average Utility Debt Cost	6.20%	5.67%	6.08%	6.11%	6.32%
Indicated Average Risk Premium	4.55%	4.87%	4.28%	4.25%	4.21%

Source: *Regulatory Focus*, Regulatory Research Associates, Inc., Major Rate Case Decisions, July 2, 2008.

18   The data above show that since 2004 equity risk premiums (the difference between

19   allowed equity returns and utility interest rates) have ranged from 4.21 percent to

20   4.87 percent. At the low end of this risk premium range, with an allowed equity risk

21   premium of 4.21 percent, the indicated cost of equity is 11.20 percent (6.99%

22   projected triple-B interest rate + 4.21% risk premium = 11.20%)[1]. At the upper end

23   of this risk premium range, with an allowed equity risk premium of 4.87 percent, the

24   indicated cost of equity is 11.86 percent (6.99% projected triple-B interest rate +

25   4.87% risk premium = 11.86%). As I will demonstrate in the following section, my

---

[1] The triple-B utility interest rate of 6.99% is equal to the forecasted 30-year Treasury bond rate of 4.9% from Schedule SCH-3, page 3, plus the average triple-B utility spread over long-term Treasuries of 2.09% for the 12 months ended August 2008, as shown in Schedule SCH-3, page 2.

1		longer-term risk premium study, upon which I rely to test my DCF results, produces a
2		slightly more conservative estimate of the required rate of return.
3		**V. COST OF EQUITY CAPITAL FOR KCP&L**
4	Q.	**What is the purpose of this section of your testimony?**
5	A.	Here I present my quantitative studies of the cost of equity capital for KCP&L and
6		discuss the details and results of my analysis.
7	Q.	**How are your studies organized?**
8	A.	In the first part of my analysis, I apply three versions of the DCF model to a 30-
9		company group of electric utilities based on the selection criteria discussed
10		previously. In the second part of my analysis, I present my risk premium study and I
11		review risk premium results from the longer-term Ibbotson Stocks, Bonds, Bills, and
12		Inflation market data (Ibbotson data) now published by Morningstar, Inc.
13		My DCF analysis is based on three versions of the DCF model. In the first
14		version of the DCF model, I use the constant growth format with long-term expected
15		growth based on analysts' estimates of five-year utility earnings growth. While I
16		continue to endorse a longer-term growth estimation approach based on growth in
17		overall gross domestic product, I show the traditional DCF results because this is the
18		approach that has traditionally been used by many regulators. In the second version
19		of the DCF model, for the estimated growth rate, I use the estimated long-term GDP
20		growth rate. In the third version of the DCF model, I use a two-stage growth
21		approach, with stage one based on *Value Line*'s three-to-five-year dividend
22		projections and stage two based on long-term projected growth in GDP. The
23		dividend yields in all three of the annual models are from *Value Line's* projections of

1		dividends for the coming year and stock prices are from the three-month average for
2		the months that correspond to the *Value Line* editions from which the underlying
3		financial data are taken.
4	Q.	**Why do you believe the long-term GDP growth rate should be used to estimate**
5		**long-term growth expectations in the DCF model?**
6	A.	Growth in nominal GDP (real GDP plus inflation) is the most general measure of
7		economic growth in the U.S. economy. For long time periods, such as those used in
8		the Ibbotson Associates rate of return data, GDP growth has averaged between 5
9		percent and 8 percent per year. From this observation, Professors Brigham and
10		Houston offer the following observation concerning the appropriate long-term growth
11		rate in the DCF Model:

> Expected growth rates vary somewhat among companies, but
> dividends for mature firms are often expected to grow in the future at
> about the same rate as nominal gross domestic product (real GDP plus
> inflation). On this basis, one might expect the dividend of an average,
> or "normal," company to grow at a rate of 5 to 8 percent a year.
> (Eugene F. Brigham and Joel F. Houston, *Fundamentals of Financial
> Management*, 11th Ed. 2007, page 298.)

Other academic research on corporate growth rates offers similar conclusions about

GDP growth, as well as concerns about the long-term adequacy of analysts' forecasts:

> Our estimated median growth rate is reasonable when compared to the
> overall economy's growth rate. On average over the sample period,
> the median growth rate over 10 years for income before extraordinary
> items is about 10 percent for all firms. ... After deducting the dividend
> yield (the median yield is 2.5 percent per year), as well as inflation
> (which averages 4 percent per year over the sample period), the
> growth in real income before extraordinary items is roughly 3.5
> percent per year. This is consistent with the historical growth rate in
> real gross domestic product, which has averaged about 3.4 percent per
> year over the period 1950-1998. (Louis K. C. Chan, Jason Karceski,
> and Josef Lakonishok, "The Level and Persistence of Growth Rates,"
> The Journal of Finance, April 2003, p. 649)

1		IBES long-term growth estimates are associated with realized growth
2		in the immediate short-term future. Over long horizons, however,
3		there is little forecastablility in earnings, and analysts' estimates tend
4		to be overly optimistic. ... On the whole, the absence of predictability
5		in growth fits in with the economic intuition that competitive pressures
6		ultimately work to correct excessively high or excessively low
7		profitability growth. (Ibid, page 683)

8   These findings support the notion that long-term growth expectations are more

9   closely predicted by broader measures of economic growth than by near-term

10   analysts' estimates. Especially for the very long-term growth rate requirements of the

11   DCF model, the growth in nominal GDP should be considered an important input.

12   **Q.**   **How did you estimate the expected long-term GDP growth rate?**

13   A.   I developed my long-term GDP growth forecast from nominal GDP data contained in

14   the St. Louis Federal Reserve Bank data base. That data for the period 1947 through

15   2007 is summarized in my Schedule SCH-4. As shown at the bottom of that

16   schedule, the overall average for the period was 7.0 percent. The data also show,

17   however, that in the more recent years since 1980, lower inflation has resulted in

18   lower overall GDP growth. For this reason I gave more weight to the more recent

19   years in my GDP forecast. This approach is consistent with the concept that more

20   recent data should have a greater effect on expectations and with generally lower

21   near- and intermediate-term growth rate forecasts that presently exist. Based on this

22   approach, my overall forecast for long-term GDP growth is 50 basis points lower than

23   the long-term average, at a level of 6.5 percent.

24   **Q.**   **Please summarize the results of your electric utility DCF analyses.**

25   A.   The DCF results for my comparable company group are presented in Schedule SCH-

26   5. The traditional constant growth DCF model results, with the projected growth rate

1		based on analysts' forecasts, are shown in the first column on page 1 of that exhibit.
2		That analysis indicates an ROE range of 11.1 percent to 11.2 percent. In the second
3		column of page 1, I recalculate the constant growth results with long-term forecasted
4		growth in GDP as the projected growth rate. That analysis indicates an ROE estimate
5		of 11.0 percent. Finally, in the third column of page 1, I present the multistage DCF
6		results. The multistage model indicates an ROE of 10.8 percent. Based on all three
7		versions of the DCF model, my analysis supports a reasonable ROE range of 10.8
8		percent to 11.2 percent.
9	Q.	**What are the results of your risk premium studies?**
10	A.	The details and results of my risk premium studies are shown in my Schedule SCH-6.
11		These studies and other risk premium data indicate an ROE range of 11.10 percent to
12		11.49 percent.
13	Q.	**How are your risk premium studies structured?**
14	A.	My risk premium studies are divided into two parts. First, I compare electric utility
15		authorized ROEs for the period 1980-2007 to contemporaneous long-term utility
16		bond interest rates. The differences between the average authorized ROEs and the
17		average interest rate for the year is the indicated equity risk premium. I then add the
18		indicated equity risk premium to the forecasted triple-B utility bond interest rate to
19		estimate ROE. Because there is a strong inverse relationship between risk premiums
20		and interest rates (when interest rates are high, risk premiums are low and vice versa),
21		further analysis is required to estimate the current risk premium level.
22		The inverse relationship between risk premiums and interest rate levels is well
23		documented in numerous, well-respected academic studies. These studies typically

1   use regression analysis or other statistical methods to predict or measure the risk

2   premium relationship under varying interest rate conditions. On page 2 of Schedule

3   SCH-6, I provide regression analyses of the allowed annual equity risk premiums

4   relative to interest rate levels. The negative and statistically significant regression

5   coefficients confirm the inverse relationship between risk premiums and interest

6   rates. This means that when interest rates rise by one percentage point, the cost of

7   equity increases, but by a smaller amount. Similarly, when interest rates decline by

8   one percentage point, the cost of equity declines by less than one percentage point. I

9   use this negative interest rate change coefficient in conjunction with current interest

10   rates to establish the appropriate current equity risk premium.

11 Q. **How do the results of your risk premium study compare to levels found in other**

12   **published risk premium studies?**

13 A.   Based on my risk premium studies, I am conservatively recommending a lower risk

14   premium than is often found in other published risk premium data. For example, the

15   most widely followed risk premium data are provided in the Morningstar Ibbotson

16   data studies. These data, for the period 1926-2007, indicate an arithmetic mean risk

17   premium of 6.1 percent for common stocks versus long-term corporate bonds. Under

18   the assumption of geometric mean compounding, the Ibbotson risk premium for

19   common stocks versus corporate bonds is 4.5 percent. Based on the more

20   conservative geometric mean risk premium, the Ibbotson data indicate a cost of

21   equity of 11.49 percent (6.99% forecasted debt cost + 4.5% risk premium = 11.49%).

22   Based on the arithmetic risk premium, the Ibbotson data indicate a cost of equity of

23   over 13 percent (6.99% forecasted debt cost + 6.1% risk premium = 13.09%).

1   Although I do not use the Ibbotson data in my final ROE estimates, I do review the

2   data for their perspective on the overall market cost of equity capital.

3   Q.   **Please summarize the results of your cost of equity analysis.**

4   A.   The following table summarizes my results:

5   <u>**Summary of Cost of Equity Estimates**</u>

6	DCF Analysis	Indicated Cost
7	Constant Growth (Analysts' Growth Rates)	11.1%-11.2%
8	Constant Growth (GDP Growth Rate)	11.0%
9	Multistage Growth Model	10.8%
10	Reasonable DCF Range	<u>10.8%-11.2%</u>

11	Risk Premium Analysis	Indicated Cost
12	Utility Debt + Risk Premium	
13	Risk Premium (6.99% + 4.11%)	11.10%
14	Ibbotson Risk Premium Analysis	
15	Risk Premium (6.99% + 4.5%)	11.49%

17	KCP&L Requested Cost of Equity Capital	<u>10.75%</u>

19   Q.   **How should these results be interpreted by the Commission in setting the fair**

20   **cost of equity for KCP&L?**

21   A.   Higher analysts' growth rates and higher dividend yields have increased DCF model

22   results along with increases in utility interest rates. The similarly higher results from

23   the risk premium models also indicate the increasing trend reflected in the

24   quantitative model results. These factors show that KCP&L's requested ROE is a

25   conservative estimate of its market required rate of return. Additionally, use of a

26   lower DCF range would fail to recognize the ongoing risks and uncertainties that

27   exist in the electric utility industry as well as the company-specific risks and

28   uncertainties that KCP&L is currently facing. All these factors show that the

1   Company's requested 10.75 percent ROE is a reasonable estimate of the fair cost of

2   equity capital.

3   **Q.**   **Does this conclude your testimony?**

4   A.   Yes, it does.

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas City   )
Power & Light Company to Modify Its Tariffs to   )   Docket No. 09-KCPE-____-RTS
Continue the Implementation of Its Regulatory Plan)

AFFIDAVIT OF SAMUEL C. HADAWAY
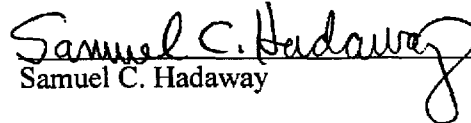
STATE OF TEXAS   )
) ss
COUNTY OF TRAVIS   )

Samuel C. Hadaway, being first duly sworn on his oath, states:
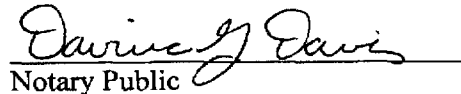
1.   My name is Samuel C. Hadaway. I am employed by FINANCO, Inc. in Austin,

Texas. I have been retained by Great Plains Energy, Inc., the parent company of Kansas City

Power & Light Company, to serve as an expert witness to provide cost of capital testimony on

behalf of Kansas City Power & Light Company.

2.   Attached hereto and made a part hereof for all purposes is my Direct Testimony

on behalf of Kansas City Power & Light Company consisting of thirty seven (37) pages, having

been prepared in written form for introduction into evidence in the above-captioned docket.

3.   I have knowledge of the matters set forth therein. I hereby swear and affirm that

my answers contained in the attached testimony to the questions therein propounded, including

any attachments thereto, are true and accurate to the best of my knowledge, information and

belief.

Samuel C. Hadaway
Samuel C. Hadaway

Subscribed and sworn before me this 3rd day of September 2008.

Notary Public

My commission expires: 7-21-2012
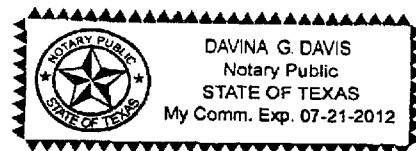
SAMUEL C. HADAWAY

FINANCO, Inc.
Financial Analysis Consultants

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Austin, Texas 78731
(512) 346-9317

SUMMARY OF QUALIFICATIONS

- Principal, Financial Analysis Consultants (FINANCO, Inc.).
- Ph.D. in Finance and Econometrics.
- Extensive expert witness testimony in court and before regulatory agencies.
- Management of professional research staff in academic and regulatory organizations.
- Professional presentations before executive development groups, the National Rate of Return Analysts' Forum, and the New York Society of Security Analysts.
- Financial Management Association, Vice President for Practitioner Services.

EDUCATION

The University of Texas at Austin **Ph.D., Finance and Econometrics** **January 1975**	Dissertation: *An Evaluation of the Original and Recent Variants of the Capital Asset Pricing Model.*
The University of Texas at Austin **MBA, Finance** **June 1973**	Thesis: *The Pricing of Risk on the New York Stock Exchange.*
Southern Methodist University **BA, Economics** **June 1969**	Honors program. Departmental distinction.

OTHER EXPERIENCE

University of Texas at Austin **Adjunct Associate Professor** **1985-1988, 2004-Present**	Corporate Financial Management, Investments, and Integrative Finance Cases.
Texas State University San Marcos **Associate Professor of Finance** **1983-1984, 2003-2004**	Graduate and undergraduate courses in Financial Management, Managerial Economics, and Investment Analysis.
Public Utility Commission of Texas **Chief Economist and Director of** **Economic Research Division** **August 1980-August 1983**	Lead financial witness. Supervised Commission staff in research and testimony on rate of return, financial condition, and economic analysis.
Assistant Professor of Finance **Texas Tech University** **July 1978-July 1980** **University of Alabama** **January 1975-June 1978**	Member of graduate faculty. Conducted Ph.D. seminars and directed doctoral dissertations in capital market theory. Served as consultant to industry, church and governmental organizations.

FINANCIAL AND ECONOMIC TESTIMONY IN REGULATORY PROCEEDINGS (Client in parenthesis)

Cost of Money Testimony:

- Utah Public Service Commission, Docket No. 08-035-38, July 17, 2008 (Rocky Mountain Power/PacifiCorp).
- Texas Public Utility Commission, Docket No. 35717, June 27, 2008, (Oncor Electric Delivery Company LLC).
- Washington Utilities and Transportation Commission, Docket UG-080546/General Rate Case, March 28, 2008 (NW Natural).
- Washington Utilities and Transportation Commission, Docket UE-080220/General Rate Case, February 6, 2008 (PacifiCorp).
- Utah Public Service Commission, Docket No. 07-035-93, December 17, 2007 (PacifiCorp).
- Illinois Commerce Commission, Docket No. 07-0566, October 17, 2007 (Commonwealth Edison Company).
- Texas Public Utility Commission, Docket No. 34800, September 26, 2007, (Entergy Gulf States, Inc.)
- Texas Public Utility Commission, Docket No. 34040, August 28, 2007, (Oncor/TXU Electric Delivery Company)
- Massachusetts Department of Public Utilities, D.P.U. 07-71, August 17, 2007, (Fitchburg Gas and Electric Light Company d/b/a/ Unitil)
- Arizona Corporation Commission, Docket No. E-01933A-07-0402, July 2, 2007, (Tucson Electric Power Company).
- Wyoming Public Service Commission, Docket No. 20000-277-ER-07, June 29, 2007 (Rocky Mountain Power dba/PacifiCorp).
- Idaho Public Utilities Commission, Case No. PAC-E-05-1, June 8, 2007 (Rocky Mountain Power dba/PacifiCorp).
- Kansas Corporation Commission, Docket No. 07-KCPE-905-RTS, March 1, 2007 (Kansas City Power & Light Company).
- New Mexico Public Regulation Commission, Case No. 07-00077-UT, February 21, 2007, (Public Service Company of New Mexico).
- Missouri Public Service Commission, Case No. ER-2006-0291, February 1, 2007 (Kansas City Power & Light Company).
- Texas PUC Docket Nos. 33734, January 22, 2007 (Electric Transmission Texas, LLC).
- Texas PUC Docket Nos. 33309 and 33310, November 2006, (AEP Texas Central Company and AEP Texas North Company).
- Louisiana Public Service Commission, Docket No. U-23327, October 2006 and January 2005 (Southwestern Electric Power Company, American Electric Power Company)
- Missouri Public Service Commission, Case No. ER-2007-0004, July 3, 2006 (Aquila, Inc.).
- New Mexico Public Regulation Commission, Case No. 06-00258-UT, June 30, 2006 (El Paso Electric Company).
- New Mexico Public Regulation Commission, Case No. 06-00210-UT, May 30, 2006 (Public Service Company of New Mexico).
- Texas Public Utility Commission, Docket No. 32093, April 14, 2006 (CenterPoint Energy-Houston Electric, LLC).
- Utah Public Service Commission, Docket No. 06-035-21, March 7, 2006 (PacifiCorp).
- Oregon Public Utility Commission, Case No. UE-179, February 23, 2006 (PacifiCorp).
- Kansas Corporation Commission, Docket No. 06-KCPE-828-RTS, January 31, 2006 (Kansas City Power & Light Company).

- Missouri Public Service Commission, Case No. ER-2006-0314, January 27, 2006 (Kansas City Power & Light Company).
- California Public Utilities Commission, Docket No. 05-11-022, November 29, 2005 (PacifiCorp).
- Texas Public Utility Commission, Docket No. 31994, November 5, 2005 (Texas-New Mexico Power Company).
- New Hampshire Public Utilities Commission, Docket No. DE 05-178, November 4, 2005 (Unitil Energy Systems).
- Wyoming Public Service Commission, Docket No. 20000-ER-05-230, October 14, 2005 (PacifiCorp).
- Minnesota Public Utilities Commission, Docket. No. G-008/GR-05-1380, October 2005 (CenterPoint Energy Minnegasco).
- Texas Railroad Commission, Gas Utilities Division No. 9625, September 2005 (CenterPoint Energy Entex).
- Illinois Commerce Commission, Docket No. 05-0597, August 31, 2005 (Commonwealth Edison Company).
- Washington Utilities and Transportation Commission, Docket ,UE-050684/General Rate Case, May 2005 (PacifiCorp).
- Missouri Public Service Commission, Case No. ER-2005-0436, May 2005 (Aquila, Inc.).
- Idaho Public Utilities Commission, Case No. PAC-E-05-1, January 14, 2005 (PacifiCorp).
- Arkansas Public Service Commission, Docket No. 04-121-U, December 3, 2004 (CenterPoint Energy Arkla).
- Oregon Public Utility Commission, Case No. UE-170, November 12, 2004 (PacifiCorp).
- Texas Public Utility Commission, Docket No. 29206, November 8, 2004 (Texas-New Mexico Power Company).
- Texas Railroad Commission, Gas Utilities Division Nos. 9533 and 9534, October 13, 2004 (CenterPoint Energy Entex).
- Texas Public Utility Commission, Docket No. 29526, August 18 and September 2, 2004 (CenterPoint Energy Houston Electric).
- Utah Public Service Commission, Docket No. 04-2035-, August 4, 2004 (PacifiCorp).
- Oklahoma Corporation Commission, Cause No. PUD-200400187, July 2, 2004, (CenterPoint Energy Arkla).
- Minnesota Public Utilities Commission, Docket No. G-008/GR-04-901, July 2004, (CenterPoint Energy Minnegasco).
- Washington Utilities and Transportation Commission, Docket ,UE-032065/General Rate Case, December 2003 (PacifiCorp).
- Washington Utilities and Transportation Commission, Docket ,UG-031885, November 2003 (Northwest Natural Gas Company.).
- Wyoming Public Service Commission, Docket No. 20000-ER-03-198, May 2003 (PacifiCorp).
- Public Service Commission of Utah, Docket No. 03-2035-02, May 2003 (PacifiCorp).
- Public Utility Commission of Oregon, Case. UE-147, March 2003 (PacifiCorp).
- Wyoming Public Service Commission, Docket No. 20000-ER-00-162, May 2002 (PacifiCorp).
- Public Utility Commission of Oregon, UG-152, November 2002 (Northwest Natural).
- Massachusetts Department of Telecommunications and Energy, D.T.E. 02-24/24, May 2002 (Fitchburg Gas and Electric Light Company).
- New Hampshire Public Utilities Commission, Docket No. DE 01-247, January 2002 (Unitil Corporation).
- Washington Utilities and Transportation Commission, Docket UE-011569,70,UG-011571, November 2001 (Puget Sound Energy, Inc.).

- California Public Utilities Commission, Docket No. 01-03-026, September and December 2001 (PacifiCorp).
- New Mexico Public Regulation Commission, Docket No. 3643, July 2001 (Texas-New Mexico Power Company).
- Texas Natural Resources Conservation Commission, Docket No. 2001-1074/5-URC, May 2001 (AquaSource Utility, Inc.).
- Massachusetts Department of Telecommunications and Energy, Docket No. 99-118, May 2001 (Fitchburg Gas and Electric Light Company).
- Public Service Commission of Utah, Docket No. 01-035-01, January 2001 (PacifiCorp)
- Federal Energy Regulatory Commission, Docket No. ER-01-651, January 2001 (Southwestern Electric Power Company).
- Wyoming Public Service Commission, Docket No. 20000-ER-00-162, December 2000 (PacifiCorp).
- Public Utility Commission of Oregon, Case. UE-116, November 2000, (PacifiCorp)
- Public Utility Commission of Texas, Docket No. 22344, September 2000, (AEP Texas Companies, Entergy Gulf States, Inc., Reliant Energy HL&P, Texas-New Mexico Power Company, TXU Electric Company)
- Public Utility Commission of Oregon, Case UE-111, August 2000, (PacifiCorp)
- Texas Public Utility Commission, Docket Nos. 22352,3,4, March 2000 (Central Power and Light Co., Southwestern Electric Power Co., West Texas Utilities Co.).
- Texas Public Utility Commission, Docket No. 22355, March 2000 (Reliant Energy, Inc.).
- Texas Public Utility Commission, Docket No. 22349, March 2000 (Texas-New Mexico Power Co.).
- Texas Public Utility Commission, Docket No. 22350, March 2000 (TXU Electric).
- Washington Utilities and Transportation Commission, Docket UE-991831, November 1999 (PacifiCorp).
- Public Service Commission of Utah, Docket No. 99-035-10, September 1999 (PacifiCorp)
- Louisiana Public Service Commission Docket No. U-23029, August 1999 (Southwestern Electric Power Company)
- Wyoming Public Service Commission, Docket No. 2000-ER-99-145, July 1999, January 2000 (PacifiCorp, dba Pacific Power and Light Company).
- Texas PUC Docket No. 20150, March 1999 (Entergy Gulf States, Inc.)
- Federal Energy Regulatory Commission Docket No. ER-98-3177-00, May and December 1998 (Southwestern Electric Power Company).
- Public Service Commission of Utah, Docket No. 97-035-01, June 1998 (PacifiCorp, dba Utah Power and Light Company).
- Massachusetts Dept. of Telecommunications and Energy, Docket No. DTE 98-51, May 1998, (Fitchburg Gas and Electric Light Company, a subsidiary of Unitil Corp.)
- Texas PUC, Docket No. 18490, March 1998, (Texas Utilities Electric Company)
- Texas PUC Docket No. 17751, March 1998 and July 1997 (Texas-New Mexico Power Company).
- Federal Energy Regulatory Commission Docket No. RP-97, February 1998 and May 1997 (Koch Gateway Pipeline Company).
- Federal Energy Regulatory Commission Docket No. ER-97-4468-000, December 1997 (Puget Sound Power & Light).
- Oklahoma Corporation Commission, Cause No. PUD 960000214, August 1997 (Public Service Company of Oklahoma).
- Oregon Public Utility Commission Docket No. UE-94, April 1996, (PacifiCorp).
- Texas PUC Docket No. 15643, May and September 1996, (Central Power and Light and West Texas Utilities Company).

- Federal Energy Regulatory Commission Docket No. ER-96, April 1996 (Puget Sound Power & Light).
- Federal Energy Regulatory Commission Docket No. ER96, February 1996, (Central and South West Corporation).
- Washington Utilities & Transportation Commission Docket No. UE-951270, November 1995 (Puget Sound Power & Light).
- Texas PUC Docket No. 14965, November 1995, (Central Power and Light).
- Texas PUC Docket No. 13369, February 1995 (West Texas Utilities).
- Texas PUC Docket No. 12065, July and December 1994, (Houston Lighting & Power).
- Texas PUC, Docket No. 12820, July and November 1994, (Central Power and Light).
- Texas PUC Docket No. 12900, March 1994, and New Mexico PUC Case No. 2531, August 1993, (TNP Enterprises).
- Texas PUC, Docket No. 12815, March 1994, (Pedernales Electric Cooperative).
- Florida Public Service Commission, Docket No. 930987-EI, December 1993, (TECO Energy).
- Iowa Department of Commerce, Docket No. RPU-93-9, December 1993, (US West Communications).
- Texas PUC Dkt. No. 11735, May and September 1993, (Texas Utilities Electric Company)
- Oklahoma Corporation Commission, Cause No. PUD 001342, October 1992 (Public Service Company of Oklahoma).
- Texas PUC Dkt. No. 9983, November 1991, (Southwest Texas Telephone Company).
- Texas PUC Dkt. No. 9850, November 1990, Houston Lighting & Power Company).
- Texas PUC Dkt. Nos. 8480/8482, January 1989; City of Austin Dkt. No. 1, August 1988 and July 1987, (City of Austin Electric Department).
- Missouri Public Service Commission Case No. ER-90-101, July 1990 (UtiliCorp).
- Texas PUC Dkt. No. 9945, December 1990; Texas PUC Dkt. No. 9165, November 1989, (El Paso Electric Company).
- Texas PUC Dkt. No. 9427, July 1990, (Lower Colorado River Authority Association of Wholesale Customers).
- Oregon Public Utility Commission, March 1990, (Pacific Power & Light Company).
- Utah Public Service Commission, November 1989, (Utah Power & Light Company).
- Texas PUC Dkt. No. 5610, September 1988, (GTE Southwest).
- Iowa State Utilities Board, September 1988, (Northwestern Bell Telephone Company).
- Texas Water Commission, Dkt. Nos. RC-022 and RC-023, November 1986, (City of Houston Water Department).
- Pennsylvania PUC Dkt. Nos. R-842770 and R-842771, May 1985, (Bethlehem Steel).

Capital Structure Testimony:

- Federal Energy Regulatory Commission Docket No. RP-97, May 1997 (Koch Gateway Pipeline Company).
- Illinois Commerce Commission Dkt. No. 93-0252 Remand, July 1996, (Sprint).
- California PUC (Appl. No. 92-05-004) April 1993 and May 1993, (Pacific Telesis).
- Montana PSC, Dkt. No. 90.12.86, November 1991, (US West Communications).
- Massachusetts PUC Dkt. No. 86-33, June 1987, (New England Telephone Company).
- Maine PUC Dkt. No. 85-159, February 1987, (New England Telephone Company).
- New Hampshire PUC Dkt. No. 85-181, September 1986, (New England Telephone Company).
- Maine PUC Dkt. No. 83-213, March 1984, (New England Telephone Company).

Regulatory Policy and Other Regulatory Issues:

- Texas PUC Docket No.31056, September 16, 2005, (AEP Texas Central Company).
- New Hampshire PUC Docket No. DE 03-086, May 2003, (Unitil Corporation).
- Texas PUC Docket No. 26194, May 2003 (El Paso Electric Company)
- Texas PUC Docket No. 22622, June 15, 2001 (TXU Electric)
- Texas PUC Docket No. 20125, November 1999 (Entergy Gulf States, Inc.)
- Texas PUC Docket No. 21112, July 1999 and New Mexico Public Regulation Commission Case No. 3103, July 1999 (Texas-New Mexico Power Company)
- Texas PUC Docket No. 20292, May 1999 (Central Power and Light Co.)
- Texas PUC Docket No. 20150, November 1998 (Entergy Gulf States, Inc.)
- New Mexico PUC Case No. 2769, May 1997, (Texas-New Mexico Power Company).
- Texas PUC Dkt. No. 15296, September 1996, (City of College Station, Texas).
- Texas PUC Dkt. No. 14965 Competitive Issues Phase, August 1996 (Central Power and Light Company).
- Texas PUC Dkt. No. 12456, May 1994, (Texas Utilities Electric Company).
- Texas PUC, Dkt. No. 12700/12701 and Federal Energy Regulatory Commission, Docket No. EC94-000, January 1994, (El Paso Electric Company).
- Florida Public Service Commission Generic Purchased Power Proceedings, October 1993 (TECO Energy).
- Texas PUC, Docket No. 11248, December 1992 (Barbara Faskins).
- Texas PUC Dkt. No. 10894, January and June 1992, (Gulf States Utilities Company).
- State Corporation Commission of Kansas, Dkt. No. 175,456-U, August 1991, (UtiliCorp United).
- Texas PUC Dkt. No. 9561, May 1990; Texas PUC Dkt. Nos. 6668/8646, July 1989 and February 1990, (Central Power and Light Company).
- Texas PUC Dkt. No. 9300, April 1990 and June 1990, (Texas Utilities Electric Co.).
- Texas PUC Dkt. No. 10200, August 1991, (Texas-New Mexico Power Company).
- Texas PUC Dkt. No. 7289, May 1987, (West Texas Utilities Company).
- Texas PUC Dkt. No. 7195, January 1987, (North Star Steel Texas).
- New Mexico PSC Case No. 1916, April 1986, (Public Service Company of New Mexico).
- Texas PUC Dkt. No. 6525, March 1986, (North Star Steel Texas).
- Texas PUC Dkt. No. 6375, November 1985, (Valley Industrial Council).
- Texas PUC Dkt. No. 6220, April 1985, (North Star Steel Texas).
- Texas PUC Dkt. No. 5940, March 1985, (West Texas Municipal Power Agency).
- Texas PUC Dkt. No. 5820, October 1984, (North Star Steel Texas).
- Texas PUC Dkt. No. 5779, September 1984, (Texas Industrial Energy Consumers).
- Texas PUC Dkt. No. 5560, April 1984, (North Star Steel Texas).
- Arizona PSC Dkt. No. U-1345-83-155, January 1984 and May 1984 (Arizona Public Service Company Shareholders Association).

Insurance Rate Testimony:

- Texas Department of Insurance, Docket No. 2673, January 2008, (Texas Land Title Association).
- Texas Department of Insurance, Docket No. 2601, December 2006, (Texas Land Title Association).
- Texas Department of Insurance, Docket No. 2394, November 1999, (Texas Title Insurance Agents).
- Senate Interim Committee on Title Insurance of the Texas Legislature, February 6, 1998

- Texas Department of Insurance, Docket No. 2279, October 1997, (Texas Title Insurance Agents).
- Texas Department of Insurance, January 1996, (Independent Metropolitan Title Insurance Agents of Texas).
- Texas Insurance Board, January 1992, (Texas Land Title Association).
- Texas Insurance Board, December 1990, (Texas Land Title Association).
- Texas Insurance Board, November 1989, (Texas Land Title Association).
- Texas Insurance Board, December 1987, (Texas Land Title Association).

Testimony On Behalf Of Texas PUC Staff:

- Texland Electric Cooperative, Dkt. No. 3896, February 1983
- El Paso Electric Company, Dkt. No. 4620, September 1982.
- Southwestern Bell Telephone Company, Dkt. No. 4545, August 1982.
- Central Power and Light Company, Dkt. No. 4400, May 1982.
- Texas-New Mexico Power Company, Dkt. 4240, March 1982.
- Texas Power and Light Company, Dkt. No. 3780, May 1981.
- General Telephone Company of the Southwest, Dkt. No. 3690, April 1981.
- Mid-South Electric Cooperative, Dkt. No. 3656, March 1981.
- West Texas Utilities Company, Dkt. No. 3473, December 1980.
- Houston Lighting & Power Company, Dkt. No. 3320, September 1980.

ECONOMIC ANALYSIS AND TESTIMONY

Antitrust Litigation:

- Marginal Cost Analysis of Concrete Production/Predatory Pricing (Stiles)
- Analysis of Lost Business Opportunity due to denial of Waste Disposal Site Permit (Browning-Ferris Industries, Inc.).
- Analysis of Electric Power Transmission Costs in Purchased Power Dispute (City of College Station, Texas).

Contract Litigation:

- Analysis of Cogeneration Contract/Economic Viability Issues(Texas-New Mexico Power Company)
- Definition of Electric Sales/Franchise Fee Contract Dispute (Reliant Energy HL&P)
- Analysis of Purchased Power Agreement/Breach of Contract (Texas-New Mexico Power Company)
- Regulatory Commission Provisions in Franchise Fee Ordinance Dispute (Central Power & Light Company)
- Analysis of Economic Damages resulting from attempted Acquisition of Highway Construction Company (Dillingham Construction Corporation).
- Analysis of Economic Damages due to Contract Interference in Acquisition of Electric Utility Cooperative (PacifiCorp).
- Analysis of Economic Damages due to Patent Infringement of Boiler Cleaning Process (Dowell-Schlumberger/The Dow Chemical Company).

Lender Liability/Securities Litigation:

- ERISA Valuation of Retail Drug Store Chain (Sommers Drug Stores Company).
- Analysis of Lost Business Opportunities in Failed Businesses where Lenders Refused to Extend or Foreclosed Loans (FirstCity Bank Texas, McAllen State Bank, General Electric Credit Corporation).

- Usury and Punitive Damages Analysis based on Property Valuation in Failed Real Estate Venture (Tomen America, Inc.).

Personal Injury/Wrongful Death/Lost Earnings Capacity Litigation:

- Analysis of Lost Earnings Capacity and Punitive Damages due to Industrial Accident (Worsham, Forsythe and Wooldridge).
- Analysis of Lost Earnings Capacity due to Improper Termination (Lloyd Gosselink, Ryan & Fowler).
- Present Value Analysis of Lost Earnings and Future Medical Costs due to Medical Malpractice (Sierra Medical Center).

Product Warranty/Liability Litigation:

- Analysis of Lost Profits due to Equipment Failure in Cogeneration Facility (WF Energy/Travelers Insurance Company).
- Analysis of Economic Damages due to Grain Elevator Explosion (Degesch Chemical Company).
- Analysis of Economic Damages due to failure of Plastic Pipe Water Lines (Western Plastics, Inc.)
- Analysis of Rail Car Repair and Maintenance Costs in Product Warranty Dispute (Youngstown Steel Door Company).

Property Tax Litigation:

- Evaluation of Electric Utility Distribution System (Jasper-Newton Electric Cooperative).
- Evaluations of Electric Utility Generating Plants (West Texas Utilities Company).

Valuations of Closely Held Businesses in Litigation Support and Federal Estate Tax Planning.

PROFESSIONAL PRESENTATIONS

"Fundamentals of Financial Management and Reporting for Non-Financial Managers,"
       Austin Energy, July 2000.
"Fundamentals of Finance and Accounting," the IC^2 Institute, University of Texas at
       Austin, December 1996 and 1997.
"Fundamentals of Financial Analysis and Project Evaluation," Central and South West
       Companies, April, May, and June 1997.
"Fundamentals of Financial Management and Valuation," West Texas Utilities Company,
       November 1995.
"Financial Modeling: Testing the Reasonableness of Regulatory Results," University of
       Texas Center for Legal and Regulatory Studies Conference, June 1991.
"Estimating the Cost of Equity Capital," University of Texas at Austin Utilities
       Conference, June 1989, June 1990.
"Regulation: The Bottom Line," Texas Society of Certified Public Accountants, Annual
       Utilities Conference, Austin, Texas, April 1990.
"Alternative Treatments of Large Plant Additions -- Modeling the Alternatives,"
       University of Texas at Dallas Public Utilities Conference, July 1989.
"Industrial Customer Electrical Requirements," Edison Electric Institute Financial
       Conference, Scottsdale, Arizona, October 1988.
"Acquisitions and Consolidations in the Electric Power Industry," Conference on
       Emerging Issues of Competition in the Electric Utility Industry, University of
       Texas at Austin, May 1988.

"The General Fund Transfer - Is It A Tax? Is It A Dividend Payout? Is It Fair?" The Texas Public Power Association Annual Meeting, Austin, May 1984.

"Avoiding 'Rate Shock' - Preoperational Phase-In Through CWIP in Rate Base," Edison Electric Institute, Finance Committee Annual Meeting, May 1983.

"A Cost-Benefit Analysis of Alternative Bond Ratings Among Electric Utility Companies in Texas," (with B.L. Heidebrecht and J.L. Nash), Texas Senate Subcommittee on Consumer Affairs, December 1982.

"Texas PUC Rate of Return and Construction Work in Progress Methods," New York Society of Security Analysts, New York, August 1982.

"In Support of Debt Service Requirements as a Guide to Setting Rates of Return for Subsidiaries," Financial Forum, National Society of Rate of Return Analysts, Washington, D.C., May 1982.

PUBLICATIONS

"Institutional Constraints on Public Fund Performance," (with B.L. Hadaway) *Journal of Portfolio Management,* Winter 1989.

"Implications of Savings and Loan Conversions in a Deregulated World," (with B.L. Hadaway) *Journal of Bank Research,* Spring 1984.

"Regulatory Treatment of Construction Work in Progress," abstract, (with B.L. Heidebrecht and J. L. Nash), *Rate & Regulation Review,* Edison Electric Institute, December 20, 1982.

"Financial Integrity and Market-to-Book Ratios in an Efficient Market," (with W. L. Beedles), *Gas Pricing & Ratemaking,* December 7, 1982.

"An Analysis of the Performance Characteristics of Converted Savings and Loan Associations," (with B.L. Hadaway) *Journal of Financial Research,* Fall 1981.

"Inflation Protection from Multi-Asset Sector Investments: A Long-Run Examination of Correlation Relationships with Inflation Rates," (with B.L. Hadaway), *Review of Business and Economic Research,* Spring 1981.

"Converting to a Stock Company-Association Characteristics Before and After Conversion," (with B.L. Hadaway), *Federal Home Loan Bank Board Journal,* October 1980.

"A Large-Sample Comparative Test for Seasonality in Individual Common Stocks," (with D.P. Rochester), *Journal of Economics and Business,* Fall 1980.

"Diversification Possibilities in Agricultural Land Investments," *Appraisal Journal,* October 1978.

"Further Evidence on Seasonality in Common Stocks," (with D.P. Rochester), *Journal of Financial and Quantitative Analysis,* March 1978.

Kansas City Power & Light Company
Comparable Company Fundamental Characteristics

		(1)	(2)		(3)		
					Capital Structure (2007)		
		% Regulated	Credit Rating		Common Equity	Long-Term Debt	Preferred Stock
No.	Company	Revenue	S&P	Moody's	Ratio	Ratio	Ratio
1	ALLETE	86.0%	A-	Baa1	64.4%	35.6%	0.0%
2	Alliant Energy Co.	90.5%	A-	A2	61.9%	32.4%	5.7%
3	Ameren	100.0%	BBB	Baa2	53.4%	45.0%	1.6%
4	American Elec. Pwr.	90.4%	BBB	Baa1	41.4%	58.3%	0.3%
5	Avista Corp.	90.9%	BBB+	Baa2	59.0%	41.0%	0.0%
6	Cent. Vermont P.S.	100.0%	BBB+	NR	60.6%	36.2%	3.2%
7	Cleco Corporation	95.9%	BBB	Baa1	56.7%	43.2%	0.1%
8	Con. Edison	77.2%	A-	A1	53.1%	45.6%	1.3%
9	DTE Energy Co.	79.6%	A-	A3	45.6%	54.4%	0.0%
10	Edison Internat.	79.9%	A	A2	46.0%	49.1%	4.9%
11	Empire District	99.3%	BBB+	Baa1	49.9%	50.1%	0.0%
12	Entergy Corp.	80.6%	A-	Baa2	43.9%	54.3%	1.8%
13	FPL Group, Inc.	76.1%	A	Aa3	48.8%	51.2%	0.0%
14	FirstEnergy	88.3%	BBB	Baa2	50.3%	49.7%	0.0%
15	Hawaiian Electric	83.0%	BBB	Baa2	51.0%	47.6%	1.4%
16	IDACORP	76.0%	A-	A3	51.1%	48.9%	0.0%
17	NiSource Inc.	73.1%	BBB-	Baa2	47.6%	52.4%	0.0%
18	Northeast Utilities	98.6%	BBB+	Baa1	48.8%	49.3%	1.9%
19	NSTAR	95.8%	AA-	A1	40.1%	58.9%	1.0%
20	PG&E Corp.	100.0%	BBB+	A3	50.4%	48.1%	1.5%
21	Pinnacle West	82.8%	BBB-	Baa2	53.0%	47.0%	0.0%
22	Portland General	100.0%	A	Baa1	50.1%	49.9%	0.0%
23	Progress Energy	99.8%	A-	A2	48.8%	50.6%	0.6%
24	Southern Co.	82.3%	A	A2	44.9%	51.2%	3.9%
25	Teco Energy, Inc.	78.8%	BBB-	Baa2	39.0%	61.0%	0.0%
26	UIL Holdings Co.	99.9%	NR	Baa2	49.2%	50.8%	0.0%
27	Vectren Corp.	77.0%	A	A3	49.8%	50.2%	0.0%
28	Westar Energy	81.3%	BBB-	Baa2	48.9%	50.6%	0.5%
29	Wisconsin Energy	99.7%	A-	Aa3	49.2%	50.3%	0.5%
30	Xcel Energy Inc.	99.3%	A-	A3	49.4%	49.7%	0.9%
	Average	88.7%	A-/BBB+	A3/Baa1	50.2%	48.8%	1.0%

Column Sources:

(1) Most recent company 10-Ks.

(2) AUS Utility Reports, August 2008.

(3) Value Line Investment Survey, Electric Utility (East), Aug 29, 2008; (Central), Jun 27, 2008; (West), May 9, 2008.

KANSAS CITY POWER & LIGHT COMPANY
Capitalization
At December 31, 2007 (Est.)

($ in 000's)

CAPITAL COMPONENT	AMOUNT	PERCENT	REQUIRED RETURN	WEIGHTED RETURN
Long-Term Debt (Note 1)	1,003,387	40.41%	5.51%	2.23%
Preferred Stock	0	0.00%	0.00%	0.00%
Common Equity before Adjustment	1,479,495			
Equity Adjustment for OCI Related to Pension	0			
Adjusted Common Equity	1,479,495	59.59%	10.75%	6.41%
Total	$2,482,882	100.00%		8.63%

Note 1: Includes amounts classified as current liabilities.

GREAT PLAINS ENERGY INCORPORATED
Capitalization
At December 31, 2007 (Est.)

($ in 000's)

CAPITAL COMPONENT	AMOUNT	PERCENT	REQUIRED RETURN	WEIGHTED RETURN
Long-Term Debt (Note 1)	1,103,209	40.68%	5.66%	2.30%
Preferred Stock	39,000	1.44%	4.29%	0.06%
Common Equity before Adjustment	1,567,897			
Equity Adjustment for All OCI	(2,073)			
Adjusted Common Equity	1,569,970	57.89%	10.75%	6.22%
Total	$2,712,179	100.00%		8.59%

Note 1: Includes amounts classified as current liabilities.

KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY

Weighted Average Cost of Long-Term Debt Capital

At December 31, 2007 (Est.)

Line	Issue	(a) Initial Offering	(b) Date of Offering	(c) Date of Maturity	(d) Price to Public	(e) Underwriters Discounts & Commissions	(f) Issuance Expense	(g) Net Proceeds to Company	(h) Cost to Company	(i) Long-term Debt Capital Outstanding	(j) Annual Cost of Long-term Debt Capital
	KANSAS CITY POWER & LIGHT ONLY										
	Pledged General Mortgage Bonds										
1	EIRR 1992 Series	$31,000,000	9/15/1992	7/1/2017					4.131%	$31,000,000	$1,280,610
2	EIRR Hawthorn 1993 Series - 4.0% Coupon	$12,366,000	10/14/1993	1/2/2012					4.202%	$12,366,000	$519,619
3	MATES Series 1993-A	$40,000,000	12/7/1993	12/1/2023					4.154%	$40,000,000	$1,661,600
4	MATES Series 1993-B	$39,480,000	12/7/1993	12/1/2023					4.082%	$39,480,000	$1,611,574
5	EIRR La Cygne 1994 Series - 4.05% Coupon	$13,982,500	2/23/1994	3/1/2015					4.221%	$13,982,000	$590,180
6	EIRR La Cygne 1994 Series - 4.65% Coupon	$21,940,000	2/23/1994	9/1/2035					4.801%	$21,940,000	$1,053,339
	Unsecured Notes										
7	Senior Notes Due 2017 - 5.85% Coupon (1)	$250,000,000	5/30/2007	6/15/2017	$250,000,000	$1,625,000	$250,000	$248,125,000	5.951%	$250,000,000	$14,876,484
8	Senior Notes Due 2011 - 6.5% Coupon (2)	$150,000,000	3/20/2001	11/15/2011	$150,000,000	$1,198,500	$50,000	$148,751,500	6.615%	$150,000,000	$9,922,646
9	Senior Notes Due 2035 -6.05% Coupon (3)	$250,000,000	11/17/2005	11/15/2035	$250,000,000	$2,187,500	$150,000	$247,662,500	6.118%	$250,000,000	$15,296,070
	Environmental Improvement Revenue Refunding Bonds										
10	2005 Series Due 2035 - 4.65% Coupon	$50,000,000	9/1/2005	9/1/2035					4.817%	$50,000,000	$2,408,500
11	2007 Series A Due 2035	$73,250,000	9/19/07	9/1/2035					4.157%	$73,250,000	$3,045,341
12	2007 Series B Due 2035	$73,250,000	9/19/07	9/1/2035					4.217%	$73,250,000	$3,089,183
	Other Long-Term Debt										
13	Unamortized Discount on Senior Notes									($1,880,930)	$0
14	Loss/(Gain) on Reacquired Debt									$0	$504,812
15	Net Weighted Cost of Interest Rate Management Products									$0	($593,312)
16	**Total KCP&L Long-Term Debt Capital**				At December 31, 2007 (Est.)					**$1,003,387,070**	**$55,266,647**
17	KCP&L Weighted Avg. Cost of Long-Term Debt Capital				At December 31, 2007 (Est.)			5.508%			

KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY
Weighted Average Cost of Long-Term Debt Capital
At December 31, 2007 (Est.)

Line	Issue	(a) Initial Offering	(b) Date of Offering	(c) Date of Maturity	(d) Price to Public	(e) Underwriters Discounts & Commissions	(f) Issuance Expense	(g) Net Proceeds to Company	(h) Cost to Company	(i) Long-term Debt Capital Outstanding	(j) Annual Cost of Long-term Debt Capital
	GREAT PLAINS ENERGY ONLY										
	Unsecured Notes										
1	Senior Notes Due 2017 - 6.875% Coupon (4)	$100,000,000	9/20/2007	9/15/2017	$100,000,000	$650,000	$500,000	$98,850,000	7.037%	$100,000,000	$7,037,102
	Affordable Housing Notes										
2	Missouri Affordable Housing Fund IX - NDH	$3,907,767	3/30/1999	10/1/2008					7.740%	$322,397	$24,954
	Other Long-Term Debt										
3	Unamortized Discount on Senior Notes									($500,950)	
4	Weighted Cost of Interest Rate Management Products										$127,862
5	**Total GPE Only Long-Term Debt Capital**				At December 31, 2007 (Est.)					$99,821,447	$7,189,918
6	GPE Only Weighted Avg. Cost of Long-Term Debt Capital				At December 31, 2007 (Est.)			7.203%			
	GREAT PLAINS ENERGY										
7	**Total GPE Long-Term Debt Capital**				At December 31, 2007 (Est.)					$1,103,208,517	$62,456,565
8	GPE Weighted Avg. Cost of Long-Term Debt Capital				At December 31, 2007 (Est.)			5.661%			

(1) Expenses associated with the Senior Notes issue are being amortized over a 10 year period.
(2) Expenses associated with the Senior Notes issue are being amortized over a 10 year period.
(3) Expenses associated with the Senior Notes are being amortized over a 30 year period.
(4) Expenses associated with the Senior Notes issue are being amortized over a 10 year period.

SCHEDULE SCH-2, PAGES 5 and 6

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KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY
Weighted Average Cost of Long-Term Debt Capital
At March 31, 2009 (Est.)

Line	Issue	(a) Initial Offering	(b) Date of Offering	(c) Date of Maturity	(d) Price to Public	(e) Underwriters Discounts & Commissions	(f) Issuance Expense	(g) Net Proceeds to Company	(h) Cost to Company	(i) Long-term Debt Capital Outstanding	(j) Annual Cost of Long-term Debt Capital
	KANSAS CITY POWER & LIGHT ONLY										
	Pledged General Mortgage Bonds										
1	EIRR 1992 Series	$31,000,000	9/15/1992	7/1/2017					5.603%	$31,000,000	$1,736,930
2	EIRR Hawthorn 1993 Series - 4.0% Coupon	$12,366,000	10/14/1993	1/2/2012					4.202%	$12,366,000	$519,619
3	MATES Series 1993-A	$40,000,000	12/7/1993	12/1/2023					5.385%	$40,000,000	$2,154,000
4	MATES Series 1993-B	$39,480,000	12/7/1993	12/1/2023					5.136%	$39,480,000	$2,027,693
5	EIRR La Cygne 1994 Series - 4.05% Coupon	$13,982,500	2/23/1994	3/1/2015					4.254%	$13,982,000	$594,794
6	EIRR La Cygne 1994 Series - 4.65% Coupon	$21,940,000	2/23/1994	9/1/2035					4.731%	$21,940,000	$1,037,981
	Unsecured Notes										
7	Senior Notes Due 2017 - 5.85% Coupon (1)	$250,000,000	5/30/2007	6/15/2017	$250,000,000	$1,625,000	$250,000	$248,125,000	5.951%	$250,000,000	$14,876,484
8	Senior Notes Due 2011 - 6.5% Coupon (2)	$150,000,000	3/20/2001	11/15/2011	$150,000,000	$1,198,500	$50,000	$148,751,500	6.615%	$150,000,000	$9,922,646
9	Senior Notes Due 2035 - 6.05% Coupon (3)	$250,000,000	11/17/2005	11/15/2035	$250,000,000	$2,187,500	$150,000	$247,662,500	6.118%	$250,000,000	$15,296,070
10	Senior Notes Due 2018 - 6.375% Coupon (4)	$350,000,000	3/6/2008	3/1/2018	$350,000,000	$2,275,000	$250,000	$347,475,000	6.474%	$350,000,000	$22,659,422
	Environmental Improvement Revenue Refunding Bonds										
11	2005 Series Due 2035 - 4.65% Coupon	$50,000,000	9/1/05	9/1/2035					4.747%	$50,000,000	$2,373,500
12	2007 Series A-1 Due 2035	$63,250,000	9/19/07	9/1/2035					5.229%	$63,250,000	$3,307,525
13	2007 Series A-2 Due 2035	$10,000,000	9/19/07	9/1/2035					5.049%	$10,000,000	$504,914
14	2007 Series B Due 2035	$73,250,000	9/19/07	9/1/2035					5.489%	$73,250,000	$4,020,631
15	2008 Series Due 2038	$23,400,000	5/28/08	5/1/2038					4.930%	$23,400,000	$1,153,586
	Other Long-Term Debt										
16	Unamortized Discount on Senior Notes									($1,737,784)	$0
17	Loss/(Gain) on Reacquired Debt									$0	$388,142
18	Net Weighted Cost of Interest Rate Management Products									$0	$3,188,878
19	**Total KCP&L Long-Term Debt Capital**				At March 31, 2009 (Est.)					**$1,376,930,216**	**$85,762,816**
20	**KCP&L Weighted Avg. Cost of Long-Term Debt Capital**				At March 31, 2009 (Est.)			6.229%			

KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY
Weighted Average Cost of Long-Term Debt Capital
At March 31, 2009 (Est.)

Line	Issue	(a) Initial Offering	(b) Date of Offering	(c) Date of Maturity	(d) Price to Public	(e) Underwriters Discounts & Commissions	(f) Issuance Expense	(g) Net Proceeds to Company	(h) Cost to Company	(i) Long-term Debt Capital Outstanding	(j) Annual Cost of Long-term Debt Capital
	GREAT PLAINS ENERGY ONLY										
	Unsecured Notes										
1	Senior Notes Due 2017 - 6.875% Coupon (5)	$100,000,000	9/20/2007	9/15/2017	$100,000,000	$650,000	$500,000	$98,850,000	7.037%	$100,000,000	$7,037,102
	Other Long-Term Debt										
2	Unamortized Discount on Senior Notes									($436,450)	
3	Weighted Cost of Interest Rate Management Products										$453,103
4	**Total GPE Only Long-Term Debt Capital**				At March 31, 2009 (Est.)					$99,563,550	$7,490,206
5	**GPE Only Weighted Avg. Cost of Long-Term Debt Capital**				At March 31, 2009 (Est.)			7.523%			
	GREAT PLAINS ENERGY and KANSAS CITY POWER & LIGHT										
6	**Total GPE and KCP&L Long-Term Debt Capital**				At March 31, 2009 (Est.)					$1,476,493,766	$93,253,022
7	**GPE and KCP&L Weighted Avg. Cost of Long-Term Debt Capital**				At March 31, 2009 (Est.)			6.316%			

(1) Expenses associated with the Senior Notes are being amortized over a 10 year period.
(2) Expenses associated with the Senior Notes are being amortized over a 10 year period.
(3) Expenses associated with the Senior Notes are being amortized over a 30 year period.
(4) Expenses associated with the Senior Notes are being amortized over a 10 year period.
(5) Expenses associated with the Senior Notes are being amortized over a 10 year period.

Weighted Cost of Preferred Stock Capital Outstanding at
March 31, 2009 (Est.)

Line	(a) Description of Issue	(b) Date of Issuance	(c) No. of Shares Initial Offering	(d) Price to Public	(e) Underwriters Discounts & Commissions	(f) Issuance Expense	(g) Net Proceeds to Company	(h) Cost to Company	(i) Preferred Stock Capital Outstanding	(j) Annual Cost of Preferred Stock Capital
1	3.80% cum $100 par	12-01-46	100,000	$10,270,000	$179,000	$58,391	$10,032,609	3.788%	$10,000,000	$378,800
2	4.50% cum $100 par	1-20-52	100,000	10,000,000	195,000	79,241	9,725,759	4.627%	10,000,000	462,700
3	4.20% cum $100 par	1-21-54	70,000	7,070,000	122,500	41,270	6,906,230	4.257%	7,000,000	297,990
4	4.35% cum $100 par	4-17-56	120,000	12,000,000	201,600	71,304	11,727,096	4.451%	12,000,000	534,120
5	**Total Preferred Stock Capital September 30, 2007 (Est.)**								$39,000,000	$1,673,610
6	Weighted Average Cost at September 30, 2007 (Est.)					4.291%				

Kansas City Power & Light Company
Historical Capital Market Costs

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Prime Rate	8.4%	8.0%	9.2%	6.9%	4.7%	4.1%	4.3%	6.2%	8.0%	8.1%
Consumer Price Index	1.6%	2.7%	3.4%	1.6%	2.4%	1.8%	3.4%	3.4%	2.6%	4.1%
Long-Term Treasuries	5.6%	5.9%	5.9%	5.5%	5.4%	5.0%	5.1%	4.7%	5.0%	4.9%
Moody's Avg Utility Debt	7.0%	7.6%	8.1%	7.7%	7.5%	6.6%	6.2%	5.7%	6.1%	6.1%
Moody's Baa Utility Debt	7.3%	7.9%	8.4%	8.0%	8.0%	6.8%	6.4%	5.9%	6.3%	6.3%

SOURCES:
Prime Interest Rate - Federal Reserve Bank of St. Louis website
Consumer Price Index For All Urban Consumers: All Items (Seasonally Adjusted, December to December) - Federal Reserve Bank of St. Louis website
Long-Term Treasuries - Federal Reserve Bank of St. Louis website
Moody's Average Utility Debt - Moody's (Mergent) Bond Record
Moody's Baa Utility Debt - Moody's (Mergent) Bond Record

Kansas City Power & Light Company
Long-Term Interest Rate Trends

Month	Triple-B Utility Rate	30-Year Treasury Rate	Triple-B Utility Spread
Jan-06	6.06	ND	ND
Feb-06	6.11	4.54	1.57
Mar-06	6.26	4.73	1.53
Apr-06	6.54	5.06	1.48
May-06	6.59	5.20	1.39
Jun-06	6.63	5.15	1.48
Jul-06	6.63	5.13	1.50
Aug-06	6.43	5.00	1.43
Sep-06	6.26	4.85	1.41
Oct-06	6.24	4.85	1.39
Nov-06	6.04	4.69	1.35
Dec-06	6.05	4.68	1.37
Jan-07	6.16	4.85	1.31
Feb-07	6.10	4.82	1.28
Mar-07	6.10	4.72	1.38
Apr-07	6.24	4.87	1.37
May-07	6.23	4.90	1.33
Jun-07	6.54	5.20	1.34
Jul-07	6.49	5.11	1.38
Aug-07	6.51	4.93	1.58
Sep-07	6.45	4.79	1.66
Oct-07	6.36	4.77	1.59
Nov-07	6.27	4.52	1.75
Dec-07	6.51	4.53	1.98
Jan-08	6.35	4.33	2.02
Feb-08	6.60	4.52	2.08
Mar-08	6.68	4.39	2.29
Apr-08	6.81	4.44	2.37
May-08	6.79	4.60	2.19
Jun-08	6.93	4.69	2.24
Jul-08	6.97	4.57	2.40
Aug-08	6.98	4.50	2.48
Most Recent 12 Month Average			2.09

Sources: Mergent Bond Record (Utility Rates); www.federalreserve.gov (Treasury Rates).

Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

2007	E2008	E2009	2007	E2008	E2009		2007 4Q	2008 1Q	E2Q	E3Q	E4Q	2009 1Q	2Q	3Q
			Annual % Change											
						Gross Domestic Product								
$13,807.6	$14,354.3	$14,795.2	4.8	4.0	3.1	GDP (current dollars)	$14,031.2	$14,150.8	$14,256.5	$14,453.5	$14,556.6	$14,602.3	$14,699.7	$14,854.8
4.8	4.0	3.1	-	-	-	Annual rate of increase (%)	2.3	3.5	3.0	5.6	2.9	1.3	2.7	4.3
2.0	1.7	0.9	-	-	-	Annual rate of increase–real GDP (%)	(0.2)	0.9	1.9	2.1	(0.2)	(1.1)	2.2	2.4
2.7	2.3	2.1	-	-	-	Annual rate of increase–GDP deflator (%)	2.8	2.6	1.1	3.2	3.1	2.4	0.4	1.9
						*Components of Real GDP								
$8,252.8	$8,342.0	$8,370.3	2.8	1.1	0.3	Personal consumption expenditures	$8,298.2	$8,316.1	$8,347.5	$8,362.2	$8,342.1	$8,320.8	$8,348.7	$8,379.5
2.8	1.1	0.3	-	-	-	% change	1.0	0.9	1.5	0.7	(1.0)	(1.0)	1.3	1.5
1,242.4	1,218.8	1,180.9	4.8	(1.9)	(3.1)	Durable goods	1,250.6	1,237.0	1,227.7	1,214.0	1,196.5	1,167.6	1,175.1	1,177.5
2,392.6	2,415.0	2,414.8	2.5	0.9	(0.0)	Nondurable goods	2,400.2	2,397.9	2,421.7	2,426.5	2,413.9	2,403.9	2,407.7	2,417.6
4,646.2	4,724.6	4,777.0	2.6	1.7	1.1	Services	4,676.1	4,704.3	4,717.4	4,735.8	4,740.8	4,749.5	4,767.2	4,785.0
1,383.0	1,434.5	1,408.5	4.9	3.7	(1.8)	Nonresidental fixed investment	1,414.7	1,423.1	1,431.3	1,432.3	1,451.3	1,411.7	1,400.8	1,403.8
4.9	3.7	(1.8)	-	-	-	% change	3.4	2.4	2.3	0.3	5.4	(10.5)	(3.1)	0.9
1,078.9	1,089.1	1,105.4	1.7	0.9	1.5	Producers durable equipment	1,090.1	1,088.6	1,079.2	1,076.0	1,112.6	1,090.2	1,094.7	1,108.7
444.9	352.0	336.7	(18.1)	(20.9)	(4.4)	Residental fixed investment	403.0	374.6	358.6	345.1	329.9	322.1	328.5	340.1
(18.1)	(20.9)	(4.4)	-	-	-	% change	(27.3)	(25.4)	(16.0)	(14.3)	(16.5)	(9.1)	8.1	14.9
(2.5)	(34.1)	(17.4)	-	-	-	Net change in business inventories	(8.1)	(10.2)	(62.2)	(34.5)	(29.6)	(31.0)	(28.4)	(14.7)
2,012.1	2,053.7	2,048.3	2.1	2.1	(0.3)	Gov't purchases of goods & services	2,029.4	2,039.1	2,056.3	2,059.8	2,059.7	2,057.5	2,052.1	2,045.0
752.9	785.6	799.7	1.6	4.3	1.8	Federal	761.7	772.6	785.2	789.6	795.0	798.8	801.1	800.3
1,259.0	1,268.8	1,250.4	2.3	0.8	(1.5)	State & local	1,267.5	1,266.7	1,271.7	1,271.0	1,265.8	1,260.1	1,252.7	1,246.6
(546.5)	(397.4)	(289.4)	-	-	-	Net exports	(484.5)	(462.0)	(395.2)	(371.3)	(361.2)	(325.9)	(285.4)	(268.5)
1,425.9	1,548.3	1,662.3	8.4	8.6	7.4	Exports	1,482.1	1,500.6	1,534.1	1,565.8	1,592.7	1,617.1	1,647.0	1,677.9
1,972.4	1,945.7	1,951.6	2.2	(1.4)	0.3	Imports	1,966.5	1,962.6	1,929.2	1,937.1	1,953.9	1,943.0	1,932.5	1,946.4
						**Income & Profits								
$11,663.3	$12,168.8	$12,573.0	6.1	4.3	3.3	Personal income	$11,872.1	$11,981.2	$12,195.7	$12,209.8	$12,288.3	$12,399.0	$12,503.4	$12,627.4
10,170.5	10,668.2	11,008.2	5.5	4.9	3.2	Disposable personal income	10,351.5	10,440.0	10,833.4	10,677.2	10,722.4	10,863.5	10,953.2	11,055.5
0.6	0.5	0.6	-	-	-	Savings rate (%)	0.4	0.3	2.6	(0.3)	(0.7)	0.2	0.6	0.7
1,886.3	1,764.8	1,815.5	0.7	(6.4)	2.9	Corporate profits before taxes	1,894.3	1,750.9	1,781.8	1,800.1	1,726.4	1,827.7	1,783.5	1,819.1
1,435.9	1,356.1	1,378.2	2.2	(5.6)	1.6	Corporate profits after taxes	1,460.9	1,348.0	1,373.4	1,382.1	1,321.0	1,389.5	1,355.7	1,380.4
66.18	66.59	64.66	(18.8)	0.6	(2.9)	‡Earnings per share (S&P 500)	66.18	60.39	55.42	58.09	66.59	68.16	67.35	66.29
						†Prices & Interest Rates								
2.9	4.8	2.9	-	-	-	Consumer price index	5.0	4.3	5.0	6.7	5.6	2.5	(1.0)	1.6
4.4	1.8	2.4	-	-	-	Treasury bills	3.4	2.2	1.6	1.7	1.8	1.9	2.0	2.5
4.6	3.9	4.5	-	-	-	10-yr notes	4.3	3.7	3.9	3.9	4.0	4.1	4.2	4.6
4.8	4.5	4.9	-	-	-	30-yr bonds	4.6	4.4	4.6	4.5	4.5	4.6	4.7	5.0
5.6	5.6	6.1	-	-	-	New issue rate–corporate bonds	5.5	5.5	5.6	5.6	5.7	5.8	5.9	6.2
						Other Key Indicators								
1,340.7	969.6	1,079.1	(26.0)	(27.7)	11.3	Housing starts (1,000 units SAAR)	1,151.3	1,053.0	1,015.7	903.4	906.2	930.8	1,034.7	1,123.6
16.1	14.2	14.1	(2.5)	(11.5)	(0.8)	Auto & truck sales (1,000,000 units)	16.0	15.2	14.1	13.4	14.2	13.7	14.1	14.1
4.6	5.4	6.2	-	-	-	Unemployment rate (%)	4.8	4.9	5.3	5.6	5.8	6.0	6.2	6.2
(5.6)	(8.5)	(0.0)	-	-	-	§U.S. dollar	(17.9)	(6.9)	(6.0)	5.2	(7.4)	0.4	1.7	3.4

Note: Annual changes are from prior year and quarterly changes are from prior quarter. Figures may not add to totals because of rounding. A–Advance data. P–Preliminary. E–Estimated. R–Revised. *1996 Chain-weighted dollars.
**Current dollars. ‡Trailing 4 quarters. †Average for period. §Quarterly % changes at quarterly rates. This forecast prepared by Standard & Poor's.

Kansas City Power & Light Company
GDP Growth Rate Forecast

	Nominal GDP	% Change	GDP Price Deflator	% Change	CPI	% Change
1947	244.2		15.5		22.3	
1948	269.2	10.2%	16.4	5.6%	24.1	7.7%
1949	267.3	-0.7%	16.4	-0.2%	23.8	-1.0%
1950	293.8	9.9%	16.5	1.0%	24.1	1.1%
1951	339.3	15.5%	17.7	7.2%	26.0	7.9%
1952	358.4	5.6%	18.0	1.7%	26.6	2.3%
1953	379.4	5.9%	18.2	1.2%	26.8	0.8%
1954	380.4	0.3%	18.4	1.0%	26.9	0.3%
1955	414.8	9.0%	18.7	1.8%	26.8	-0.2%
1956	437.5	5.5%	19.4	3.5%	27.2	1.4%
1957	461.1	5.4%	20.0	3.3%	28.1	3.4%
1958	467.2	1.3%	20.5	2.3%	28.9	2.7%
1959	506.6	8.4%	20.8	1.2%	29.2	1.0%
1960	526.4	3.9%	21.0	1.4%	29.6	1.5%
1961	544.7	3.5%	21.3	1.1%	29.9	1.0%
1962	585.6	7.5%	21.6	1.4%	30.3	1.2%
1963	617.8	5.5%	21.8	1.1%	30.6	1.3%
1964	663.6	7.4%	22.1	1.5%	31.0	1.3%
1965	719.1	8.4%	22.5	1.8%	31.6	1.6%
1966	787.8	9.5%	23.2	2.8%	32.5	3.0%
1967	832.6	5.7%	23.9	3.1%	33.4	2.7%
1968	910.0	9.3%	24.9	4.3%	34.8	4.2%
1969	984.6	8.2%	26.1	5.0%	36.7	5.4%
1970	1038.5	5.5%	27.5	5.3%	38.8	5.9%
1971	1127.1	8.5%	28.9	5.0%	40.5	4.2%
1972	1238.3	9.9%	30.2	4.3%	41.8	3.3%
1973	1382.7	11.7%	31.8	5.6%	44.4	6.3%
1974	1500.0	8.5%	34.7	9.1%	49.3	11.0%
1975	1638.3	9.2%	38.0	9.4%	53.8	9.1%
1976	1825.3	11.4%	40.2	5.8%	56.9	5.8%
1977	2030.9	11.3%	42.7	6.3%	60.6	6.5%
1978	2294.7	13.0%	45.7	7.0%	65.2	7.6%
1979	2563.3	11.7%	49.5	8.3%	72.6	11.3%
1980	2789.5	8.8%	54.0	9.1%	82.4	13.5%
1981	3128.4	12.1%	59.1	9.4%	90.9	10.4%
1982	3255.0	4.0%	62.7	6.1%	96.5	6.2%
1983	3536.7	8.7%	65.2	3.9%	99.6	3.2%
1984	3933.2	11.2%	67.6	3.8%	103.9	4.4%
1985	4220.3	7.3%	69.7	3.0%	107.6	3.5%
1986	4462.8	5.7%	71.2	2.2%	109.7	1.9%
1987	4739.5	6.2%	73.2	2.7%	113.6	3.6%
1988	5103.8	7.7%	75.7	3.4%	118.3	4.1%
1989	5484.4	7.5%	78.6	3.8%	123.9	4.8%
1990	5803.1	5.8%	81.6	3.9%	130.7	5.4%
1991	5995.9	3.3%	84.4	3.5%	136.2	4.2%
1992	6337.8	5.7%	86.4	2.3%	140.3	3.0%
1993	6657.4	5.0%	88.4	2.3%	144.5	3.0%
1994	7072.2	6.2%	90.3	2.1%	148.2	2.6%
1995	7397.7	4.6%	92.1	2.0%	152.4	2.8%
1996	7816.8	5.7%	93.8	1.9%	156.9	2.9%
1997	8304.3	6.2%	95.4	1.7%	160.5	2.3%
1998	8747.0	5.3%	96.5	1.1%	163.0	1.5%
1999	9268.4	6.0%	97.9	1.4%	166.6	2.2%
2000	9817.0	5.9%	100.0	2.2%	172.2	3.4%
2001	10128.0	3.2%	102.4	2.4%	177.0	2.8%
2002	10469.6	3.4%	104.2	1.7%	179.9	1.6%
2003	10960.8	4.7%	106.4	2.1%	184.0	2.3%
2004	11685.9	6.6%	109.5	2.9%	188.9	2.7%
2005	12433.9	6.4%	113.0	3.2%	195.3	3.4%
2006	13194.7	6.1%	116.6	3.2%	201.6	3.2%
2007	13843.0	4.9%	119.7	2.7%	207.3	2.9%
10-Year Average		5.2%		2.3%		2.6%
20-Year Average		5.5%		2.5%		3.1%
30-Year Average		6.6%		3.5%		4.2%
40-Year Average		7.3%		4.1%		4.7%
50-Year Average		7.1%		3.7%		4.1%
60-Year Average		7.0%		3.5%		3.8%
Average of Periods		6.5%		3.3%		3.8%

Source: St. Louis Federal Reserve Bank, www.research.stlouisfed.org

Kansas City Power & Light Company
Discounted Cash Flow Analysis
Summary Of DCF Model Results

Company	Constant Growth DCF Model Analysts' Growth Rates	Constant Growth DCF Model Long-Term GDP Growth	Low Near-Term Growth Two-Stage Growth DCF Model
1 ALLETE	8.8%	10.8%	10.4%
2 Alliant Energy Co.	10.3%	11.0%	11.1%
3 Ameren	10.2%	12.6%	11.6%
4 American Elec. Pwr.	11.1%	11.0%	11.4%
5 Avista Corp.	9.7%	10.1%	10.8%
6 Cent. Vermont P.S.	12.5%	10.8%	10.1%
7 Cleco Corporation	15.8%	10.2%	11.4%
8 Con. Edison	8.4%	12.5%	11.6%
9 DTE Energy Co.	10.8%	11.5%	11.0%
10 Edison Internat.	10.1%	9.2%	9.2%
11 Empire District	14.4%	12.9%	12.3%
12 Entergy Corp.	14.6%	9.7%	10.0%
13 FPL Group, Inc.	12.9%	9.5%	9.5%
14 FirstEnergy	12.4%	9.7%	9.8%
15 Hawaiian Electric	12.9%	11.4%	10.8%
16 IDACORP	8.7%	10.5%	9.9%
17 NiSource Inc.	9.0%	11.8%	11.3%
18 Northeast Utilities	13.3%	9.9%	9.8%
19 NSTAR	11.2%	11.1%	11.1%
20 PG&E Corp.	11.0%	10.8%	10.8%
21 Pinnacle West	10.7%	13.0%	12.4%
22 Portland General	11.1%	10.8%	10.7%
23 Progress Energy	11.2%	12.4%	11.6%
24 Southern Co.	10.0%	11.3%	11.1%
25 Teco Energy, Inc.	12.2%	10.7%	10.3%
26 UIL Holdings Co.	11.7%	12.0%	11.2%
27 Vectren Corp.	9.7%	11.1%	10.6%
28 Westar Energy	9.1%	11.9%	11.5%
29 Wisconsin Energy	11.7%	9.2%	9.3%
30 Xcel Energy Inc.	11.1%	11.3%	10.8%
GROUP AVERAGE	11.2%	11.0%	10.8%
GROUP MEDIAN	11.1%	11.0%	10.8%

Sources: Value Line Investment Survey, Electric Utility (East), Aug 29, 2008; (Central), Jun 27, 2008; (West), Aug 8, 2008.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Constant Growth DCF Model
Analysts' Growth Rates

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
				Analysts' Estimated Growth				
		Next					Average	ROE
	Recent	Year's	Dividend	Value			Growth	K=Div Yld+G
Company	Price(P0)	Div(D1)	Yield	Line	Zacks	Thomson	(Cols 4-6)	(Cols 3+7)
1 ALLETE	42.10	1.80	4.28%	2.50%	5.00%	6.00%	4.50%	8.8%
2 Alliant Energy Co.	34.06	1.53	4.49%	6.00%	6.10%	5.40%	5.83%	10.3%
3 Ameren	41.94	2.54	6.06%	3.50%	5.00%	4.00%	4.17%	10.2%
4 American Elec. Pwr.	40.08	1.80	4.49%	7.50%	6.30%	5.97%	6.59%	11.1%
5 Avista Corp.	21.85	0.78	3.57%	9.00%	5.00%	4.50%	6.17%	9.7%
6 Cent. Vermont P.S.	21.25	0.92	4.33%	7.50%	NA	8.90%	8.20%	12.5%
7 Cleco Corporation	24.56	0.90	3.66%	10.50%	14.00%	12.04%	12.18%	15.8%
8 Con. Edison	39.55	2.36	5.97%	1.00%	3.20%	3.00%	2.40%	8.4%
9 DTE Energy Co.	42.34	2.12	5.01%	5.00%	6.30%	6.00%	5.77%	10.8%
10 Edison Internat.	49.22	1.34	2.72%	5.00%	8.80%	8.45%	7.42%	10.1%
11 Empire District	20.02	1.28	6.39%	10.00%	NA	6.00%	8.00%	14.4%
12 Entergy Corp.	112.15	3.60	3.21%	10.00%	12.00%	12.18%	11.39%	14.6%
13 FPL Group, Inc.	64.10	1.92	3.00%	9.50%	10.30%	9.84%	9.88%	12.9%
14 FirstEnergy	76.04	2.45	3.22%	11.00%	8.30%	8.33%	9.21%	12.4%
15 Hawaiian Electric	25.21	1.24	4.92%	7.50%	4.20%	12.20%	7.97%	12.9%
16 IDACORP	29.73	1.20	4.04%	2.00%	6.00%	6.00%	4.67%	8.7%
17 NiSource Inc.	17.28	0.92	5.32%	5.00%	3.00%	2.91%	3.64%	9.0%
18 Northeast Utilities	25.92	0.88	3.39%	11.50%	10.00%	8.22%	9.91%	13.3%
19 NSTAR	33.23	1.53	4.60%	7.50%	6.40%	6.00%	6.63%	11.2%
20 PG&E Corp.	39.10	1.68	4.30%	5.00%	7.80%	7.24%	6.68%	11.0%
21 Pinnacle West	32.83	2.12	6.46%	2.00%	6.70%	4.00%	4.23%	10.7%
22 Portland General	23.69	1.01	4.26%	7.00%	7.00%	6.65%	6.88%	11.1%
23 Progress Energy	42.33	2.49	5.88%	5.00%	4.70%	6.12%	5.27%	11.2%
24 Southern Co.	35.74	1.73	4.84%	5.50%	4.70%	5.36%	5.19%	10.0%
25 Teco Energy, Inc.	19.59	0.82	4.19%	7.00%	10.10%	6.85%	7.98%	12.2%
26 UIL Holdings Co.	31.20	1.73	5.55%	4.50%	6.00%	8.00%	6.17%	11.7%
27 Vectren Corp.	29.58	1.35	4.56%	3.50%	6.10%	5.77%	5.12%	9.7%
28 Westar Energy	22.13	1.20	5.42%	1.50%	4.80%	4.61%	3.64%	9.1%
29 Wisconsin Energy	45.53	1.24	2.72%	8.00%	9.60%	9.19%	8.93%	11.7%
30 Xcel Energy Inc.	20.29	0.97	4.78%	7.50%	5.40%	6.12%	6.34%	11.1%
GROUP AVERAGE	36.75	1.58	4.52%	6.27%	6.89%	6.86%	6.70%	11.2%
GROUP MEDIAN			4.49%					11.1%

Sources: Value Line Investment Survey, Electric Utility (East), Aug 29, 2008; (Central), Jun 27, 2008; (West), Aug 8, 2008.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Constant Growth DCF Model
Long-Term GDP Growth

	(9)	(10)	(11)	(12)	(13)
		Next			ROE
	Recent	Year's	Dividend	GDP	K=Div Yld+G
Company	Price(P0)	Div(D1)	Yield	Growth	(Cols 11+12)
1 ALLETE	42.10	1.80	4.28%	6.50%	10.8%
2 Alliant Energy Co.	34.06	1.53	4.49%	6.50%	11.0%
3 Ameren	41.94	2.54	6.06%	6.50%	12.6%
4 American Elec. Pwr.	40.08	1.80	4.49%	6.50%	11.0%
5 Avista Corp.	21.85	0.78	3.57%	6.50%	10.1%
6 Cent. Vermont P.S.	21.25	0.92	4.33%	6.50%	10.8%
7 Cleco Corporation	24.56	0.90	3.66%	6.50%	10.2%
8 Con. Edison	39.55	2.36	5.97%	6.50%	12.5%
9 DTE Energy Co.	42.34	2.12	5.01%	6.50%	11.5%
10 Edison Internat.	49.22	1.34	2.72%	6.50%	9.2%
11 Empire District	20.02	1.28	6.39%	6.50%	12.9%
12 Entergy Corp.	112.15	3.60	3.21%	6.50%	9.7%
13 FPL Group, Inc.	64.10	1.92	3.00%	6.50%	9.5%
14 FirstEnergy	76.04	2.45	3.22%	6.50%	9.7%
15 Hawaiian Electric	25.21	1.24	4.92%	6.50%	11.4%
16 IDACORP	29.73	1.20	4.04%	6.50%	10.5%
17 NiSource Inc.	17.28	0.92	5.32%	6.50%	11.8%
18 Northeast Utilities	25.92	0.88	3.39%	6.50%	9.9%
19 NSTAR	33.23	1.53	4.60%	6.50%	11.1%
20 PG&E Corp.	39.10	1.68	4.30%	6.50%	10.8%
21 Pinnacle West	32.83	2.12	6.46%	6.50%	13.0%
22 Portland General	23.69	1.01	4.26%	6.50%	10.8%
23 Progress Energy	42.33	2.49	5.88%	6.50%	12.4%
24 Southern Co.	35.74	1.73	4.84%	6.50%	11.3%
25 Teco Energy, Inc.	19.59	0.82	4.19%	6.50%	10.7%
26 UIL Holdings Co.	31.20	1.73	5.55%	6.50%	12.0%
27 Vectren Corp.	29.58	1.35	4.56%	6.50%	11.1%
28 Westar Energy	22.13	1.20	5.42%	6.50%	11.9%
29 Wisconsin Energy	45.53	1.24	2.72%	6.50%	9.2%
30 Xcel Energy Inc.	20.29	0.97	4.78%	6.50%	11.3%
GROUP AVERAGE	36.75	1.58	4.52%	6.50%	11.0%
GROUP MEDIAN			4.49%		11.0%

Sources: Value Line Investment Survey, Electric Utility (East), Aug 29, 2008; (Central), Jun 27, 2008; (West), Aug 8, 2008.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Low Near-Term Growth
Two-Stage Growth DCF Model

	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
	Next		Annual	CASH FLOWS							ROE=Internal
	Year's	2012	Change	Recent	Year 1	Year 2	Year 3	Year 4	Year 5	Year 5-150	Rate of Return
Company	Div	Div	to 2012	Price	Div	Div	Div	Div	Div	Div Growth	(Yrs 0-150)
1 ALLETE	1.80	2.00	0.07	-42.10	1.80	1.87	1.93	2.00	2.13	6.50%	10.4%
2 Alliant Energy Co.	1.53	1.92	0.13	-34.06	1.53	1.66	1.79	1.92	2.04	6.50%	11.1%
3 Ameren	2.54	2.54	0.00	-41.94	2.54	2.54	2.54	2.54	2.71	6.50%	11.6%
4 American Elec. Pwr.	1.80	2.40	0.20	-40.08	1.80	2.00	2.20	2.40	2.56	6.50%	11.4%
5 Avista Corp.	0.78	1.15	0.12	-21.85	0.78	0.90	1.03	1.15	1.22	6.50%	10.8%
6 Cent. Vermont P.S.	0.92	0.92	0.00	-21.25	0.92	0.92	0.92	0.92	0.98	6.50%	10.1%
7 Cleco Corporation	0.90	1.50	0.20	-24.56	0.90	1.10	1.30	1.50	1.60	6.50%	11.4%
8 Con. Edison	2.36	2.42	0.02	-39.55	2.36	2.38	2.40	2.42	2.58	6.50%	11.6%
9 DTE Energy Co.	2.12	2.30	0.06	-42.34	2.12	2.18	2.24	2.30	2.45	6.50%	11.0%
10 Edison Internat.	1.34	1.64	0.10	-49.22	1.34	1.44	1.54	1.64	1.75	6.50%	9.2%
11 Empire District	1.28	1.40	0.04	-20.02	1.28	1.32	1.36	1.40	1.49	6.50%	12.3%
12 Entergy Corp.	3.60	4.80	0.40	-112.15	3.60	4.00	4.40	4.80	5.11	6.50%	10.0%
13 FPL Group, Inc.	1.92	2.34	0.14	-64.10	1.92	2.06	2.20	2.34	2.49	6.50%	9.5%
14 FirstEnergy	2.45	3.05	0.20	-76.04	2.45	2.65	2.85	3.05	3.25	6.50%	9.8%
15 Hawaiian Electric	1.24	1.30	0.02	-25.21	1.24	1.26	1.28	1.30	1.38	6.50%	10.8%
16 IDACORP	1.20	1.20	0.00	-29.73	1.20	1.20	1.20	1.20	1.28	6.50%	9.9%
17 NiSource Inc.	0.92	1.00	0.03	-17.28	0.92	0.95	0.97	1.00	1.07	6.50%	11.3%
18 Northeast Utilities	0.88	1.03	0.05	-25.92	0.88	0.93	0.98	1.03	1.10	6.50%	9.8%
19 NSTAR	1.53	1.85	0.11	-33.23	1.53	1.64	1.74	1.85	1.97	6.50%	11.1%
20 PG&E Corp.	1.68	2.04	0.12	-39.10	1.68	1.80	1.92	2.04	2.17	6.50%	10.8%
21 Pinnacle West	2.12	2.30	0.06	-32.83	2.12	2.18	2.24	2.30	2.45	6.50%	12.4%
22 Portland General	1.01	1.20	0.06	-23.69	1.01	1.07	1.14	1.20	1.28	6.50%	10.7%
23 Progress Energy	2.49	2.55	0.02	-42.33	2.49	2.51	2.53	2.55	2.72	6.50%	11.6%
24 Southern Co.	1.73	2.00	0.09	-35.74	1.73	1.82	1.91	2.00	2.13	6.50%	11.1%
25 Teco Energy, Inc.	0.82	0.90	0.03	-19.59	0.82	0.85	0.87	0.90	0.96	6.50%	10.3%
26 UIL Holdings Co.	1.73	1.73	0.00	-31.20	1.73	1.73	1.73	1.73	1.84	6.50%	11.2%
27 Vectren Corp.	1.35	1.47	0.04	-29.58	1.35	1.39	1.43	1.47	1.57	6.50%	10.6%
28 Westar Energy	1.20	1.32	0.04	-22.13	1.20	1.24	1.28	1.32	1.41	6.50%	11.5%
29 Wisconsin Energy	1.24	1.60	0.12	-45.53	1.24	1.36	1.48	1.60	1.70	6.50%	9.3%
30 Xcel Energy Inc.	0.97	1.06	0.03	-20.29	0.97	1.00	1.03	1.06	1.13	6.50%	10.8%
GROUP AVERAGE											10.8%
GROUP MEDIAN											10.8%

Sources: Value Line Investment Survey, Electric Utility (East), Aug 29, 2008; (Central), Jun 27, 2008; (West), Aug 8, 2008.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Discounted Cash Flow Analysis
Column Descriptions

Column 1: Three-month Average Price per Share (Jun 2008-Aug 2008)

Column 2: Estimated 2009 Dividends per Share from Value Line

Column 3: Column 2 Divided by Column 1

Column 4: "Est'd 05-07 to 11-13" Earnings Growth
           Reported by Value Line

Column 5: "Next 5 Years" Company Growth Estimate as
           Reported by Zacks.com

Column 6: "Next 5 Years (per annum) Growth Estimate Reported
           by Thomson Financial Network (at Yahoo Finance)

Column 7: Average of Columns 4-6

Column 8: Column 3 Plus Column 7

Column 9: See Column 1

Column 10: See Column 2

Column 11: Column 10 Divided by Column 9

Column 12: Average of GDP Growth During the Last 10 year, 20 year,
            30 year, 40 year, 50 year, and 60 year growth periods.
            See Schedule SCH-4

Column 13: Column 11 Plus Column 12

Column 14: See Column 2

Column 15: Estimated 2012 Dividends per Share from Value Line

Column 16: (Column 15 Minus Column 14) Divided by Three

Column 17: See Column 1

Column 18: See Column 14

Column 19: Column 18 Plus Column 16

Column 20: Column 19 Plus Column 19

Column 21: Column 20 Plus Column 16

Column 22: Column 21 Increased by the Growth
            Rate Shown in Column 23

Column 23: See Column 12

Column 24: The Internal Rate of Return of the Cash Flows
            in Columns 17-22 along with the Dividends
            for the Years 6-150 Implied by the Growth
            Rates shown in Column 23

Kansas City Power & Light Company
Risk Premium Analysis

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1980	13.15%	14.23%	1.08%
1981	15.62%	15.22%	-0.40%
1982	15.33%	15.78%	0.45%
1983	13.31%	15.36%	2.05%
1984	14.03%	15.32%	1.29%
1985	12.29%	15.20%	2.91%
1986	9.46%	13.93%	4.47%
1987	9.98%	12.99%	3.01%
1988	10.45%	12.79%	2.34%
1989	9.66%	12.97%	3.31%
1990	9.76%	12.70%	2.94%
1991	9.21%	12.55%	3.34%
1992	8.57%	12.09%	3.52%
1993	7.56%	11.41%	3.85%
1994	8.30%	11.34%	3.04%
1995	7.91%	11.55%	3.64%
1996	7.74%	11.39%	3.65%
1997	7.63%	11.40%	3.77%
1998	7.00%	11.66%	4.66%
1999	7.55%	10.77%	3.22%
2000	8.14%	11.43%	3.29%
2001	7.72%	11.09%	3.37%
2002	7.53%	11.16%	3.63%
2003	6.61%	10.97%	4.36%
2004	6.20%	10.75%	4.55%
2005	5.67%	10.54%	4.87%
2006	6.08%	10.36%	4.28%
2007	6.11%	10.36%	4.25%
AVERAGE	9.23%	12.40%	3.17%

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.99%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.23%
INTEREST RATE DIFFERENCE	-2.24%
INTEREST RATE CHANGE COEFFICIENT	-41.83%
ADUSTMENT TO AVG RISK PREMIUM	0.94%
BASIC RISK PREMIUM	3.17%
INTEREST RATE ADJUSTMENT	0.94%
EQUITY RISK PREMIUM	4.11%
PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.99%
INDICATED EQUITY RETURN	**11.10%**

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*Projected triple-B bond yield is 209 basis points over projected long-term Treasury bond rate of 4.9% from Schedule SCH-3, p. 3. The triple-B spread is for the 12 months ended August 2008 from Schedule SCH-3, p. 2.

Kansas City Power & Light Company
Risk Premium Analysis

Authorized Equity Risk Premiums vs. Utility Interest Rates (1980-2007)

$$y = -0.4183x + 0.0703$$
$$R^2 = 0.8602$$

Equity Risk Premiums

Average Utility Interest Rates