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Kansas Corporation Commission
/S/ Susan K. Duffy

PUBLIC VERSION

STATE CORPORATION COMMISSION

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Susan Talley

BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

In the Matter of the General Investigation Into	)	
KCP&L and Westar Generation Capabilities,	)	Docket No. 11-GIME-492-GIE
Including as these Capabilities May Be	)	
Affected by Environmental Requirements	)	

INITIAL COMMENTS OF KANSAS CITY POWER & LIGHT COMPANY

COMES NOW Kansas City Power & Light Company ("KCP&L") and pursuant to the order of the Kansas Corporation Commission ("Commission" or "KCC") issued in this Docket No. 11-GIME-492-GIE (the "492 Docket") on January 27, 2011, ("492 Order") files these Initial Comments addressing information regarding potential environmental upgrade requirements on the electric generating units ("EGUs") owned by KCP&L, including Commissioner questions listed in paragraphs 6 and 15 of the 492 Order. In addition to these Initial Comments, which all parties and intervenors to the 492 Docket were invited to file, KCP&L is also filing, in a separate pleading, its answers to the Commission Staff's questions listed in paragraph 8 of the Order, to which only KCP&L and Westar were required to respond.

I. PARAGRAPH 15

Addressing the specific issues identified in paragraph 15 of the 492 Order, KCP&L responds as follows:

<u>**Question (a)**</u>: ***If a utility has selected a specific option (i.e., mothball, retrofit, decommission, and/or build new plant), why were other options rejected, not just why the option chosen was appropriate?***

Long-term utility resource planning requires a comprehensive review of customer demand expectations and resource alternatives to meet that demand in a timely, cost-effective, reliable and efficient manner. The review process must take into account a wide variety of factors including current and proposed environmental regulations, fuel price forecasts, customer demand forecasts, power price forecasts and much more. In selecting a specific course of action for meeting long-term demand, and, in particular, the options related to any single piece of its supply portfolio, a utility needs to address the impacts on the portfolio as a whole, not in a vacuum looking only at a single plant. The process used by KCP&L to address its generation capacity planning needs does just that. The end result provides a comparison of net present value of revenue requirements ("NPVRR") for each option over a 20-year period. The NPVRR of the options provides the primary basis for choosing one option and rejecting the others.

KCP&L's process and the model used have been discussed with the Commission's Staff on many occasions over the past seven years since KCP&L's Comprehensive Energy Plan ("CEP") was originally proposed in 2004. The process, the model, and the end results of the evaluation supporting the La Cygne Environmental Project are discussed in more detail in the Direct Testimony of Mr. Burton Crawford in KCP&L's recent petition for predetermination for that Project, Docket No. 11-KCPE-581-PRE (the "581 Docket"). In that testimony, Mr. Crawford addresses the Commission's question (a) as it relates directly to the La Cygne Environmental Project. His response is relevant not only to that Project but to other decisions of this nature as well. For the convenience of the Commission, Mr. Crawford's full testimony is attached hereto as **Exhibit A** but states in part as follows:

> In this case, KCP&L has chosen to retrofit the La Cygne station with the equipment necessary to meet BART. All other options were rejected because they resulted in higher expected costs for retail customers over the next 20 years. The expected value of NPVRR for each alternative plan is detailed in Confidential-Restricted Schedule BLC2011-12. However, as I previously indicated in response to item f of paragraph 8, there are other reasons to reject replacement of La Cygne generation with new gas-fired generation. As for replacing La Cygne coal-fired generation with new coal-fired generation, the results of the NPVRR analysis places new coal-fired generation behind new gas-fired generation as an alternative to retrofitting La Cygne generation. In addition, new coal has all of the same risk related to future environmental regulations as retrofitting existing generation in addition to the uncertainty surrounding the ability to obtain air and other permits for new coal generation.

Question (b): ***If a utility is successful in a predetermination proceeding, then it has shifted some risk from its shareholders to its ratepayers. Should the utility's stake in the generating facility, which was the subject of the predetermination proceeding, have different rate-making principles and treatment applied than would have been applied in a traditional rate case?***

Mr. Michael Cline addressed this question in his Direct Testimony in the 581 Docket. His response is relevant not only to the La Cygne Environmental Project but to other decisions of this nature as well. For the convenience of the Commission, Mr. Cline's full testimony is attached hereto as **Exhibit B** but states in part:

> First, I do not agree with the premise that the risk has been shifted from shareholders to ratepayers. In a successful predetermination proceeding, an assessment of the "right" or "prudent" cost has been made. Delivering the project at the "prudent" price involves no incremental risk to the customer. In fact, I would argue that determining up-front what represents a prudent project cost reduces customer risk because any cost over that defined amount will be subject to additional Commission scrutiny prior to being included in rates.

> Second, with regard to the Commission's question, my response from a cost of capital perspective would be "no." Financial stakeholders view KCP&L as one company when they make the decision to invest capital, provide liquidity, or assign a credit rating. Money is fungible; an investor or bank that provides funding to KCP&L finances the overall operation, not just a given facility or a given project on a stand-alone basis. KCP&L's cost of capital should be determined on that basis—not on the basis of ratemaking principles for a specific project.

<u>Question c</u>: ***Will pre-approval reduce the utility's risk profile going forward? If so, should an adjustment be made to the utility's return on equity in connection with whatever pre-approval is granted to the utility?***

Mr. Michael Cline addressed this question in his Direct Testimony in the 581 Docket, attached hereto as **Exhibit B** for the convenience of the Commission. His response is relevant not only to the La Cygne Environmental Project but to other decisions of this nature as well. Mr. Cline's testimony states in part:

> Certainly the Company's regulatory risk on the La Cygne project would be less with predetermination compared to the same project without the benefit of that mechanism. However, given the fact Westar has already been granted predetermination in two dockets (Docket No. 07-WSEE-616-PRE and No. 08-WSEE-309-PRE) and the Commission has pointed to predetermination as an alternative for KCP&L in the absence of an ECRR, financial stakeholders would not perceive KCP&L's risk profile as improved if predetermination were granted. Rather, predetermination represents the "base case" and stakeholders would perceive KCP&L's risk as much higher without predetermination.
>
> With regard to the second question (which implies a downward adjustment to return on equity ("ROE") if determinations are granted), my response is that such a change would not be warranted. Investors' *current* expectations support the *current* cost of equity; therefore, KCP&L's pursuit and successful use of a regulatory mechanism – one that is both available and has previously been implemented in the state – to establish definition with respect to decisional and cost prudence is assumed in the Company's existing cost of capital. Therefore, no downward adjustment to ROE should be made.

With regard to the implications of predetermination on the long-term cost of debt, Mr. Cline's testimony states as follows:

> Because I believe that fixed income investors, like other financial stakeholders, expect KCP&L to obtain predetermination before moving forward with the La Cygne project, I would not expect the Company's cost of long-term debt to change significantly if predetermination were granted, everything else equal. Again, it is important to recognize the impact of not having a favorable decision on predetermination. If KCP&L were to be required to move forward with the La Cygne environmental retrofit project absent predetermination, KCP&L's cost of debt could rise markedly based on investor perceptions of increased risk for the project and a less supportive regulatory environment. This could occur even if the rating agencies do not downgrade KCP&L's credit rating. Given long-term debt issuance anticipated by the Company this year through 2012 of **__________________**, the adverse impact on the Company and its customers could be significant.

Mr. Cline expected a similar dynamic for short-term debt as well.

> [Yes.] KCP&L obtains its short-term funding through the daily issuance of commercial paper ("CP") to money market investors. The cost of CP is driven by investors' view of KCP&L's risk profile. To the extent that KCP&L were to undertake the La Cygne project having been unsuccessful in obtaining the ability to use an available regulatory tool that has been granted in the past to other utilities in the state, KCP&L's short-term debt cost would be expected to increase, all other things being equal.

Mr. Cline also discussed the manner in which rating agencies view state regulatory bodies when evaluating the credit of utilities.

> The Moody's framework for evaluating credit ratings of regulated utility companies ascribes 50 percent of the rating to the regulatory climate. S&P's assessment of the Business Risk Profile of a regulated utility is based heavily on the regulatory climate as well. As reflected in recent published reports, both agencies currently consider Kansas a constructive regulatory environment for utilities.

<u>Question d</u>: ***Given the broad selection of alternatives (i.e., mothball, retrofit, decommission, and/or build new plant), what are the forecasted effects on rates and on the financial performance of the respective company with traditional regulatory treatment and with predetermination treatment?***

Mr. Cline's response to the Commission' question (c) above responds in part to the Commission's question (d) as well. Additionally, Mr. Chris Giles addressed this question in his Direct Testimony in the 581 Docket. His response is relevant not only to the La Cygne Environmental Project but to other decisions of this nature as well. For the convenience of the Commission, Mr. Giles' full testimony is attached hereto as **Exhibit C** but states in part:

> The forecasted effect on KCP&L's revenue requirement of various alternatives are contained in the resource plan analysis and are described in the testimony of Burton Crawford. The Net Present Value of Revenue Requirement represents the forecasted effect on revenue requirement assuming contemporaneous ratemaking or "perfect ratemaking." This is the basis for selection of the most preferred alternative at the least cost to customers. Assuming that the amount ultimately approved by the Commission for recovery under either traditional ratemaking or under predetermination is the same, one might assume that the effect on rates is essentially the same under either scenario. However, KCP&L witness Michael Cline describes in his Direct Testimony the impact on cost of capital with traditional regulatory treatment and with predetermination treatment. His testimony states that the ability to raise capital on reasonable terms will be diminished absent predetermination and thus will likely increase KCP&L's cost of capital. This in turn will negatively impact both customers' rates and the financial performance of the Company because of regulatory lag associated with rate cases. KCP&L provided above the impact of the La Cygne Environmental Project on KCP&L's Kansas rates assuming recovery begins in 2016 following conclusion of the project; however, this does not make any assumptions about the effects Mr. Cline discusses.

Additionally, a Commission predetermination decision on a project provides a utility the opportunity to request an annual cost recovery rider ("CRR") to be effective during the construction of the project. One outcome of an annual CRR is a lower accumulation of allowance for funds used during construction ("AFUDC") which results in a lower overall project cost to customers and allows the costs of a project to be rolled into rates over time rather than providing for a single "lump" increase at the conclusion of the project.

II. PARAGRAPH 6

Addressing the specific issues identified in paragraph 6 of the 492 Order, KCP&L responds as follows:

<u>Question 1</u>: ***Is the capacity and/or energy provided by the plant to be retrofitted needed by the utility?***

As noted in response to question (a) above, KCP&L reviews customer demand forecasts as part of its resource planning and evaluation process. As shown in Confidential-Restricted Schedule BLC2011-12 of Mr. Crawford's Direct Testimony in the 581 Docket, which testimony is attached hereto as **Exhibit A,** the capacity of La Cygne Units 1 and 2 is needed to meet KCP&L's needs.

<u>Question 2</u>: ***If the capacity and/or energy is needed, then is the decision to retrofit a more economically efficient choice than decommissioning the existing plant and building a new plant?***

A generic, one-size-fits-all-situations answer to this question does not exist. Each decision should be based upon appropriate analysis of the alternatives. In the case of La Cygne Units 1 and 2, KCP&L has shown that the capacity and energy from these units is needed. Based on the Company's resource plan analysis and the NPVRR results shown in Confidential-Restricted Schedule BLC2011-12 of Mr. Crawford's testimony in the 581 Docket (see Exhibit A hereto), retrofit of the existing La Cygne Units 1 and 2 is the lowest expected NPVRR option to continue to supply the capacity and energy needs of our customers.

<u>Question 3</u>: ***If the retrofit choice is the better choice, then has the utility chosen the best retrofitting option?***

The utility must look at the relevant environmental regulations in determining what equipment is required and whether or not there is more than one retrofit option available. To the extent that different retrofit options are available, each option would be evaluated as part of the resource planning process. Pursuant to the State Implementation Plan ("SIP") filed by Kansas Department of Health and Environment ("KDHE") with the Environmental Protection Agency ("EPA"), KCP&L is required to install the best available retrofit technology ("BART") on La Cygne Units 1 and 2. The equipment proposed to be installed at La Cygne Units 1 and 2 meets this BART criteria and KCP&L is unaware of any other equipment that would be able to meet current emissions limits as established by KDHE or more stringent limits in the future.

III. ADDITIONAL COMMENTS OF KCP&L

The Commission invited the parties to comment on additional items related to the issues and investigation posited by this 492 Docket. First and foremost, KCP&L has concerns about how the Commission views this 492 Docket interrelating or impacting the predetermination petition KCP&L has filed pursuant to K.S.A. 66-1239 for its La Cygne environmental upgrades in the 581 Docket.

As KCP&L's witness, Mr. Chris Giles, testified to in his Direct Testimony in the 581 Docket, the timing of the predetermination requested in that Petition is more than significant; it is critical. The La Cygne Environmental Project will take approximately four years to complete. Under the KDHE and SIP requirements, the equipment must be in place by June 1, 2015 or the units will not be able to run beyond that date. The energy generated by those units is necessary to meet KCP&L's load requirements. Assuming the Commission takes the full 180 days permitted under K.S.A. 66-1239(c)(6) to render a decision on the Petition, the earliest construction could begin would be August of this year. That leaves just under four years before the June 1, 2015 deadline.

From KCP&L's perspective, the initiation of its predetermination proceeding largely renders the 492 Docket moot, at least with respect to the La Cygne Environmental Project. Otherwise, without carefully integrating the two proceedings, it is likely that there will be unnecessary duplication of efforts and other inefficiencies. Timing is also a significant issue, as this generic docket does not have a statutory deadline associated with it, unlike KCP&L's predetermination filing under K.S.A. 66-1239. Specifically, K.S.A. 66-1239(c)(6) provides as follows:

> If the commission fails to issue a determination within 180 days of the date a petition for a determination of rate-making principles and treatment is filed, the rate-making principles and treatment proposed by the petitioning public utility will be deemed to have been approved by the commission and shall be binding for rate-making purposes during the useful life of the generating facility or during the term of the contract.

KCP&L has included responses to the Commission questions from this generic docket in its supporting testimony in the predetermination docket to the extent that they directly relate to La Cygne. Thus, KCP&L already is prepared to jointly address these dockets. KCP&L does not believe the Commission has the ability under K.S.A. 66-1239 to stay or otherwise delay a decision on KCP&L's predetermination filing beyond the 180 days allowed in the statute for purposes of conducting this generic proceeding.

KCP&L is also concerned that this 492 Docket is intended to evaluate various resource planning models, assumptions, scenarios, and uncertainties related to system resource planning which may or may not result in rules or regulations related to how electric utilities conduct resource planning in the state of Kansas. KCP&L has a long history of providing both the Missouri and Kansas Commissions with its resource plans and its planning models. Formal resource plans were first published by KCP&L in the mid-1980s. These plans were developed by KCP&L on its own and provided to the Missouri Public Service Commission ("MPSC") and KCC staffs and consumer counsels. The MPSC, after a lengthy (approximately two years) collaboration of various stakeholders, adopted electric resource planning rules in the early 1990s. KCP&L submitted its first resource plan to the MPSC under these rules in 1994. KCP&L also provided copies of its resource plans to the KCC Staff each time a plan was submitted to the MPSC. As stated in Mr. Crawford's testimony in the 581 Docket, KCP&L's resource planning is consistent with the Missouri Electric Resource Planning ("ERP") rules. The MPSC rules and KCP&L's resource planning process are fairly standard throughout the regulated electric utility industry. Toward the end of the nearly two-year effort undertaken to develop and implement resource planning rules in Missouri, similar efforts began in Kansas in a separate collaborative process. For a variety of reasons, the effort to establish resource planning rules in Kansas was eventually determined to be unnecessary at that time and the process was abandoned. KCP&L continued to submit its resource plans to the MPSC Staff and copied the KCC staff. KCP&L's most recent plan was provided to the KCC Staff in 2008. The Missouri process is a three-year cycle.

KCP&L is concerned that this generic 492 Docket is intended to create a new or at least different planning process in Kansas. KCP&L is not opposed to the Commission investigating what resource planning rules may be appropriate to Kansas; however, KCP&L would hope that any resource planning rules would be consistent to the extent possible with KCP&L's current planning process. It is not necessary to reinvent the wheel. In addition, KCP&L believes such an effort should be undertaken in a collaborative process that includes all stakeholders. Furthermore, if the intent of this generic docket is truly to address resource planning in Kansas, KCP&L requests the Commission change the current 492 Docket into a resource planning process generic docket and separate the La Cygne retrofit decision from this docket in its entirety. The decision regarding La Cygne should be addressed in a timely manner utilizing KCP&L's current planning process and tools within the framework of the 581 Docket.

In conclusion, KCP&L notes that the Company has a comprehensive and robust evaluation process in place for its generation resource planning. This process is used for any decisions regarding major retrofits for existing units or for the addition of new EGUs.[1] KCP&L's process addresses the Commission's concerns regarding needed capacity/energy levels and whether to retrofit versus when to build new. KCP&L also specifically requests that the Commission separate the current La Cygne environmental retrofit decision from this docket and address that issue directly in the 581 Docket.

[1] Different evaluation methods may be used in limited circumstances such as where options and timing for generation resources are dictated by regulation such as in the case of the Kansas Renewable Energy Standards.

Respectfully submitted,

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COUNSEL FOR KANSAS CITY POWER & LIGHT

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Certain Schedules Attached to this Testimony
Contain "Confidential" or "Confidential-Restricted"
Information and Have Been Removed.

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

DIRECT TESTIMONY OF

BURTON L. CRAWFORD

ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY

IN THE MATTER OF THE PETITION OF
KANSAS CITY POWER & LIGHT COMPANY ("KCP&L")
FOR DETERMINATION OF THE RATEMAKING PRINCIPLES
AND TREATMENT THAT WILL APPLY TO THE RECOVERY
IN RATES OF THE COST TO BE INCURRED BY KCP&L FOR
CERTAIN ELECTRIC GENERATION FACILITIES
UNDER K.S.A. 66-1239

DOCKET NO. 11-KCPE-____-PRE

Q: Please state your name and business address.

A: My name is Burton L. Crawford. My business address is 1200 Main Street, Kansas City, Missouri 64105.

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

A: I am employed by Kansas City Power & Light Company ("KCP&L" or the "Company") as Senior Manager, Energy Resource Management.

Q: What are your responsibilities?

A: I am responsible for managing the Energy Resource Management ("ERM") department. Activities of ERM include resource planning, wholesale energy purchase and sales evaluations, energy portfolio management, and capital project evaluations.

Q: Please describe your education, experience and employment history.

A: I hold a Master of Business Administration from Rockhurst College and a Bachelor of Science in Mechanical Engineering from the University of Missouri. Within KCP&L, I have served in various areas including regulatory, economic research, and power engineering since 1988.

Q: Have you previously testified in a proceeding before the Kansas Corporation Commission ("KCC" or "Commission") or before any other utility regulatory agency?

A: Yes, I have. I provided testimony to the Missouri Public Service Commission ("MPSC") in Case No. EO-2006-0142, which pertains to KCP&L's application to join the Southwest Power Pool Regional Transmission Organization. I also provided testimony before the MPSC in Case Nos. ER-2006-0314, ER-2007-0291, ER-2009-0090, ER-2009-0089, ER-2010-355 and ER-2010-356.

Q: What is the purpose of your testimony?

A: This testimony supports the process for obtaining predetermination for La Cygne environmental retrofit investments. It includes a description of KCP&L's long-term generation planning process, a description of the alternative resource plans that were considered to meet KCP&L's load requirements, and a discussion of the analysis of those alternatives. It also discusses responses to several of the questions posed by the

Commission in its January 27, 2011 Order (the "492 Order") in Docket No. 11-GIME-492-GIE (the "492 Docket") including:

From paragraph 8 of the 492 Order:

> (c) What are KCP&L's expected capacity and/or energy needs over the appropriate investment planning horizons (e.g., 10, 15, 25 years) given the Company's existing generation portfolios?
>
> (d) If capacity and/or energy is not needed, then how should non-compliant plants be treated?
>
> (e) If capacity and/or energy is needed, should KCP&L retrofit existing non-compliant plants or build new plants?
>
> (f) What criteria should be employed to determine optimal retrofit configurations to meet regulatory requirements? Has this analysis been performed for individual plants? Which plants?
>
> (g) Do the environmental retrofit projects that are currently installed, under construction or planned represent the end of the upgrading process for their corresponding generating units, or will the environmental retrofit projects, in turn, require additional improvements to these units? (I respond to this question from the perspective of how this fits into the modeling process only. Company witness, Mr. Scott Heidtbrink, addresses this question, also.)
>
> (h) For any planned but incomplete environmental upgrades, has analysis been performed on how the planned upgrades may impact the expected life of the plant at the completion of the upgrades? If so, what criteria for analysis was used? (I respond to this question from the perspective of how this fits into the modeling process only. See Mr. Heidtbrink's Direct Testimony for this question, also.)
>
> (i) If replacement of a plant is considered as an option, what criteria should be used to determine the size and type of the generation plant to be built?
>
> (j) What factors were considered in any hypothetical resource portfolio scenarios which have been run?
>
> (k) How does KCP&L plan to regulate the wind and other renewable generation that is required by the Renewable Energy Standards Act (K.S.A. 66-1256 through 66-1262)? If KCP&L plans to add generation to regulate wind and other renewable generation, how much generation and what fuel sources are planned to be used at these new plants used for regulation?

From paragraph 15 of the 492 Order:

> (a) If a utility has selected a specific option (i.e., mothball, retrofit, decommission, and/or build new plant), why were other options rejected, not just why the option chosen was appropriate?

I. KCP&L'S LONG-TERM GENERATION PLANNING PROCESS AND ANALYSIS OF ALTERNATIVES CONSIDERED.

Q: Why are these retrofits needed?

A: The retrofits are needed to meet the Best Available Retrofit Technology ("BART") Section of the State of Kansas Air Quality State Implementation Plan - Regional Haze as discussed in the Direct Testimony of KCP&L witness Paul Ling. Furthermore, the Company will likely be required to meet Transport Rule emissions requirements that are expected to be finalized later this year. The final Transport Rule may or may not result in the need to retrofit LaCygne. Details concerning the requirements of these environmental rules are provided in Mr. Ling's testimony.

Q: Please describe the planning process.

A: The process used in evaluating long-term resource plan alternatives is based on the electric integrated resource plan ("ERP") procedures required by Missouri Rule CSR 240 Chapter 22. Copies of past Missouri ERP filings have been shared with the Kansas Corporation Commission Staff ("Staff"). Although the process is based on the requirements of Missouri ERP rules, conceptually the process represents a standard approach within the electric utility industry.

In the initial step, the Company reviews and screens a number of preliminary options for environmental compliance, system generation and demand side management/energy efficiency programs ("DSM/EE"). This step reduces the number of options to include in the evaluation of alternative resource plans. From these resource options, alternative resource plans are assembled. Each alternative resource plan is developed to meet the Company's reserve obligations and requirements of state(s) renewable portfolio standards.

The plans developed in the previous step are then evaluated in a production cost model called MIDAS™ in order to calculate each plan's expected total revenue requirement over a number of years. These calculations are performed for each alternative resource plan under a variety of potential market futures (*i.e.*, scenarios) to determine the level of risk each alternative plan faces. These risks are defined by varying levels of critical uncertain factors such as natural gas prices, retail customer load growth, carbon dioxide ("CO_2") costs, etc. Sixty-four (64) scenarios were devised to gauge the risk associated with identified critical uncertain factors. A list of these scenarios is included in Confidential Schedule BLC2011-10.

The end result of this process is a series of alternative long-term resource plans, each with an expected 25-year net present value of revenue requirement ("NPVRR") that takes into account the risk associated with critical uncertain factors in the industry.

Q: Please detail the resource option screening process.

A: The resource screening process reduces the number of supply options to a manageable number. Each alternative is compared on an average cost of total operation. A limited number of alternatives are then passed forward for further consideration in the analysis. Options that are more expensive to operate are barred from further consideration. This greatly improves the speed of the analyses that follow.

Q: Please describe the DSM/EE screening process.

A: The Company retains the service of several consultants to identify DSM/EE end-use measure potential. These measures are subjected to a benefit/cost screening analysis. Once screened, the load impact and costs of the remaining programs are treated as a single DSM/EE program in the analysis.

Q: Describe the MIDAS™ model.

A: MIDAS™ is a product of ABB-Ventyx and has been an industry standard production and financial cost model for over 20 years. The modeler inputs a resource expansion plan that can include different assumptions of environmental retrofits, plant retirements or system generation expansion. This expansion plan is added to the Company's existing portfolio of assets. Operation of the resulting asset portfolio is then simulated for 20+ years on an hourly basis to calculate the portfolio's production cost under given economic and market price assumptions. This production cost model is repeated for a large number of future scenarios of critical uncertain factors. The model outputs an annual revenue requirement using the results of the production cost model and the financial position of the Company to develop a complete view of Company costs. This annual revenue requirement is discounted to calculate the plan's NPVRR.

Q: How is the MIDAS™ model used in this analysis?

A: The MIDAS™ model takes each alternative expansion plan and calculates its financial performance under a large number of future scenarios. This set of future scenarios is referred to as the "Risk Tree" in MIDAS™. Each branch of the Risk Tree represents a different future scenario. Each scenario is made up of varying combination of uncertain market forecasts described below. The Risk Tree used in this analysis contains

64 different scenarios or branches. This Risk Tree is graphically represented in Confidential Schedule BLC2011-10.

Each expansion plan that is run through MIDAS™ has 64 separate NPVRR results. These separate results are probability weighted over the 64 scenarios to calculate an expected value of NPVRR for each expansion plan. The plan that has the lowest expected NPVRR therefore shows the greatest potential of cost effectiveness over a wide range of future risks. Furthermore, the results can be evaluated scenario-by-scenario to determine if there exist any future risks that will cause another plan to perform better than the plan with the lowest expected NPVRR.

Q: What sort of information is collected and used in the planning process?

A: The Company uses a wide range of information to conduct this analysis. Data is collected on potential resource options including supply resources (coal, natural gas, nuclear, renewable, etc.) and DSM/EE measures. Along with these options, the Company collects information for environmental retrofit costs.

Additionally, the Company develops forecasts of critical uncertainties. These include, but are not limited to natural gas prices, CO_2 emission allowance prices, load growth rates, interest rates and costs to acquire capital, coal prices, construction costs, etc. These forecasts include a mid, high and low case for each critical driver.

Other information used in the analysis relate to current issues and events that may drive resource acquisition decisions such as the impact of state-based renewable standards or federal mandates.

Lastly, the Company uses its existing financial structure as a starting point for all trends of financial measures such as interest coverage ratio and debt to total capital ratio.

Q: With regard to uncertainties, what are your major assumptions and their sources?

A: Major assumptions sourced from the KCP&L ERM Department include:

- All uncontrolled coal plants will be environmentally retrofitted (scrubbers, SCR, bag house) or retired/mothballed by 2016.
- State renewable portfolio standards ("RPS") for Missouri and Kansas will be met with constructed generation. The Company does not assume that it will rely on purchased RECs for long-term compliance.

Major assumptions sourced from the KCP&L Fuels Department:

- Natural Gas Prices. See attached Confidential-Restricted Schedule BLC2011-1.
- CO_2 Allowance Prices. See attached Confidential-Restricted Schedule BLC2011-2.

Support for these assumptions can be found in the Direct Testimony of Company Witness Mr. Wm. Edward Blunk.

Major assumptions sourced from the KCP&L Load Forecasting Department:

- Annual Retail Load Growth – Energy. See attached Confidential Schedule BLC2011-3.
- Annual Retail Load Growth – Peak Demand. See attached Confidential Schedule BLC2011-4.

Please note that a complete discussion of the method of developing this load forecast is included in the Direct Testimony of Company witness Mr. George McCollister.

Major assumptions sourced from the KCP&L Energy Solutions Department:

- DSM/EE Resources. See attached Confidential Schedule BLC2011-5 and BLC2011-6.

Major assumptions sourced from the KCP&L Corporate Finance Department:

- Financial Returns and Interest Rates. See attached Confidential-Restricted Schedule BLC2011-7.

Q: What alternative plans were analyzed?

A: The analysis considered fourteen (14) different resource plans with four (4) additional sensitivity plans. These plans are described in detail in attached Confidential-Restricted Schedule BLC2011-13.

II. QUESTIONS FROM COMMISSION DOCKET NO. 11-GIME-492-GIE

Q: The KCC recently issued an Order opening a new docket, the 492 Docket, which is designed to address issues regarding evaluation of retrofit decisions. Would the analysis performed by KCP&L regarding the La Cygne environmental retrofits answer the questions raised in the 492 Docket?

A: It addresses most of these issues on behalf of KCP&L. In paragraph 8 of the 492 Order, information was requested regarding a) applicable regulatory programs, b) emissions allowances, c) capacity and energy needs over the investment horizon, d) treatment of non-needed capacity assets, e) possible capacity expansion, f) optimal retrofit analysis criteria, g) continuing required retrofits, h) expected life impact from proposed environmental retrofits, i) size and type of replacement power capacity, j) factors considered in portfolio scenarios, and k) plans to regulate additional wind generation. In the analysis conducted for this filing, most of the listed information requirements have been addressed in some form. I will discuss issues c through k set forth in paragraph 8 of the 492 Order. I will also address the first issue set forth in paragraph 15 of the 492 Order. As to each item I discuss, I will note whether it is contained in the resource plan analysis or elsewhere in the testimony and exhibits in this docket.

Q: What are KCP&L's expected capacity and/or energy needs over the appropriate investment horizons given the Company's existing generation portfolio? (Item c in paragraph 8 of the 492 Order.)

A: Capacity and Load Balance for KCP&L both with and without the La Cygne units are shown in Confidential-Restricted Schedule BLC2011-11.

Q: If capacity and/or energy are not needed, then how should non-compliant plants be treated? (Item d in paragraph 8 of the 492 Order.)

A: As shown in Confidential-Restricted Schedule BLC2011-12, the capacity of La Cygne Units 1 and 2 is needed therefore this question does not apply in this case.

Q: If capacity and/or energy are needed, should KCP&L retrofit existing non-compliant plants or build new plants? (Item e in paragraph 8 of the 492 Order.)

A: A generic, one-size-fits-all-situations answer to this question does not exist. Each decision should be based upon appropriate analysis of the alternatives. In the case of La Cygne Units 1 and 2, KCP&L has shown that the capacity and energy from these units is needed. Based on the Company's resource plan analysis and the NPVRR results shown in Confidential-Restricted Schedule BLC2011-12, retrofit of the existing La Cygne Units 1 and 2 is the least cost option to continue to supply the capacity and energy needs of our customers.

Q: What criteria should be employed to determine optimal retrofit configurations to meet regulatory requirements? Has this analysis been performed for individual KCP&L plants? Which plants? (Item f in paragraph 8 of the 492 Order.)

A: In general, the criteria to be employed are the minimization of NPVRR. Once the retrofit has been completed for La Cygne Units 1 and 2, the only KCP&L plants that generally do not meet best available retrofit technology are the three Montrose units. Based on current assumptions and analysis, it is least cost to continue to run these plants absent environmental retrofits until required to do otherwise. Although NPVRR is the primary basis for evaluation of resource alternatives, other factors are relevant to the decision making process. For instance, it is important to maintain a balanced portfolio of generation resources. KCP&L anticipates, of the two existing generation sites that have not yet been retrofitted to BART – namely Montrose Station and La Cygne Station, Montrose would be the first existing generation site to retire rather than be retrofit. Given this, it is important to retain operation of the La Cygne site to maintain a balanced portfolio of coal, gas, nuclear, and renewable generation. The least cost alternative to retrofitting existing units to meet BART is combined cycle gas generation ("CC"). Retiring La Cygne generating station and replacing it with CC generation, followed by retirement of Montrose station generation with CC replacement would result in a significant reliance on the relatively more volatile natural gas market. NPVRR is based on the long-term economics of resource alternatives. It does not reflect shorter-term variations in fuel cost that can impact customers immediately. For instance, even if the NPVRR was lowest for CC, which it is not in the case of La Cygne, one still needs to consider that customers would be exposed in the shorter-term to larger variability in their bills attributable to the volatile gas market. Many customers already use natural gas for some portion of their space/water heating and cooking. With a generation portfolio more dependent on gas, the currently less volatile electric bill will become more volatile in line with gas price variability. This would result in increased customer dissatisfaction. (See Mr. Blunk's testimony for further discussion of natural gas market volatility.)

Q: Do the environmental retrofit projects that are currently installed, under construction or planned represent the end of the upgrading process for their corresponding KCP&L generating units, or will the environmental retrofit projects, in turn, require additional improvements to these KCP&L units? (Item g in paragraph 8 of the 492 Order.)

A: From an analysis perspective, KCP&L takes into account potential regulation changes to the extent that they are in place or proposed. To the extent they are probable, KCP&L models them. For example, KCP&L expects that cooling towers will need to be added to its coal plants. These costs have been included in this analysis. (See also the Direct Testimony of Company witness Mr. Scott Heidtbrink regarding this question.)

Q: For any planned but incomplete environmental upgrades, has analysis been performed on how the planned upgrades may impact the expected life of the plant at the completion of the upgrades? If so what criteria for analysis were used? (Item h in paragraph 8 of the 492 Order.)

A: The equipment to be installed at La Cygne Units 1 and 2 will not impact the useful life of the units. KCP&L has modeled continuation of La Cygne Units 1 and 2 throughout the planning period by incorporating normal maintenance activities and overlaid the cost of a long-range asset management plan. (Mr. Heidtbrink provides more detail on this question in his testimony.)

Q: If replacement of a KCP&L plant is considered as an option, what criteria should be used to determine the size and type of the generation plant to be built? (Item i in paragraph 8 of the 492 Order.)

A: The primary criteria employed are the same as that used to analyze the retrofits; that is, minimization of NPVRR. However, in some cases it may be prudent to select a resource plan that has a higher NPVRR if in doing so the risk associated with changes in critical uncertainties, environmental regulations, or other factors is mitigated.

Q: What factors were considered in any hypothetical resource portfolio scenarios which have been run? (Item j in paragraph 8 of the 492 Order.)

A: The major factors included in the scenarios are described earlier in this testimony.

Q: How does KCP&L plan to regulate the wind and other renewable generation that is required by the Renewable Energy Standards Act (K.S.A. 66-1256 through 66-1262? (Item k in paragraph 8 of the 492 Order.)

A: Wind resources required by the Renewable Energy Standards Act (K.S.A. 66-1256 through 66-1262) will cause additional demands for load regulation and other ancillary services. In the near-term, KCP&L will use its existing resources for regulation. Once the Southwest Power Pool consolidates Balancing Authorities (anticipated in 2014), KCP&L will no longer be required to regulate for its load directly. However, KCP&L will be required to either purchase regulating reserve or supply its share based on whatever SPP rules are ultimately approved. These rules are currently under development.

Q: If a utility has selected a specific option (*i.e.*, mothball, retrofit, decommission, and/or build a new plant) why were other options rejected, not just why the option chosen was appropriate? (Item (a) in paragraph 15 of the 492 Order.)

A: In this case, KCP&L has chosen to retrofit the La Cygne station with the equipment necessary to meet BART. All other options were rejected because they resulted in higher expected costs for retail customers over the next 20 years. The expected value of NPVRR for each alternative plan is detailed in Confidential-Restricted Schedule BLC2011-12. However, as I previously indicated in response to item f of paragraph 8, there are other reasons to reject replacement of La Cygne generation with new gas-fired generation. As for replacing La Cygne coal-fired generation with new coal-fired generation, the results of the NPVRR analysis places new coal-fired generation behind new gas-fired generation as an alternative to retrofitting La Cygne generation. In addition, new coal has all of the same risk related to future environmental regulations as retrofitting existing generation in addition to the uncertainty surrounding the ability to obtain air and other permits for new coal generation.

Q: What are the results of the analysis the Company prepared for evaluation of the La Cygne environmental retrofit decision?

A: The results of the planning process indicate that the La Cygne retrofits are part of the low cost plan in about 73% of the 64 scenarios analyzed. The scenarios where the retrofits were not selected generally include both the low gas price scenarios and the high CO_2 price scenarios.

Q: What are your recommendations resulting from the planning process?

A: La Cygne must meet BART requirements by June 1, 2015 or be retired/mothballed. Our recommendation is to move forward with the retrofit of La Cygne Unit 1 and La Cygne Unit 2. This recommendation is supported by the results of the resource planning process conducted for this filing which indicates that the retrofit of La Cygne Unit 1 and La Cygne Unit 2 is currently the appropriate least cost option. The present plan to retrofit La Cygne Unit 1 is consistent with the plan presented as part of the Settlement Agreement in the 04-KCPE-1025-GIE docket (the "1025 docket" and the "1025 S&A") which the Commission found to be in the public interest at that time.

Q: In the intervening time since the Commission's approval of the retrofits in the 1025 Docket, have the circumstances concerning La Cygne Unit 1 changed in a way that would make the underlying rationale for finding the project to be in the public interest no longer applicable?

A: No, they have not. As demonstrated by this planning analysis, the La Cygne retrofits result in minimizing expected NPVRR.

Q: Do you have any schedules which support your testimony?

A: Yes, I have included the following schedules which support the evaluation as part of my testimony:

- Confidential-Restricted Schedule BLC2011-1 reflects 20-year assumptions for gas prices.
- Confidential-Restricted Schedule BLC2011-2 reflects 20-year assumptions for CO_2 emission allowance costs.

- Confidential Schedule BLC2011-3 reflects the 20-year KCP&L energy forecasts.
- Confidential Schedule BLC2011-4 reflects the 20-year KCP&L gross peak load forecasts.
- Confidential Schedule BLC2011-5 reflects 20-year assumptions for annual demand side management ("DSM") megawatts ("MWs") for the base scenarios.
- Confidential Schedule BLC2011-6 reflects 20-year assumptions for annual DSM MWs for the sensitivity scenarios.
- Confidential Schedule BLC2011-7 reflects financial assumptions for debt ratio, debt rate and return on equity for various levels of future uncertainty.
- Confidential Schedule BLC2011-8 reflects utility nominal cost rankings for 54 different technologies.
- Common Schedule BLC2011-9 reflects details of the Company's existing generation resources.
- Confidential Schedule BLC2011-10 details the 64 scenarios of the analysis Risk Tree.
- Confidential-Restricted Schedule BLC2001-11 details the capacity and load balance of KCPL with its existing fleet and under the assumption that the La Cygne station is removed from KCP&L's generation mix.
- Confidential-Restricted Schedule BLC2011-12 details the results of the analysis and list the expected NPVRR of each alternative.

- Confidential-Restricted Schedule BLC2011-13 details the fourteen alternative expansion plans and the four sensitivity plans used in the analysis.

Q: Do you submit this information to address the requirements of K.S.A. 66-1239 (c)?

A: Yes, my testimony addresses the items listed in K.S.A. 66-1239 (c)(2)(C) and (D).

Q: Does that conclude your testimony?

A: Yes, it does.

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Petition of Kansas City Power & Light Company ("KCP&L") for Determination of the Ratemaking Principles and Treatment that Will Apply to the Recovery in Rates of the Cost to be Incurred by KCP&L for Certain Electric Generation Facilities Under K.S.A. 2003 SUPP. 66-1239	)	**Docket No. 11-KCPE-____-PRE**

AFFIDAVIT OF BURTON L. CRAWFORD

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Burton L. Crawford, being first duly sworn on his oath, states:

1. My name is Burton L. Crawford. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Manager, Energy Resource Management.

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 Seventeen (17) 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 thereof, are true and accurate to the best of my knowledge, information and belief.

Burton L. Crawford

Subscribed and sworn before me this 1st day of February 2011.

Notary Public

My commission expires: May 23, 2014

DONNA J. STOWAY
Notary Public, Notary Seal
State of Missouri
Clay County
Commission # 10889620
My Commission Expires May 23, 2014

SCHEDULES BLC2011-1 THROUGH BLC2011-8 THESE DOCUMENTS CONTAIN CONFIDENTIAL OR CONFIDENTIAL-RESTRICTED INFORMATION NOT AVAILABLE TO THE PUBLIC ORIGINAL FILED UNDER SEAL

Location	OEM	Rating	Fuel	Environmental Equipment	Commissioned
Hawthorn 5	GE/B&W	565 MW	Coal	SCR, Scrubber, Baghouse, LNB, OFA	1969 (2001)
Iatan 1: 70%KCPL/18%GMO/12%EDE	GE/B&W	706 MW	Coal	SCR, Scrubber, Baghouse, LNB, OFA, Mercury	1980
Iatan 2: 54.71%KCPL/18%GMO/11.76%MJMUEC3.53%KEPCO	Toshiba/Alstom	850 MW	Coal	SCR, Scrubber, Baghouse, LNB, OFA Mercury	2010
LaCygne 1: 50%KCPL/50%Westar	Westinghouse/B&W	736 MW	Coal	SCR, Scrubber, OFA	1973
LaCygne 2: 50%KCPL/50%Westar	GE/B&W	682 MW	Coal	Precipitator	1977
Montrose 1	GE/CE	170 MW	Coal	Precipitator,	1958
Montrose 2	GE/CE	164 MW	Coal	Precipitator	1960
Montrose 3	Westinghouse/CE	176 MW	Coal	Precipitator	1963
Hawthorn 6/9 CC	Siemens V84.3A1 – W	136 MW / 130 MW	Gas		1997/2000
Hawthorn 7 & 8	GE Frame 7EA	75 MW each	Gas		1999
Osawatomie	GE Frame 7EA	76 MW	Gas		2002
Northeast	GE Frame 7B (8)	45 MW (2) / 53 MW (6)	Oil		1972 - 1977
West Gardner	GE Frame 7EA (4)	77 MW each	Gas		2002
Wolf Creek: 47%KCPL/47%Westar/6% KEPCo	Westinghouse	1200 MW	Nuclear		2003
Spearville 1	GE Wind Turbines	100.5 MW	Wind		2006
Spearville 2	GE Wind Turbines	48 MW	Wind		2010

**SCHEDULES BLC2011-10
THROUGH BLC2011-13
THESE DOCUMENTS CONTAIN
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PUBLIC VERSION
*"**[redacted]**" Designates*
Confidential Information Has Been Removed.

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

DIRECT TESTIMONY OF

MICHAEL W. CLINE

ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY

IN THE MATTER OF THE PETITION OF
KANSAS CITY POWER & LIGHT COMPANY ("KCP&L")
FOR DETERMINATION OF THE RATEMAKING PRINCIPLES
AND TREATMENT THAT WILL APPLY TO THE RECOVERY
IN RATES OF THE COST TO BE INCURRED BY KCP&L FOR
CERTAIN ELECTRIC GENERATION FACILITIES
UNDER K.S.A. 66-1239

DOCKET NO. 11-KCPE-____-PRE

Q: Please state your name and business address.

A: My name is Michael W. Cline. My business address is 1200 Main Street, Kansas City, Missouri 64105.

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

A: I am employed by Great Plains Energy Services Incorporated, as Vice President - Investor Relations and Treasurer of Great Plains Energy Incorporated ("Great Plains Energy"), the parent company of Kansas City Power & Light Company ("KCP&L" or the

"Company"). References in my testimony to "the Companies" relate to Great Plains Energy and KCP&L.

Q: **What are your responsibilities?**

A: My responsibilities include financing and investing activities, cash management, bank relations, rating agency relations, financial risk management, investor relations, and acting as a witness with regard to financing and capital markets-related matters in the Company's regulatory proceedings.

Q: **Please describe your education, experience and employment history.**

A: I graduated from Bradley University in 1983 with a B.S. in Finance, summa cum laude. I earned an MBA from Illinois State University in 1988. From 1984-1991, I was employed by Caterpillar Inc. in Peoria, Illinois and held a number of finance and treasury positions. From 1992-1993, I was Manager, International Treasury at Sara Lee Corporation in Chicago, Illinois. From 1994-2000, I was employed by Sprint Corporation in Overland Park, Kansas, initially as Manager, Financial Risk Management and then as Director, Capital Markets. During most of 2001, I was Assistant Treasurer, Corporate Finance, at Corning Incorporated in Corning, New York. I joined Great Plains Energy in October 2001 as Director, Corporate Finance. I was promoted to Assistant Treasurer in November 2002. During 2004, I was assigned to lead the Company's Sarbanes-Oxley Act compliance effort on a full-time basis, though I retained the Assistant Treasurer title during that time. I was promoted to Treasurer in April 2005 and added the title of Chief Risk Officer in July 2005. In February 2008, I was named Vice President-Investor Relations and Treasurer. I am also a Level II candidate for the Chartered Financial Analyst designation from the CFA Institute.

Q: Have you previously testified in a proceeding at the Kansas Corporation Commission ("KCC" or "Commission") or before any other utility regulatory agency?

A: Yes, I have previously provided testimony to the KCC in the KCP&L Regulatory Plan, Docket No. 04-KCPE-1025-GIE (the "Regulatory Plan"); in KCP&L rate cases, Docket Nos. 06-KCPE-828-RTS, 07-KCPE-905-RTS, 09-KCPE-246-RTS, and 10-KCPE-415-RTS (the "415 Docket"); and in the Aquila acquisition case, Docket No. 07-KCPE-1064-ACQ. I have also testified before the Missouri Public Service Commission.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to explain (1) why the predetermination sought by the Company in this proceeding is important to the Company's financial stakeholders, as well as (2) the implications such a determination has for the Company's access to and cost of capital; and (3) to answer the following questions raised by the Commission in Docket No. 11-GIME-492-GIE (the "492 Docket"), paragraph 15, sections (b) and (c), specifically:

> (b) If a utility is successful in a predetermination proceeding, then it has shifted some risk from its shareholders to its ratepayers. Should the utility's stake in the generating facility, which was the subject of the predetermination proceeding, have different rate-making principles and treatment applied than would have been applied in a traditional rate case?
>
> (c) Will pre-approval reduce the utility's risk profile going forward? If so, should an adjustment be made to the utility's return on equity in connection with whatever pre-approval is granted to the utility?

Q: What type of determination is KCP&L requesting?

A: The full scope of the Company's request, including the impact on customers, is described in the Direct Testimony of Company witness Chris Giles. In terms of my testimony, the two most relevant elements outlined by Mr. Giles include (a) a finding by the Commission that KCP&L's plan to install wet scrubbers, baghouses and a common chimney for La Cygne Units 1 and 2 and a Selective Catalytic Reduction system and low-nitrogen oxide burners for Unit 2 is prudent (decisional prudence); and (b) a finding by the Commission that the estimated cost to complete the project outlined in (a), up to $1.23 billion on a total project basis is prudent (cost prudence) and that KCP&L's Kansas jurisdictional portion of those costs will be included in the Company's rates, by inclusion in rate base either in future rate proceedings or through a rider, with any amount in excess of the pre-approved amount subject to additional prudence review.

Q: When you mentioned the Company's "financial stakeholders" earlier, to whom were you referring?

A: The Company's "financial stakeholders" are parties in the financial community who have an interest in the Company's activities. These parties include current and prospective equity and fixed income investors, banks, and credit rating agencies.

Q: Do your job responsibilities entail frequent contact with the Company's financial stakeholders?

A: Yes. As the officer with primary responsibility for the Companies' investor relations and treasury functions, I correspond with current and prospective equity and fixed income investors and analysts, as well as banks, on virtually a daily basis. I also have primary officer-level accountability for managing the Companies' relationships with the rating agencies and am in contact with them frequently as well.

Q: Do you believe that your frequent contact with investors, analysts, rating agencies and banks ("financial stakeholders") allows you to reasonably assess how those parties might respond to a regulatory issue such as the subject of this docket?

A: Yes. Given the importance of regulatory matters to our business model, they are the most frequent topic of discussion with financial stakeholders. This provides me with a very good perspective regarding how those parties would be expected to view a given regulatory outcome.

Q: Are financial stakeholders aware that the Company is considering a significant environmental retrofit project at La Cygne?

A: Yes. The Company's 10-K disclosure related to the potential need for additional investment at La Cygne to comply with Best Available Retrofit Technology standards dates back to 2006. Recently, with the conclusion of the Comprehensive Energy Plan ("CEP") marked by the completion of Iatan Unit 2, financial stakeholders have been becoming increasingly more interested in the Company's post-CEP capital expenditure and investment plans. The Company's projected capital expenditures included in its 2009 10-K included amounts for Environmental of \$16.4 million, \$189.1 million, and \$189.9 million for 2010, 2011, and 2012, respectively (source: 2009 10-K, page 42). Though not specifically identified as such in the 10-K, these amounts represented the Company's best estimates at the time of cash outflows related to the La Cygne project described earlier (for only the three years indicated) and we have represented them accordingly in our discussions with financial stakeholders. Said another way, there is an already robust and increasing familiarity on the part of the Company's financial stakeholders that environmental retrofits at La Cygne represent the Company's next significant single large-scale investment following the completion of the CEP.

Q: Did the recent Commission order in KCP&L's rate case, the 415 Docket, contain any discussion that may influence investor expectations with respect to KCP&L's decision to pursue predetermination?

A: Yes. The Commission's discussion of its rationale for denying the Environmental Cost Recovery Rider ("ECRR") requested by KCP&L expressly pointed to other avenues available to the Company in lieu of an ECRR:

> Also, utilities can now use procedures provided for by statute to mitigate the need for an ECRR mechanism. Under the predetermination statute, a utility can gain assurance before construction that a generation project is needed and its costs are considered reasonable. (Source: Order: 1) Addressing Prudence; 2) Approving Application, in Part; & 3) Ruling on Pending Requests, Case No. 10-KCPE-415-RTS, November 22, 2010, page 113).

Q: How would financial stakeholders view the two determinations you mentioned?

A: The La Cygne project is a significant investment for the Company. Investors, rating agencies, and other financial parties familiar with the utility industry understand very well the regulatory risk profile of a significant project like La Cygne. In addition to financial and operational risk, regulatory risk is significant under traditional ratemaking, where the assessment of decisional prudence and the prudence of costs incurred occurs only after significant funds have already been invested. However, because Kansas affords utilities the ability to seek environmental cost recovery riders and/or predetermination for environmental projects and the Commission has authorized these mechanisms in the past, financial stakeholders expect Kansas utilities to pursue one or both of the alternative courses of action for such investments. As indicated above, though the Commission rejected KCP&L's request for an ECRR in the 415 Docket, it clearly pointed to predetermination as a viable alternative for KCP&L. As a result, in my opinion, financial stakeholders expect KCP&L to pursue and obtain the two predeterminations previously mentioned. The below excerpt from a recent report (attached as Schedule MWC2011-1) from one of the Wall Street investment banks that prepares and makes available to investors research on Great Plains Energy appears to capture this sentiment with respect to predetermination for KCP&L on the La Cygne project, particularly given the Commission's denial of the Company's requested ECRR in the 415 Docket. In my opinion, based on recent conversations, this view reasonably reflects that of other financial stakeholders as well with regard to predetermination:

> The KCC denied KCP&L's request for an environmental cost recovery rider (ECRR) similar to the one utilized by Westar Energy, GXP's neighboring utility in Kansas...... Hence, we believe the KCC decision may limit GXP's ability to recover future environmental capex on a timely basis, perpetuating the existing regulatory lag. KCP&L had proposed to use the ECRR to recover capital expenditures associated with the necessary environmental retrofits at the two LaCygne coal-fired units, which are required to be implemented by 6/1/2015.... We note, however, that KCP&L may negotiate a different recovery mechanism, *or use the existing predetermination statute, which enables companies to obtain regulatory pre-approval certifying prior to construction that a project is needed and its estimated costs are reasonable.* (Emphasis added.) (Source: JP Morgan Research Report on Great Plains Energy dated December 14, 2010, p. 9)

Q: What do you think would be the impact of the two determinations on the Company's ability to acquire additional capital on reasonable terms?

A: As I indicated in my previous response, in my view, financial stakeholders expect KCP&L to seek and obtain these two determinations before proceeding with any significant project at La Cygne. Those expectations are reflected in the Company's current cost of and access to capital, both of which the Company view as reasonable.

Q: What do you think would be the impact of KCP&L moving forward without the two determinations sought in this proceeding, *i.e.*, using a traditional ratemaking approach, on the Company's ability to acquire additional capital on reasonable terms?

A: I believe that such an action would be deemed imprudent by the Company's financial stakeholders and adversely affect the Company's ability to attract capital on reasonable terms. To understand this, one must view the impact of this project on financial stakeholders from an historical perspective. Prior to the surge in nuclear generation projects, utilities under "traditional regulation" determined the need for, type, fuel source, and size of new generation. The utilities raised the capital and constructed the project. Once the project was complete and deemed in-service to supply customers, the utility filed a rate case to include the cost of the generation plant in rates. Subsequent to the completion of a large number of nuclear generation plants, regulators in a number of instances disallowed costs, in some cases because a decision made perhaps as long as a decade earlier was deemed imprudent based on economics at the time of the disallowance ruling. Subsequent to the nuclear surge, and deregulation of generation in many states, utilities that announced plans to construct major plant additions or large scale environmental projects came under much more intense scrutiny and encountered more resistance from financial stakeholders. This is not a new development. KCP&L recognized this prior to pursuing its Comprehensive Energy Plan ("CEP") in 2004. KCP&L knew that investor and rating agency confidence, particularly with regard to decisional prudence, would be critical to the Company's ability to attract the necessary capital to finance the program and, as a result, pursued the Regulatory Plan to implement the CEP.

Q: How do you respond to the Commission's question in the 492 docket, "If a utility is successful in a predetermination proceeding, then it has shifted some risk from its shareholders to its ratepayers. Should the utility's stake in the generating facility, which was the subject of the predetermination proceeding, have different rate-making principles and treatment applied than would have been applied in a traditional rate case?"

A: First, I do not agree with the premise that the risk has been shifted from shareholders to ratepayers. In a successful predetermination proceeding, an assessment of the "right" or "prudent" cost has been made. Delivering the project at the "prudent" price involves no incremental risk to the customer. In fact, I would argue that determining up-front what represents a prudent project cost reduces customer risk because any cost over that defined amount will be subject to additional Commission scrutiny prior to being included in rates.

Second, with regard to the Commission's question, my response from a cost of capital perspective would be "no." Financial stakeholders view KCP&L as one company when they make the decision to invest capital, provide liquidity, or assign a credit rating. Money is fungible; an investor or bank that provides funding to KCP&L finances the overall operation, not just a given facility or a given project on a stand-alone basis. KCP&L's cost of capital should be determined on that basis—not on the basis of ratemaking principles for a specific project.

Q: How do you respond to the Commission's following questions in the 492 docket, "Will pre-approval reduce the utility's risk profile going forward? If so, should an

adjustment be made to the utility's return on equity in connection with whatever pre-approval is granted to the utility?"

A: Certainly the Company's regulatory risk on the La Cygne project would be less with predetermination compared to the same project without the benefit of that mechanism. However, given the fact Westar has already been granted predetermination in two dockets (Docket No. 07-WSEE-616-PRE and No. 08-WSEE-309-PRE) and the Commission has pointed to predetermination as an alternative for KCP&L in the absence of an ECRR, financial stakeholders would not perceive KCP&L's risk profile as improved if predetermination were granted. Rather, predetermination represents the "base case" and stakeholders would perceive KCP&L's risk as much higher without predetermination.

With regard to the second question (which implies a downward adjustment to return on equity ("ROE") if determinations are granted), my response is that such a change would not be warranted. Investors' *current* expectations support the *current* cost of equity; therefore, KCP&L's pursuit and successful use of a regulatory mechanism – one that is both available and has previously been implemented in the state – to establish definition with respect to decisional and cost prudence is assumed in the Company's existing cost of capital. Therefore, no downward adjustment to ROE should be made.

Q: How would predetermination impact the cost of long-term debt for the Company?

A: Because I believe that fixed income investors, like other financial stakeholders, expect KCP&L to obtain predetermination before moving forward with the La Cygne project, I would not expect the Company's cost of long-term debt to change significantly if predetermination were granted, everything else equal. Again, it is important to recognize the impact of not having a favorable decision on predetermination. If KCP&L were to be required to move forward with the La Cygne environmental retrofit project absent predetermination, KCP&L's cost of debt could rise markedly based on investor perceptions of increased risk for the project and a less supportive regulatory environment. This could occur even if the rating agencies do not downgrade KCP&L's credit rating. Given long-term debt issuance anticipated by the Company this year through 2012 of **[redacted]**, the adverse impact on the Company and its customers could be significant.

Q: Would you expect a similar dynamic to what you just described for long-term debt to apply to KCP&L's cost of short-term debt as well?

A: Yes. KCP&L obtains its short-term funding through the daily issuance of commercial paper ("CP") to money market investors. The cost of CP is driven by investors' view of KCP&L's risk profile. To the extent that KCP&L were to undertake the La Cygne project having been unsuccessful in obtaining the ability to use an available regulatory tool that has been granted in the past to other utilities in the state, KCP&L's short-term debt cost would be expected to increase, all other things being equal.

Q: Is the level of KCP&L's CP significant?

A: It certainly can be. For 2009-2010, KCP&L's quarter-end CP balance averaged just under $190 million, with a high of approximately $300 million.

Q: How do you think the credit rating agencies would respond if the Company successfully obtained the determinations it is requesting in this proceeding?

A: Given the positive change in KCP&L's outlook from "Negative" to "Stable" announced by both Moody's Investor Service ("Moody's") and Standard & Poor's ("S&P") in

March and April 2010, respectively, as well as the expectations I have already described, I would not expect that success in this docket would result in any immediate impact to the credit ratings or outlooks of the Company. Though that may well be the case, the potential positive longer term credit implications for KCP&L should not be discounted. The Moody's framework for evaluating credit ratings of regulated utility companies ascribes 50 percent of the rating to the regulatory climate. S&P's assessment of the Business Risk Profile of a regulated utility is based heavily on the regulatory climate as well. As reflected in recent published reports, both agencies currently consider Kansas a constructive regulatory environment for utilities. Over time, a pattern of additional developments that serve to corroborate and strengthen that view could be beneficial longer-term to the credit profile of the Company and positively affect access to and cost of capital.

Q: Please summarize the views you have expressed in your testimony.

A: The La Cygne environmental project is a significant undertaking for KCP&L and represents a significant portion of the Company's anticipated capital expenditures over the next few years. KCP&L's financial stakeholders have been aware of the potential need for major environmental investment at La Cygne for nearly four years and, over the past several months, have been increasingly interested in additional details around the timing and amount of spending and prospective regulatory treatment of the project. There is precedent in the state for granting predetermination and the Commission's order in the 415 Docket pointed to predetermination as an avenue for KCP&L to pursue in the absence of an ECRR. I therefore believe that KCP&L's financial stakeholders expect the Company to pursue and successfully obtain the determinations requested by KCP&L in this case, particularly with regard to decisional prudence and cost prudence, before proceeding with the La Cygne project. Given this expectation, I would not expect a significant change to cost of or access to capital if the determinations were authorized. The risk to KCP&L in terms of access to and cost of capital, however, is the negative financial stakeholder response anticipated if the Commission were to reject the Company's request, thereby forcing KCP&L to follow the higher-risk traditional ratemaking model if it were to go forward with this very significant investment. KCP&L had these same concerns when it formulated the CEP and therefore pursued the Regulatory Plan to mitigate them. In the current environment, a mechanism to resolve decisional prudence and cost prudence is already available and financial stakeholders expect KCP&L to be allowed to use it.

Q: Does that conclude your testimony?

A: Yes.

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Petition of Kansas City Power & Light Company ("KCP&L") for Determination of the Ratemaking Principles and Treatment that Will Apply to the Recovery in Rates of the Cost to be Incurred by KCP&L for Certain Electric Generation Facilities Under K.S.A. 2003 SUPP. 66-1239	))))))))	**Docket No. 11-KCPE-____-PRE**

AFFIDAVIT OF MICHAEL W. CLINE

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Michael W. Cline, being first duly sworn on his oath states:

1. My name is Michael W. Cline. I work in Kansas City, Missouri, and I am employed by Great Plains Energy, the parent company of Kansas City Power & Light Company as Vice President-Investor Relations and Treasurer.

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 thirteen (13) 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 thereof, are true and accurate to the best of my knowledge, information and belief.

Michael W Cline
Michael W. Cline

Subscribed and sworn before me this 1st day of February 2011.

Notary Public

DONNA J. STOWAY
Notary Public, Notary Seal
State of Missouri
Clay County
Commission # 10889620
My Commission Expires May 23, 2014

J.P.Morgan

North America Equity Research
14 December 2010

Great Plains Energy

Assuming Coverage: We Remain on the Sidelines Until Regulatory Overhang Dissipates

We are assuming lead analyst coverage of Great Plains Energy and maintain our Neutral rating on the stock. GXP should benefit from earnings growth as the company reflects the final investments under its Comprehensive Energy Plan (CEP) in rates; however, we believe this is offset by the headline risk inherent in the pending rate cases in MO. As earnings visibility improves, we may be in a position to revisit our stance, but believe it is too early to do so yet. Accordingly, we maintain our Neutral rating on GXP shares.

- **Attractive rate base growth should boost the company's earnings power.** We expect recovery of capital investment under GXP's 5-year CEP to be the key driver of EPS growth in 2011 and 2012. The KS portion (~ 1/3 of the total capex) has already been reflected in rates, but the MO portion is still pending. We expect all CEP-related investments to be reflected in rates by mid-2011, and note that GXP's earnings power is predicated on constructive regulatory outcomes in the pending rate cases.
- **Lack of earnings visibility and headline risk in MO prompt us to remain on the sidelines.** Although GXP's pending rate cases in MO should boost its 2012 EPS, the regulatory uncertainty in a traditionally tough jurisdiction is a significant risk factor, in our view. Hence, we recommend that investors remain on the sidelines at least until the rate case hearings are completed, when visibility into the possible outcomes should improve.
- **Environmental retrofits likely to support long-term rate base growth.** Beyond the Comprehensive Energy Plan, we anticipate environmental retrofits at GXP's existing coal plants to constitute the most meaningful rate base growth driver going forward. Their timing and magnitude, as well as GXP's ability to negotiate appropriate regulatory treatment that minimizes regulatory lag, however, will likely determine the ultimate earnings impact.
- **Valuation appropriately balances EPS growth and residual risk.** Our Dec. 2011 price target of $21 is based on a relative P/E valuation which reflects our updated earnings forecast. Despite their attractive growth prospects, we believe GXP shares should trade at a modest discount of ~ 5% vs. regulated peers in order to reflect the regulatory risk associated with the pending MO rate cases.

Neutral

GXP, GXP US
Price: $19.27

▼ **Price Target: $21.00**
Previous: $24.00

Electric Utilities & IPPs

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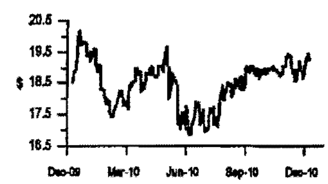
J.P. Morgan Securities LLC

Price Performance



	YTD	1m	3m	12m
Abs	-0.9%	0.3%	1.6%	3.9%

SMid Cap Research
THINK BIG, BUY SMALL

Great Plains Energy, Inc. (GXP;GXP US)

	2009A	2010E (Old)	2010E (New)	2011E (Old)	2011E (New)	2012E
EPS Reported ($)						
Q1 (Mar)	0.05	0.15A	0.15A			
Q2 (Jun)	0.28	0.47A	0.47A			
Q3 (Sep)	0.57	0.80A	0.96A			
Q4 (Dec)	0.10					
FY	1.03	1.45	1.60	1.70	1.60	1.65
Bloomberg EPS FY ($)	1.16		1.55		1.57	1.75

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomberg' above denotes Bloomberg consensus estimates.

Company Data	
Price ($)	19.27
Date Of Price	10 Dec 10
52-week Range ($)	20.29 - 16.63
Mkt Cap ($ mn)	2,612.28
Fiscal Year End	Dec
Shares O/S (mn)	136
Price Target ($)	21.00
Price Target End Date	31 Dec 11
Div. Yield	4.3%
Dividend ($)	0.83

See page 15 for analyst certification and important disclosures.

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Table of Contents

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Key Investment Points

Great Plains Energy (GXP)

Neutral

With three rate cases currently pending in MO, we anticipate the first half of 2011 to be a busy time for Great Plains Energy as the utilities seek to recover in rates the final capital expenditures related to Iatan 2. Although we expect rate case activity to ultimately boost the company's earnings power in 2011 and especially in 2012, we also anticipate disproportionate headline risk, which tempers our enthusiasm in the near term and forces us to remain on the sidelines.

Recovering recent investments in rates should be the most immediate source of EPS growth

Great Plains Energy is currently in the final stages of completing its Comprehensive Energy Plan (CEP), a 5-year investment program negotiated with regulators and stakeholders that committed the company to certain types of investments, including building the new supercritical coal-fired Iatan Unit 2. Recovering these investments in rates should boost GXP's earnings power in 2011 and 2012. The company just completed a rate case in KS with a reasonably constructive outcome, and is in the midst of a series of rate cases in MO to recover the MO jurisdictional portion of its spending. Achieving constructive regulatory outcomes in the pending rate cases would be a key determinant of GXP's near-term earnings power. Our estimates are premised on the company getting about half of its requested Missouri rate relief.

Lack of earnings visibility and headline risk in MO remain key concerns for us

Great Plains Energy's 2012 earnings power is predicated on three rate cases that are currently pending in Missouri, with hearings due in Jan.-Feb. 2011. Missouri regulation has traditionally been marked by contentious proceedings and below-average authorized returns. For example, Missouri Commission Staff recently recommended a 9% ROE in all pending cases, well below comparable returns in other jurisdictions. Thus, we perceive the hearings, as well as the final Commission rate orders, as a source of headline risk for the company, which tempers our enthusiasm in the next several months. Therefore, we recommend that investors remain on the sidelines at least until the hearings phase in the rate cases is completed and regulatory risk begins to dissipate.

Environmental retrofits likely to drive rate base growth beyond 2011

With the completion of the CEP this year, we anticipate environmental retrofits at GXP's existing coal plants to constitute the most meaningful rate base growth driver going forward. Although Great Plains has other investment options such as transmission and renewables projects, we believe they carry a higher hurdle rate and therefore are more uncertain in terms of magnitude and timing. While environmental capex could continue to drive attractive rate base growth in the near term, we believe its recovery is more uncertain than that of investments under the CEP. Consequently, negotiating the appropriate regulatory treatment that minimizes regulatory lag would be the key to translating rate base growth into earnings growth, in our view.

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Expect the shares to trade sideways until regulatory risk dissipates
Busy regulatory calendar in 1H11 likely to cause GXP shares to trade sideways. We continue to expect the company's busy regulatory calendar in 1Q11 and 2Q11 to cause the stock to trade sideways in the next several months as the regulatory overhang from several concurrent rate case proceedings in MO weighs on the stock.

Regulatory lag also continues to be a concern
Since both Kansas and Missouri employ historical rate making, regulatory lag can be a significant concern. It has been mitigated in recent years by GXP's Energy Plan and the series of frequent rate cases that the plan contemplated. As the CEP comes to its logical end, however, regulatory lag remains a persistent concern for us, especially as the company embarks on a round of environmental retrofits over the next several years. We expect GXP management to work with regulators in both states to find ways to minimize regulatory lag going forward, although the actual means to do so remain uncertain.

Cost recovery trackers could be an effective way to mitigate regulatory lag
As GXP contemplates additional environmental retrofits, we believe the use of cost recovery trackers, either for specific facilities or types of capex, would be an important tool to minimize regulatory lag. The company's Kansas regulators recently rejected GXP's proposed environmental cost recovery rider because they found it to be ill-suited for an investment as large as the LaCygne environmental retrofit, but did not preclude the company from seeking a modified environmental rider in the future.

Valuation appropriately reflects attractive growth prospects, balanced by residual regulatory overhang
GXP shares trade at 12.1x our revised 2011E EPS of $1.60 per share vs. a pure-play regulated peer group multiple of 13.9x. Although the stock appears to screen cheap relative to its regulated peers, we believe its valuation appropriately reflects GXP's attractive earnings growth prospects counterbalanced by the regulatory risk associated with the company's pending Missouri rate cases. As we obtain better visibility into GXP's 2011 and 2012 earnings power, we may revisit our investment thesis on the stock. In the meantime, however, we remain on the sidelines.

Investment Risks

Our rating and price target could be at risk if:

- GXP's regulatory environment improves or deteriorates meaningfully.
- Great Plains has better investment opportunities than we project, or, conversely, some of its investments do not materialize.
- The company has to raise external equity financing in order to maintain its credit metrics or regulatory capital structure.
- GXP takes the dilution resulting from its equity units in mid-2012.
- Commodity prices fall sharply as Great Plains would not be able to earn the wholesale margin assumed in its rate structure.

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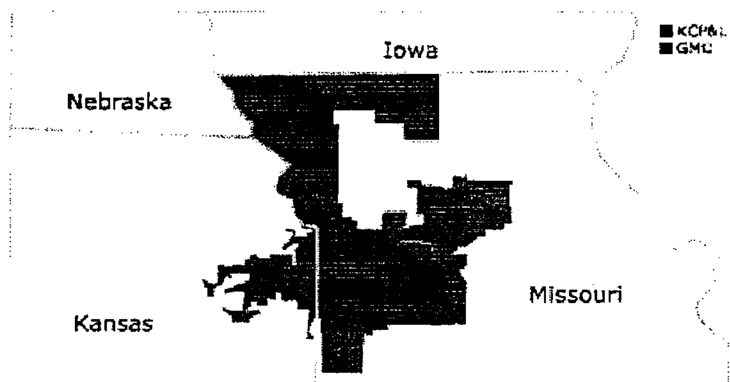
Company Description

Great Plains Energy (NYSE: GXP) is a vertically integrated electric utility serving over 820,000 customers in Missouri and Kansas. Headquartered in Kansas City, MO, the holding company operates through two principal subsidiaries: Kansas City Power & Light Company (KCP&L) with operations in KS and MO, and KCP&L Greater Missouri Operations Company (GMO) with operations in MO. GMO comprises of two separate legal entities, MPS and L&P, both of which were acquired by GXP from Aquila, Inc. on 7/14/2008. Neither Kansas nor Missouri have deregulated their electricity markets. Great Plains Energy is subject to regulation by the Missouri Public Service Commission (MPSC), the Kansas Corporation Commission (KCC), as well as by the Federal Energy Regulatory Commission (FERC) with respect to interstate transmission and wholesale electricity sales, and by the Southwest Power Pool (SPP) with respect to its transmission assets.

Figure 1: GXP Service Territory by Operating Segment



Source: Company reports.

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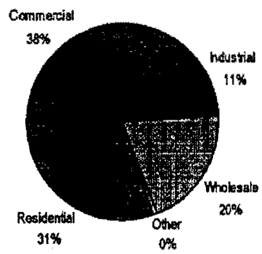
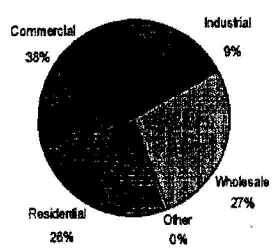
Company Overview

Figure 2: 2009 GXP Sales Breakdown



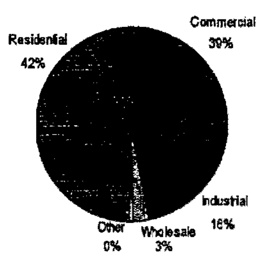
Source: Company reports and J.P. Morgan estimates.

Figure 3: 2009 KCP&L Sales Breakdown



Source: Company reports and J.P. Morgan estimates.

Figure 4: 2009 GMO Sales Breakdown



Source: Company reports and J.P. Morgan estimates.

Since the acquisition of Acquila, Inc.'s MO operations (now Greater Missouri Operations Company, or GMO) in July 2008 and the divestiture of its former unregulated subsidiary, Strategic Energy, in June 2008, Great Plains Energy has concentrated on its core electric utility operations and on regulated growth. At the same time, the legacy KCP&L segment remains focused on executing its 5-year Comprehensive Energy Plan (CEP), leading to above-average rate base growth in the past several years. Since Great Plains has largely completed the CEP, the key investor focus has shifted to recovering the last investments in rates. The company continues to experience meaningful regulatory lag in both of its jurisdictions, although the series of pending rate cases should cause the regulatory lag to diminish in the next 12 months, thus driving earnings growth. Beyond regulatory activity, we anticipate the integration of the GMO acquisition and resulting synergies to continue to support earnings growth as costs are squeezed out.

We expect the key near-term driver for GXP shares to be the busy regulatory calendar while the Missouri utilities complete the pending series of rate cases. In the meantime, we recommend that investors remain on the sidelines as we anticipate the regulatory overhang to cause GXP shares to trade sideways in the near term. As we obtain greater visibility into the magnitude of the earnings uplift and the company's earnings power in 2012 and beyond, we may revisit our investment thesis on the stock.

Investments Continue to Drive Rate Base Growth

KCP&L's CEP drives meaningful rate base growth

In 2005, KCP&L embarked on an ambitious 5-year capital investment initiative, the Comprehensive Energy Plan (CEP), which is largely completed at this stage. By the end of 2010, we expect GXP's total rate base to reach about $5.8 billion, up 60% from about $3.6 billion at the end of 2008. Under this strategy negotiated with regulators and other stakeholders in Missouri and Kansas, KCP&L agreed to undertake a series of investments in five broad categories:

Environmental retrofits: SCR at LaCygne Unit 1 (completed in 3Q06) and an air quality control system at Iatan Unit 1 (completed in 2Q09);

- **Construction of a new 850-MW supercritical coal unit,** Iatan 2 (in service at the end of Aug. 2010; total GXP share: 73%);
- **Wind generation investments:** 100 MW of wind capacity by 2010 (the Spearville Wind Energy Center; online in 3Q06), and up to an additional 300MW by 2012. GXP began construction of another 48 MW at the Spearville sit in 3Q10, which are expected to come online in December 2010.
- **Infrastructure improvement projects** focused on maintaining reliability and improving ageing and/or inadequate facilities;
- **Energy efficiency and demand response programs.**

Although the CEP does not equate to pre-approval, it significantly diminishes the risk of regulatory disallowances given that the regulators at least agreed on the types

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The CEP dramatically reduces regulatory risk, in our view.

of capital investment projects that the utility should undertake included as part of the plan. Regulators, can, however, challenge the cost of individual projects. We note that there were no regulatory disallowances for GXP's investments in the Spearville wind farm, the environmental retrofit of LaCygne, and for Iatan 1 in the 2009 rate cases, and the regulatory disallowances for Iatan Unit 2 adopted in KCP&L's recent KS rate case have been relatively small. Hence, the CEP limits the potential liability that GXP may be exposed to and results in constructive regulatory treatment for the utility.

No CEP equivalent at GMO, but the EPS drivers are similar

Iatan Unit 2 ownership:

55% KCP&L
18% GMO
12% Empire District (EDE)
15% munis & coops

Although GMO does not have an equivalent to the CEP, it is a part-owner in many of KCP&L's projects, including Iatan Units 1 and 2. This, in our opinion, diminishes the regulatory risk for GMO because we believe the Missouri regulators are unlikely to disallow the same investments that they have already determined are prudent for another utility, in this case KCP&L. This should shield GMO and, by extension, GXP from the potential for undue regulatory burden.

Environmental retrofits should remain a key capital spending driver near term

The environmental retrofit of LaCygne 1 was initially part of the CEP, but was subsequently delayed as high demand for pollution control equipment resulted in shortages and concurrent price spikes.

The scale, scope and effective regulatory pre-approval of capital investment under GXP's CEP are unlikely to be matched in the near term, in our view. However, we anticipate the installation of environmental control equipment that GXP is required to make on some of its coal plants to translate into sizeable capital investment opportunities over the next five years, and to continue to drive rate base growth. For example, GXP is required to meet more stringent emissions requirements under Best Available Retrofit Technology (BART) standards at its coal units by 6/1/2015. Great Plains has already announced plans to retrofit the two LaCygne units, and is evaluating similar options for Sibley 3, Lake Rose 6, Montrose 3, and Westar Energy's Jeffrey Energy Center (in which GMO is a partial 8% owner). These investments could add over $1 billion to the rate base. Without the relative regulatory certainty under the CEP, however, the attractiveness of these investment opportunities will be determined by the regulatory treatment that they receive, which we do not expect to have good visibility into for some time.

Transmission investments should also contribute to rate base growth, though longer-dated in our view

Transmission investments typically take 5-10 years from start to finish, owing to the difficulty in siting and permitting the lines.

The transmission network of GXP's utilities is part of the regional grid of the Southwest Power Pool (SPP), the regional transmission organization in the area in charge of maintaining system reliability. SPP has approved several transmission projects as part of its regional infrastructure plan, some of which are in GXP's service territory. For example, Great Plains plans to build a 170-mile 345-kV line in GMO's service territory with an estimated cost of $380 million, which the company plans to invest in the 2012-2017 timeframe. We also believe that additional projects are likely to be approved for construction over the next several years on the heels of years of palpable under-investment in the electrical grid. Hence, transmission investments could also be a meaningful driver for rate base growth going forward, although we caution that they are likely to have longer lead times relative to other types of infrastructure spending given the significant siting and permitting hurdles associated with transmission projects in general.

RPS in KS and MO bode well for investments in renewable generation, too

The recent passage of a renewable portfolio standard (RPS) in Kansas could present an opportunity for Great Plains to invest in additional renewable generation in the

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medium and longer term. Kansas has a renewable portfolio standard (RPS) that requires 20% of each utility's peak capacity to be sourced from renewables by 2020, with intermediate targets of 10% by 2011, and 15% by 2016. Missouri adopted an RPS in 2008, mandating a 15% renewable energy requirement by 2021. Both of these regulatory requirements could present an opportunity for Great Plains to invest in additional renewable generation in the medium and longer term. We caution, however, that growth in renewable generation may not be as robust as each state's RPS suggests if the company chooses to satisfy its obligation through purchase power agreements rather than by building renewable generation in-house. We also note that the corresponding impact on customer bills in both states is limited to 1% per year, which may act as a deterrent to significant capital investment in renewables by the utilities.

Clarity on nuclear strategy unlikely in the near term
The Governor of MO has engaged in conversations with the utilities in the state and with interveners about repealing the current law that bans utilities from recovering nuclear construction costs prior to project completion. In recent conversations, GXP management reiterated that the company is supportive of the proposed legislative change, and views this as the necessary first step to engaging in further discussions about potentially investing in new nuclear generation. Great Plains announced recently its interest in exploring the possibility of building an additional unit at the Callaway nuclear site along with plant owner Ameren Corp. However, we believe that an investment decision around new nuclear generation is some ways down the road, if ever, and we therefore do not view it as a realistic growth driver in the medium term.

One Rate Case Down in KS…

Rate case decision and background
GXP filed a rate case in Kansas in December 2009 for the Kansas jurisdictional portion of KCP&L (Docket No. 10-KCPE-415-RTS). The filing sought to recovery mainly the utility's investment in Iatan Unit 2, as well as remaining investments in Iatan common plant and environmental upgrades on Iatan Unit 1 that were not captured in prior regulatory filings. In November 2010, the Kansas Corporation Commission (KCC) approved a $21.8 million (4.6%) rate increase for KCP&L-Kansas premised upon a 10% ROE, 49.7% equity and a rate base of $1.781 billion. This compares to the company's request for a $55.1 million (11.5%) rate hike based on an 11.25% ROE and 46% equity, which was subsequently revised to a $50.9 million ask and a 10.75% ROE following a partial settlement with intervenors. We estimate that the ROE differential vs. the original filing equates to about $17 million on a revenue-equivalent basis. New rates became effective on 12/1/2010.

Constructive rate case resolution in KS, though KS is the more supportive jurisdiction, in our opinion

Constructive outcome in KS is important, but KS represents only 28% of total sales, so an uphill battle is still ahead

Although the authorized rate increase is below the company's request, it is also well above the KCC Staff's recommended metrics, namely a $9.1 million increase and a 9.7% ROE. We consider this as a fairly constructive regulatory outcome, but note that Kansas in our opinion is a less contentious regulatory jurisdiction than Missouri, meaning that regulatory risk remains heightened for the balance of the company.

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Relatively small disallowance for a large capital investment is a net positive
All capital expenditures under the CEP are subject to a prudence review, albeit with pre-determined hard caps on potential disallowances. The KCC adopted KCP&L's own proposal for Iatan 2 project disallowances of $20.4 million, of which $5.1 million reflects the KS jurisdictional portion. The KCC furthermore required minimal disallowances of $1 million for the environmental retrofit of Iatan 1 and Iatan common plant ($3.2 million on a total project basis). Relative to the size of the multi-million-dollar construction spending program, we believe these disallowances are fairly small, which supports our view of constructive regulation in the state of KS and, more importantly, sets a precedent for the pending MO rate cases.

Denial of environmental tracker may preclude timely recovery of future environmental spending
The KCC denied KCP&L's request for an environmental cost recovery rider (ECRR) similar to the one utilized by Westar Energy, GXP's neighboring utility in Kansas. Unlike Westar's rider, KCP&L's request incorporating the recovery of incremental O&M costs associated with environmental projects. Spending trackers are one of the key mechanisms to mitigate regulatory lag in jurisdictions that employ a historical rate making process. Hence, we believe the KCC decision may limit GXP's ability to recover future environmental capex on a timely basis, perpetuating the existing regulatory lag. KCP&L had proposed to use the ECRR to recover capital expenditures associated with the necessary environmental retrofits at the two LaCygne coal-fired units, which are required to be implemented by 6/1/2015. The KCC cited several reasons for its decision, including that the LaCygne retrofits constitute a significant capital investment which the ECRR is ill-suited to deal with, that the proposed ECRR schedule was identical to Westar's which would place an undue burden on the Commission calendar, and that GXP had agreed to forego a similar rider in MO until 2015. We note, however, that KCP&L may negotiate a different recovery mechanism, or use the existing predetermination statute, which enables companies to obtain regulatory pre-approval certifying prior to construction that a project is needed and its estimated costs are reasonable.

The instant ECRR rejection does not preclude GXP from applying for a modified tracker or from using the predetermination statute

Other issues resolved in the rate case should not have a material near-term impact
The current rate case resolved several issues as well; however, we don't expect any one of them to have a material impact on the stock in the near term. KCPL's proposals to modify and continue to use its current pension benefit tracker, which expires upon the completion of the CEP, was denied by the KCC. The Commission also denied the company's request to file an abbreviated rate case to true up any final adjustments to the Iatan construction costs, viewing it as premature. We do not consider either of these issues as critical for the company going forward, and do not expect them to have a material adverse impact in the near term.

... But Several More to Go Through in MO

With three rate cases currently pending in MO, we anticipate the first half of 2011 to be a busy time for Great Plains Energy as the Missouri utilities seek to recover in rates the final capital expenditures related to Iatan 2. Although we expect rate case activity to ultimately boost the company's earnings power in 2011 and 2012, we also anticipate disproportionate headline risk, which tempers our enthusiasm in the next several months.

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Lack of near-term earnings visibility is one of our main concerns for GXP investors.

3 rate cases pending in MO hinder near-term EPS visibility

Great Plains filed a series of rate cases with the Missouri Public Service Commission (MPSC) in June 2010 in order to recover the MO portion of its investment in Iatan Unit 2, as well as the cost of common Iatan facilities and Iatan 1 costs not previously recovered. The Missouri filings came half a year later than KCP&L's KS rate case due to the delay in the start-up of Iatan 2, which was originally expected earlier in 2010. Pursuant to Missouri's regulatory policies, the power plant had to be online before the MPSC could consider the corresponding capital investment and to include it in rate base. Table 1 below summarizes the requested rate increases and return and asset base parameters sought by the company.

Table 1: Rate Cases Filed in Missouri

Utility	Case No.	Rate Increase	ROE	Rate Base ($ mil)	Rates Effective
KCP&L - MO	C-ER-2010-0355	$92.1	11.0%	$2,123	5/4/2011
GMO - MPS	C-ER-2010-0356 (MPS)	$75.8	11.0%	$1,469	6/4/2011
GMO - L&P	C-ER-2010-0356 (L&P)	$22.1	11.0%	$422	6/4/2011

Source: Company reports and J.P. Morgan estimates.

Staff recommendations are not final, but 9% ROE underscores unfavorable regulation

Initial MPSC Staff recommendations are a poor guideline for the final outcome, in our view, given that they do not incorporate all assets.

The MPSC Staff filed testimony under each of the three pending dockets in November 2010, which are summarized in Table 2 below. Although the recommended rate increases appear significantly below the company's requests at a first glance, we note that Staff's recommendations do not take into account plant additions completed after 6/30/2010, which will be trued up in subsequent Staff testimony expected to be filed with the Commission in early 2011. Staff furthermore indicated that the latter may substantially change its recommendations. Thus, we believe that it is premature to use Staff's preliminary rate increase figures as a reference point, but caution that the 9% recommended ROE is unlikely to be revised upward. In our opinion, a 9% ROE is significantly below equity returns in other jurisdictions, and would be a further negative sign for Missouri regulation if adopted by the MPSC. Consequently, we remain cautious observers of the further progression of the regulatory calendar in the state for now.

Table 2: MPSC Staff Recommendations

Utility	Case No.	Rate Increase	% of Ask	ROE	Rate Base ($ mil)
KCP&L - MO	C-ER-2010-0355	$7.0	7.6%	9.0%	$1,843
GMO - MPS	C-ER-2010-0356 (MPS)	$5.5	7.3%	9.0%	$1,180
GMO - L&P	C-ER-2010-0356 (L&P)	$30.7	138.9%	9.0%	$486

Source: Company reports and J.P. Morgan estimates.

We remain on the sidelines at least until the hearings are completed in light of MO's contentious regulatory framework

<u>MO evidentiary hearings:</u>

KCP&L: 1/18-2/4/2011
GMO: 2/14-2/18/2011

Missouri regulation has traditionally been marked by contentious proceedings and below-average authorized returns. Consequently, we anticipate the hearings scheduled in the individual proceedings to be fairly contentious and therefore a potential source of headline risk. Therefore, we recommend that investors remain on the sidelines at least until the hearings phase in the rate cases is completed and regulatory risk dissipates. When regulatory visibility improves, we would be ready to revisit our investment thesis.

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Other Regulatory Concerns Expected to Persist

We expect key regulatory concerns such as regulatory lag and the lack of full fuel pass-through in some of Great Plains Energy's jurisdictions to persist, and to remain risk factors for equity investors. Fuel risk is partly mitigated near-term in our view by the current depressed commodity cost environment.

Regulatory lag remains an issue, particularly with large environmental retrofits looming on the horizon
Neither Kansas nor Missouri employs prospective rate making, which, in our opinion, could be a meaningful risk factor during periods of significant capital spending. We do not anticipate major changes to regulation in either state in the short run. Although Great Plains has had some success with innovative strategies such as the Comprehensive Energy Plan, we are skeptical of the company's ability to negotiate a similar plan going forward in the still relatively depressed economic environment. GXP may be able to reduce regulatory lag by employing tracking mechanisms for specific types of capex, although we think the recent rejection of an environmental tracker in Kansas is not an encouraging start. We note that GXP has applied for transmission spending trackers in Missouri, which would be a positive if approved. Continuing to work with its regulators in both states to find ways that mitigate regulatory lag should remain a critical priority for GXP, in our view.

Current ban on use of CWIP in Missouri is a challenge, but may be repealed
Missouri legislation prohibits the use of construction work in progress (CWIP) since a 1976 popular vote banned its use. This limits a utility's ability to recover construction costs until after a plant or other equipment has been placed in service, which presents a challenge in recovering capital spending associated with large investment projects. Recently, the Missouri Governor expressed a renewed interest in repealing the law; however, we believe that these discussions are in the preliminary stages and it is therefore unclear whether they will result in an actual change. We also note that several interest groups sought to repeal the CWIP provision in the 2009 legislative session, but ultimately failed. Given the history in the state, we anticipate the renewed repeal effort to be contentious and passage questionable.

Lack of complete fuel pass-through introduces commodity risk exposure
KCP&L has a conventional fuel clause in Kansas, allowing it to pass a 100% of fuel and purchased power costs to customers. The utility does not have a similar mechanism in Missouri, however, where KCP&L-MO agreed not to seek a fuel clause until 2015 as part of the negotiating the CEP. KCP&L's Missouri jurisdictional portion of wholesale sales (about 55%) is credited back to retail customers, although the real risk for the company stems from the fact that wholesale margins are estimated prospectively and incorporated in rates, exposing the utility to under- or over-earning relative to this amount if actual wholesale sales differ from the forecast. Although the shortfall or over-earning is adjusted in the next rate case, this mechanism exposes the company to short-term earnings fluctuations. Finally, GMO's exposure to commodity prices has been limited since 2008 when the utility was allowed to pass 95% of electric fuel and purchased power costs to consumers through a fuel adjustment clause (FAC), and 80% of steam costs through a quarterly cost adjustment (QCA) mechanism. The steam business comprises an insignificant portion of the whole company (less than 1%), and, therefore, we do not see the 20% that may potentially not be recovered as a significant risk factor for the company. In the pending rate case, however, Staff recommended a sharing mechanism that would

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only allow GMO to pass 75% of its fuel costs to consumers, potentially leaving shareholders on the hook for the rest. If approved, this would be a material deterioration in GMO's position.

Earnings and Cash Flow Analysis

Revising 2010-2012 earnings estimates
We are increasing our 2010 earnings estimate to $1.60 from $1.45 previously to incorporate YTD results, including the benefit of above-normal weather in GXP's service territory. We are modestly lowering our 2011E EPS to $1.60 from $1.70 previously to account for the delay in the in-service date of Iatan 2, which in turn pushes out some of the benefit of anticipated rate relief. Finally, we are adjusting our 2012E estimate to $1.65 from $1.75 per share after fine-tuning our cost and dilution assumptions. Our estimates assume that Great Plains's Missouri utilities receive about half of their respective requested rate relief in the pending rate cases. We also anticipate the MPSC to maintain the current regulatory calendar, with new rates in service 5/4/11 for KCP&L-Missouri and 6/4/11 for GMO. Any further delays could have a negative impact on our earnings forecast.

Expect FCF to remain negative while capex levels remain elevated
Our model assumes that Great Plains remains free cash flow negative at least through 2013-2014 while environmental and other capital spending needs remain at elevated levels. Assuming relatively timely recovery of capital spending in rates and healthy earned returns on capital, we do not view the negative FCF in and of itself as a reason for concern. We do, however, believe that a supportive regulatory environment would play a pivotal role in investors' level of comfort with the company's ambitious capex plans.

Dilution from the equity linked units in mid-2012 to pressure 2012-2013 EPS
Our 2012E EPS assume incremental dilution from the company's existing equity units. Great Plains issued 5.75 million equity units in mid-2009 with proceeds of $287.5 million, which are mandatorily convertible no later than 6/15/2012. Our forecast assumes that each unit converts into 2.9762 common shares, equivalent to 17 million additional shares, which is consistent with a share price above $16.80 per share. This is the main factor that partially offsets the positive impact of having new rates in effect for a full year in 2012. We note, however, that converting the equity units into straight equity also improves GXP's equity ratio, making another equity issuance highly unlikely through 2013. Finally, we expect the company to remarket the 10% subordinated notes underlying the equity units in the 6 months preceding the mandatory conversion date and to replace them with less expensive form of financing, which should lower interest costs in 2012 and beyond.

Since the equity units were excluded from the regulatory capital structure in KS, GXP would have to file another rate case in 2012 in order to have the additional equity reflected in rates.

Expect leverage to improve with the conversion of the equity units
We project overall leverage to decline to ~ 53% by the end of 2012 from ~ 57% expected in 2010 after the equity units convert into straight equity in mid-2012. The improving balance sheet position is consistent with the company's stated desire to focus on improving its credit metrics over time, which are somewhat weakened on the heels of the 5-year CEP. Our forecast assumes that GXP would not need to issue additional equity over this timeframe

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Valuation and Rating Analysis

We are assuming lead analyst coverage of Great Plains Energy and are maintaining our Neutral rating. Although GXP shares could offer investors attractive EPS growth in 2012, we believe it is too early to get aggressive with the stock given that significant amount of regulatory risk remains while the Missouri utilities are going through their rate cases. Longer-term, we remain concerned about the detrimental impact of regulatory lag on earnings in both Missouri and Kansas, particularly since Great Plains is faced with meaningful environmental capital spending requirements through 2015. Accordingly, we recommend that investors remain on the sidelines at least until the hearings in the Missouri rate cases are completed and earnings visibility improves.

Earnings growth already reflected in valuation, in our view
GXP shares currently trade at a 2011 P/E multiple of 12.1x, or at a discount of about 10% vs. the purely regulated peer group multiple. Although the appropriate discount should be somewhat lower in our view, or about 5%, the implied upside is not sufficient to get us to be more constructive on the stock yet. Furthermore, even though the shares screen relatively cheap on 2012E EPS, we believe the regulatory risk to GXP's 2012 earnings power remains above-average and therefore warrants discounted valuation. Hence, we expect the pending rate cases in Missouri to continue to weigh on GXP shares in the near term as regulatory uncertainty dominates the stock. As a result, we are maintaining our Neutral rating on the stock, and would revisit our investment thesis on the stock as we get more visibility into the company's 2012 earnings power.

Table 3: Relative P/E Valuation

Valuation at Group P/E Multiple	2010E	2011E	2012E
JPM GXP EPS Estimate ($/share)	15.1x	13.9x	12.9x
Group Average P/E	-5.0%	-5.0%	-5.0%
Assumed Premium/Discount (%)	14.4x	13.2x	12.3x
Implied P/E for Valuation	**$22.98**	**$21.11**	**$20.28**
GXP Valuation at Group Multiple	*18.9%*	*9.2%*	*4.9%*
Upside/Downside (%)	*4.3%*	*4.5%*	*4.7%*
Dividend Yield (%)	*23.2%*	*13.7%*	*9.7%*
Total Return Potential (%)	15.1x	13.9x	12.9x

Source: Company reports and JPMorgan estimates.

Adjusting our December 2011 PT to $21
We are lowering our December 2011 price target to $21 per share from $24 previously to reflect our updated earnings forecast, current group multiple and a modest discount to the group multiple to reflect the residual regulatory overhang associated with the pending rate cases. We believe that GXP shares should trade at a modest discount of about 5% vs. the 2011 average pure-play regulated utility P/E multiple 13.9x, which we apply to our updated 2011E EPS of $1.60 to derive our price target. In our view, the regulatory risk associated with GXP's pending rate cases in MO warrants a modest discount to account for the potential headline risk and uncertainty, but the discount may dissipate if the regulatory outcomes turn out to be favorable. Finally, our discounted valuation also incorporates the regulatory lag that GXP experiences under its current rate-making mechanisms.

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Great Plains Energy: Summary of Financials

Income Statement - Annual	FY09A	FY10E	FY11E	FY12E
Sales	1,965	2,313	2,466	2,539
COGS	589	701	751	770
D&A	302	339	373	394
Operations and maintenance	754	795	834	851
Other expenses	-	-	-	-
Total operating expenses	1,645	1,835	1,958	2,014
Other income / (expense)	43	35	15	10
EBIT	**363**	**513**	**522**	**535**
EBITDA	**665**	**852**	**895**	**928**
Interest expense	181	185	188	176
Income tax provision	30	112	114	122
Tax rate	16.2%	34.0%	34.0%	34.0%
Discontinued operations and other	(2)	0	0	0
Preferred dividends	2	2	2	2
Net Income	**148**	**214**	**219**	**235**
Total non-recurring items	2	0	0	0
Net Income (Recurring)	**150**	**214**	**219**	**235**
Diluted shares outstanding	**130**	**136**	**136**	**144**
Diluted EPS	**1.15**	**1.60**	**1.60**	**1.65**
DPS ($)	0.83	0.83	0.87	0.92
Payout ratio	71.5%	52.4%	54.0%	56.1%

Income Statement - Quarterly	1Q10A	2Q10A	3Q10A	4Q10E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	-	-	-	-
EBITDA	-	-	-	-
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net Income	-	-	-	-
Total non-recurring items	-	-	-	-
Net Income (Recurring)	-	-	-	-
Diluted shares outstanding	-	-	-	-
Diluted EPS	-	-	-	-
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY09A	FY10E	FY11E	FY12E
Cash and cash equivalents	66	0	0	0
Current assets	547	547	547	547
PP&E	6,651	6,988	7,300	7,574
Non-current assets	1,219	1,224	1,229	1,234
Total assets	**8,483**	**8,759**	**9,076**	**9,355**
Current liabilities	958	1,366	1,882	981
Long-term Debt	3,213	2,980	2,680	3,468
Preferred stock	39	39	39	39
Other non-current liabilities	1,479	1,479	1,479	1,479
Common equity	2,794	2,896	2,996	3,387
Total liabilities & equity	8,483	8,759	9,076	9,355
Net income	148	214	219	235
D&A	302	339	373	394
Change in working capital	(118)	0	0	0
Change in other assets	0	0	0	0
Net operating cash flow	**335**	**569**	**606**	**643**
Cash flow from investing activities	**(898)**	**(697)**	**(704)**	**(688)**
Net common equity issued/(repurchased)	220	0	0	288
Net debt issued/(repurchased)	484	175	216	(112)
Common dividends paid	(110)	(112)	(118)	(132)
Other financing activity	(27)	0	0	0
Cash flow from financing activities	**567**	**62**	**98**	**44**
Increase/(decrease) in cash	5	(66)	0	0
Cash at beginning of the period	61	66	0	0
Cash at end of the period	66	0	0	0

Ratio Analysis	FY09A	FY10E	FY11E	FY12E
Sales growth	17.7%	17.7%	6.6%	3.0%
EBITDA growth	25.2%	28.2%	5.0%	3.7%
EBIT growth	22.5%	41.4%	1.8%	2.4%
Net income (recurring) growth	27.2%	42.8%	2.0%	7.4%
COGS growth	13.2%	18.9%	7.2%	2.5%
Total operating expenses growth	17.9%	11.6%	6.7%	2.9%
Diluted EPS growth	(1.3%)	39.1%	0.0%	3.1%
Gross margin	70.0%	69.7%	69.5%	69.7%
Operating margin	22.5%	41.4%	1.8%	2.4%
Debt / Capital (book)	56.3%	56.6%	57.1%	53.4%
Times interest earned	2.0	2.8	2.8	3.0
FFO / Interest	3.5	4.1	4.2	4.7
FFO / Debt	17.4%	19.7%	19.6%	20.8%
ROE	5.4%	7.4%	7.3%	6.9%
Return on invested capital (ROIC)	3.1%	4.3%	4.3%	4.3%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

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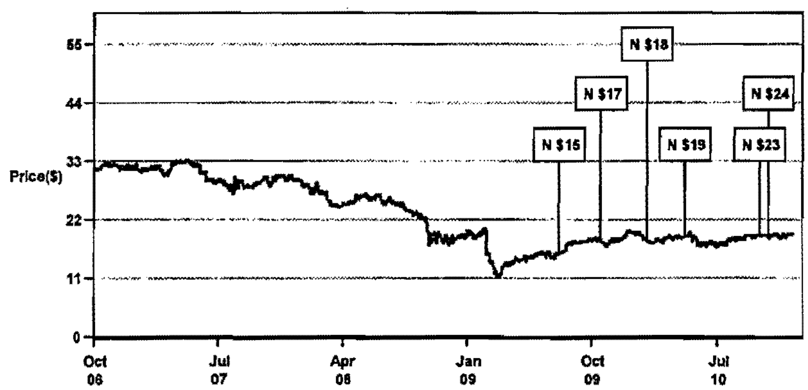
Great Plains Energy (GXP) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
22-Jul-09	N	15.44	15.00
22-Oct-09	N	18.30	17.00
26-Jan-10	N	18.31	18.00
20-Apr-10	N	18.76	19.00
29-Sep-10	N	18.80	23.00
22-Oct-10	N	18.74	24.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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IB clients*	69%	60%	50%

*Percentage of investment banking clients in each rating category.
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"Other Disclosures" last revised September 1, 2010.

BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

DIRECT TESTIMONY OF

CHRIS B. GILES

ON BEHALF OF KANSAS CITY POWER & LIGHT COMPANY

IN THE MATTER OF THE PETITION OF KANSAS CITY POWER & LIGHT COMPANY ("KCP&L") FOR DETERMINATION OF THE RATEMAKING PRINCIPLES AND TREATMENT THAT WILL APPLY TO THE RECOVERY IN RATES OF THE COST TO BE INCURRED BY KCP&L FOR CERTAIN ELECTRIC GENERATION FACILITIES UNDER K.S.A. 66-1239

DOCKET NO. 11-KCPE-____-PRE

Q: Please state your name and business address.

A: My name is Chris B. Giles. My business address is 1200 Main Street, Kansas City, Missouri 64105.

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

A: I am currently a regulatory consultant to Kansas City Power & Light Company ("KCP&L"). I have been a consultant to KCP&L since my retirement in July 2009 from my position as KCP&L's Vice President, Regulatory Affairs.

Q: As Vice President, Regulatory Affairs, what were your responsibilities?

A: My responsibilities included all aspects of regulatory activities including cost of service, rate design, revenue requirements, and tariff administration.

Q: How long did you hold that position?

A: From March 2005 until June 2009.

Q: What are your current consulting responsibilities?

A: My responsibilities include assisting and advising, from a regulatory perspective, the La Cygne Environmental Project management team and the Regulatory Affairs Department regarding the planning, construction and oversight of the La Cygne Project.

Q: Please describe your education, experience and employment history.

A: I received a Bachelor of Science degree in Economics from the University of Missouri at Kansas City ("UMKC") in 1974, and received a Master of Business Administration degree with concentrations in accounting and quantitative analysis from UMKC in 1981. I was first employed at KCP&L in 1975 as an Economic Research Analyst in the Rates and Regulation Department. I held positions as supervisor and manager of various rate functions until 1988 when I was promoted to Director of Marketing. In January 1993, I returned to the rate area as Director, Regulatory Affairs. In March of 2005, I was promoted to Vice President, Regulatory Affairs.

Q: Have you previously testified in a proceeding before the Kansas Corporation Commission ("Commission" or "KCC") or any other utility regulatory agency?

A: I have previously testified before both the KCC and Missouri Public Service Commission on numerous issues regarding utility rates and regulations.

Q: What is the purpose of your testimony?

A: The purpose of my Direct Testimony is (i) to provide some background concerning the La Cygne Generating Station ("La Cygne") and the project that gives rise to this proceeding; (ii) to explain why KCP&L is filing this petition for predetermination of ratemaking principles under K.S.A. 66-1239 ("Petition") for certain environmental equipment and the importance of the timeframe for such a determination by the Commission; (iii) to define the specific ratemaking principles KCP&L is requesting that the Commission determine in this proceeding; (iv) to provide the impact on KCP&L's Kansas jurisdictional revenue requirement of the investments discussed in the Petition; and (v) to discuss KCP&L's inclusion of certain information requested under the recently opened Docket No. 11-GIME-492-GIE (the "492 Docket") in the testimony provided in support of this Petition, as well as to suggest how this proceeding and the 492 Docket might move forward in an efficient and expeditious manner. I will also provide a response to the following Commission question from paragraph 15 of the Commission's January 27, 2011 Order in the 492 Docket:

> (d) Given the broad selection of alternatives (*i.e.*, mothball, retrofit, decommission, and /or build new plant), what are the forecasted effects on rates and on the financial performance of the Company with traditional regulatory treatment and with predetermination treatment?

Q: It is unusual to have a consultant provide the overview and policy position of a Company in a filing before the Commission. Please explain why KCP&L has taken this approach.

A: As you may be aware, Mr. Curtis Blanc, the Senior Director, Regulatory Affairs for KCP&L passed away suddenly and unexpectedly on February 16, 2011. This testimony was already prepared at that time. The Company needs time to determine a replacement for Mr. Blanc. Because I was recently in the position of leading the Regulatory Affairs Department, have been involved with the La Cygne Environmental Project from the start, and assisted in the development of and am familiar with the issues discussed in this testimony, KCP&L requested that I adopt Mr. Blanc's testimony as my own. As the

Company is able to adjust from Mr. Blanc's tragic passing, a Company employee may later adopt this testimony.

I. BACKGROUND

Q: What is La Cygne?

A: La Cygne is comprised of two coal-fired units. Unit 1 has a net generating capacity of 736 MW. Unit 2 has a net generating capacity of 682 MW. KCP&L owns 50% of La Cygne. Kansas Gas and Electric Company ("KG&E"), a wholly owned subsidiary of Westar Energy, Inc. ("Westar"), owns the other 50% of La Cygne. Pursuant to the two companies' ownership agreement, KCP&L is responsible for operating both La Cygne units. KCP&L witness Scott Heidtbrink explains in his Direct Testimony the significance of the role La Cygne plays in supplying power to KCP&L's customers.

Q: What are the environmental requirements that give rise to the Petition?

A: As described more fully in the Direct Testimony of KCP&L witness Paul Ling, KCP&L executed an agreement with the Kansas Department of Health and Environment ("KDHE"), which ultimately became part of the Kansas Regional Haze Rule State Implementation Plan ("SIP") submitted by KDHE to the EPA for approval. That agreement requires KCP&L to have in place best available retrofit technology ("BART") environmental equipment on La Cygne Unit 1 and Unit 2 on or before June 1, 2015 or the units will not be in compliance, requiring them to be shut down until such time as the equipment is installed. The agreement with KDHE was the result of KCP&L working with the State of Kansas to meet the necessary SIP requirements.

Q: What environmental control equipment is necessary to satisfy the BART requirements for the La Cygne units?

A: The equipment required to be installed is discussed in more detail in Mr. Heidtbrink's testimony. However, generally speaking, to satisfy the requirements of BART at La Cygne, KCP&L must install wet scrubbers, baghouses, and a dual flue chimney for both Unit 1 and Unit 2, and a selective catalytic reduction ("SCR"), low-nitrogen oxide (low "NOx") burners, and an over-fire air ("OFA") system for Unit 2 (the "La Cygne Environmental Project"). BART also requires an SCR for Unit 1; however, that equipment was previously installed. It was placed in service in May 2007 and incorporated into KCP&L's Kansas rates in Docket No. 07-KCPE-905-RTS.

Q: Was the La Cygne Environmental Project part of the Resource Plan under the Stipulation and Agreement approved by the KCC in Docket No. 04-KCPE-1025-GIE ("1025 S&A" and "1025 Docket," respectively)?

A: In part. The 1025 S&A included two environmental control projects at La Cygne, Phase 1 and Phase 2, both of which related solely to Unit 1. Phase 1 was the installation of the SCR, which as noted above, was completed in May 2007. Phase 2 contemplated the installation of a baghouse and scrubber on Unit 1 (the "La Cygne 1 Phase 2 Project"), which was not completed by the May 31, 2010 date contemplated in the 1025 S&A. The 1025 S&A did not include any environmental control projects related to Unit 2. The current La Cygne Environmental Project includes the La Cygne 1 Phase 2 Project as well as an SCR, baghouse, scrubber, low NOx burners, and an OFA system for Unit 2.

Q: Please explain why the La Cygne 1 Phase 2 Project was not completed within the timeframe contemplated in the 1025 S&A?

A: Although KCP&L undertook commercially reasonable efforts to complete the La Cygne 1 Phase 2 Project within the timeframe contemplated in the 1025 S&A, market conditions rendered it prudent to postpone the project. Between the time the 1025 S&A was approved in the summer of 2005 and the time the La Cygne 1 Phase 2 Project was scheduled to commence, demand for air quality control system ("AQCS") equipment increased dramatically. The resultant demand pressure increased prospective lead times to approximately 48 months for the type of specialized equipment needed for the project, which meant KCP&L would have to wait four years for the equipment after procuring it. That fact alone rendered the timeframe contemplated in the 1025 S&A impracticable. The increased demand also resulted in significant cost pressures for AQCS equipment. Taking these market conditions into account and the impact increased cost would have on customers, KCP&L determined it was prudent to postpone the La Cygne 1 Phase 2 Project. However, significant evaluation and progress was made on the project over the course of the term of the 1025 S&A.

Q: Did the Company communicate the equipment delay issue, cost escalations, and the possibility of postponing the La Cygne 1 Phase 2 Project?

A: Yes. KCP&L provided contemporaneous updates to Staff, CURB, and the parties to the 1025 S&A through the quarterly Strategic Infrastructure Investment Reports ("Quarterly Reports"). KCP&L provided the Quarterly Reports from first quarter of 2006 through third quarter of 2010. KCP&L first reported the extended lead time for environmental equipment issue for the La Cygne 1 Phase 2 Project in the Quarterly Report for the fourth quarter of 2006. KCP&L first reported it was considering postponing the project and combining it with the upcoming Unit 2 project in the Quarterly Report for the second quarter of 2007. Excerpts/summaries of relevant sections of these reports are included in the Direct Testimony of Scott Heidtbrink. In addition, all of the Quarterly Reports were entered as Exhibits in KCP&L's most recent rate case in Docket No. 10-KCPE-415-RTS (Exhibits 43 – 46). KCP&L also met with the parties regularly to discuss the Quarterly Report material.

Q: Will the delay in the completion of the La Cygne 1 Phase 2 Project increase the cost to customers for this project?

A: Given the market conditions that existed at the time KCP&L initially sought to contract for the La Cygne 1 Phase 2 Project, it likely will be less expensive to complete that project as part of the larger La Cygne Environmental Project that is the subject of this Petition. In the 415 Docket, KCP&L explained the difficulties it faced with the Iatan Unit 2 project related to the overheated construction market at the time of contracting on that project. The demand in the marketplace impacted the availability of contractors, manpower, and access to the necessary environmental control equipment. As explained in the Direct Testimony of KCP&L witness Robert Bell, in the current market, KCP&L was able to get multiple engineering, procurement and construction ("EPC") contract offers from some of the top construction firms in the world. KCP&L expects that this "lull," if you will, is likely to evaporate as the Environmental Protection Agency's ("EPA's") rules, as explained in the Direct Testimony of KCP&L witness Paul Ling, near finalization. KCP&L has a unique opportunity to complete this work timely and cost effectively.

Q: Are there benefits to undertaking the Unit 1 and Unit 2 projects simultaneously?

A: We believe there are significant benefits to simultaneously undertaking the La Cygne Unit 1 Phase 2 Project and the La Cygne Unit 2 project. Doing so allows the Company to utilize certain economies of scale, such as the site mobilization efforts that such a large project requires. For example, contractors have to set up facilities on site. Large cranes and other large pieces of equipment must be brought to the site. Constructing the Unit 1 and Unit 2 projects together means that such costs will be incurred only once. If the projects were done separately, those costs would be incurred twice.

II. NEED FOR PREDETERMINATION

Q: Why is KCP&L seeking predetermination concerning the La Cygne Environmental Project?

A: KCP&L believes the La Cygne Environmental Project is in the best interest of its customers as providing the least-cost means to satisfy their demand for electricity for many years to come. However, the project represents a significant capital investment that will be made over a four-year period. KCP&L cannot commit to pursue a project of this size and duration absent advance confirmation from the Commission regarding the prudence of both (i) the decision to move forward with this project, *i.e.*, the prudence of the project itself, and (ii) the cost of the project, as well as the ratemaking principles to be applied to the project.

Traditionally, a utility would decide to undertake such a project, do so, then come to the Commission for ratemaking treatment only after the investment was made and the project was completed. Taking this traditional path, KCP&L would be required to incur costs for the La Cygne Environmental Project upfront, without knowing if the

Commission agreed with the Company's decision to undertake the project until some time in 2015 when the Commission would rule upon the inclusion in KCP&L's rates of costs already incurred. That scenario would have a negative impact on KCP&L and its customers.

Fortunately, K.S.A. 66-1239 provides another path. That statute explicitly allows a utility to request, and requires the Commission to issue, an order providing an advance determination of the ratemaking principles to be used to recognize in retail rates the costs of the proposed investments to its generating facilities. Finding out if the Commission agrees the project is prudent now—before construction begins and significant costs are incurred—is better for KCP&L and its customers. As explained in the Direct Testimony of KCP&L witness Michael Cline, KCP&L believes that absent the predetermination requested in its Petition, KCP&L's cost of capital will increase, which would ultimately increase costs for our customers.

Q: What is the estimated cost of the La Cygne Environmental Project?

A: Based on an exhaustive request for proposal ("RFP") and bid evaluation process, which is discussed in the Direct Testimony of KCP&L witness Robert Bell, KCP&L estimates the total cost of the La Cygne Environmental Project to be $1.23 billion, excluding allowance for funds used during construction ("AFUDC") and property taxes. The development of the cost estimate for the project, including contingency and indirect costs is discussed in the Direct Testimony of KCP&L witness Forrest Archibald. Given KCP&L's 50% ownership interest in La Cygne, and KCP&L's currently applicable Kansas jurisdictional allocation percentage of 45.64%, KCP&L's Kansas jurisdictional portion of the cost of the project will be approximately $281 million.

Q: Is the timing of this predetermination significant?

A: The timing of the predetermination requested in the Petition is more than significant; it is critical. The La Cygne Environmental Project will take approximately four years to complete. Under the KDHE and SIP requirements, the equipment must be in place no later than June 1, 2015 or the units will not be in compliance and must be shut down. The energy generated by the La Cygne units is necessary to meet KCP&L's load requirements. Assuming the Commission takes the full 180 days permitted under K.S.A. 66-1239(c)(6) to render a decision on the Petition, the earliest construction could begin would be August of this year. That leaves just under four years to complete the project before the June 1, 2015 deadline.

Q: Why did KCP&L not file its Petition sooner?

A: KCP&L considered direction offered it by Commission Staff as well as by the Commission in determining when to file this Petition. When KCP&L discussed its intent to request predetermination with Staff last May, Staff indicated that it would prefer KCP&L not make such a filing based upon a speculative cost estimate. Rather, Staff recommended KCP&L wait until the Company determined a "real" cost estimate for the project. The Commission confirmed its agreement with Staff's preference and recommended approach in its generic discussion of predetermination filings at an open meeting on December 10, 2010. At that time, the Commission clearly indicated that it would only consider a predetermination petition such as this Petition if it was based upon a "real," non-speculative cost estimate. In addition, there is currently a lull in the market for this type of equipment. The timing of KCP&L's RFP process took full advantage of existing market conditions. Simply put, KCP&L timed its RFP process to get the best bids and most accurate estimate it could, and it filed this Petition at the earliest opportunity once a "real," non-speculative cost estimate was available.

Q: Where is the specific information required under statute K.S.A. 66-1239 located within the Company's filing?

A: K.S.A. 66-1239(c)(2) specifically requires the following:

(A) A description of the public utility's conservation measures;

(B) A description of the public utility's demand side management ("DSM") efforts;

(C) The public utility's ten-year generation and load forecasts; and

(D) A description of all power supply alternatives considered to meet the public utility's load requirements.

Items (A) and (B) are provided in the Direct Testimony of KCP&L witness Kevin Bryant. Item (C) is provided in the Direct Testimony of Company witness George McCollister. Item (D) is provided in the Direct Testimony of KCP&L witness Burton Crawford. The natural gas and carbon dioxide cost assumptions used in this analysis are discussed in the Direct Testimony of KCP&L witness Ed Blunk. Additionally, information regarding the RFP and bid evaluation process, as referenced in K.S.A. 66-1239(c)(3), that is being used for the La Cygne Environmental Project is provided in the Direct Testimony of Company witness Robert Bell.

III. <u>RATEMAKING PRINCIPLES</u>

Q: What ratemaking principles is KCP&L requesting the Commission determine in this proceeding?

A: KCP&L requests that the Commission:

- Confirm that KCP&L's decision to construct and install the La Cygne Environmental Project, *i.e.*, wet scrubbers, baghouses, and a common chimney for both La Cygne Units 1 and 2, and an SCR, low-NOx burners, and an OFA system for Unit 2, is reasonable, reliable, efficient and prudent.
- Confirm that $1.23 billion (total project, excluding AFUDC and property taxes) is a reasonable and prudent cost to construct and install the La Cygne Environmental Project. KCP&L's Kansas jurisdictional share of the project cost is approximately $281 million.
- Confirm that amounts in excess of the project cost estimate of $1.23 million, if any, other than the associated AFUDC and property tax, would be recoverable subject to further prudence review during a future rate proceeding wherein KCP&L requests recovery of any such additional amounts.
- Finds that, assuming Commission approval of the project and the cost estimate, KCP&L will be allowed to implement a specific cost recovery rider for the La Cygne Environmental Project such that KCP&L will be able to reflect the investment in rates annually through the rider. The proposed rider is similar in all respects to the environmental cost recovery rider ("ECRR") that KCP&L proposed in the 415 Docket, except that it would only include costs related to the La Cygne Environmental Project. A more specific description of the proposed rider is attached as Schedule CBG2011-4. As indicated in the proposed rider, whenever

KCP&L files a rate case, the remaining balance being recovered under the rider at that time will be rolled into rates. The rider will terminate once all of the costs have been rolled into base rates.

- Find that the applicable initial depreciable life for the La Cygne Environmental Project is 22 years consistent with the remaining depreciable life of the La Cygne Station recently approved in the 415 Docket.
- Find that the cost of capital and rate of return applied to the La Cygne Environmental Project be consistent with what the Commission establishes generally for KCP&L's Kansas jurisdictional business in the future.

Q: You said that KCP&L wants the Commission to pre-approve the decision to construct and install the La Cygne Environmental Project. Please Explain.

A: KCP&L requests a Commission ruling that the construction and installation of the La Cygne Environmental Project, *i.e.*, wet scrubbers, baghouses and a common chimney for both La Cygne Units 1 and 2, and an SCR, low-NOx burners, and an OFA system for Unit 2, by June 1, 2015 to continue operating the units, is reasonable, reliable, efficient and prudent. As shown in the analysis provided with the Direct Testimony of KCP&L witness Burton Crawford, installation of this environmental equipment is the most cost-effective alternative to continue to meet KCP&L's customers' demand. Commission Staff witness Larry Holloway agreed with this conclusion in his testimony in the 1025 Docket, at least with respect to La Cygne Unit 1. (Holloway Direct, May 10, 2005, pages 17-19.) Although certain factors and assumptions might have changed since that time, KCP&L believes Mr. Holloway's conclusion remains true today.

Q: You also mentioned a request for the Commission to pre-approve the cost of installing environmental equipment at the La Cygne Station. What is KCP&L's request regarding its cost?

A: The cost estimate for the La Cygne Environmental Project is $1.23 billion, excluding AFUDC and property taxes. KCP&L's Kansas jurisdictional portion of that cost is approximately $281 million. KCP&L requests the Commission find that those costs are reasonable and prudent. If the final actual costs of the project are greater than the cost estimate, any amounts in excess of the cost estimate approved in this proceeding would be subject to a supplemental prudence review in the ratemaking proceeding in which KCP&L requests recovery of any such costs.

Q: Why are AFUDC and property taxes excluded from the cost estimate?

A: Although AFUDC and property taxes are entirely appropriate for recovery and KCP&L will ultimately seek to include those costs in its rates, those costs are, in part, based upon the actual cash flow of the project and the ultimate completion date, and therefore could not be estimated with sufficient precision at this time for inclusion in the cost estimate KCP&L is asking the Commission to deem reasonable and prudent. We have, however, included an estimate of those costs in the estimate of revenue requirement impact discussed below.

Q: **Why would the Commission approve a rider in this docket when it just rejected KCP&L's proposed ECRR in the 415 Docket?**

A: As I understand it, the Commission's concern was deciding prudence within the context of the ECRR process. Prudence for the La Cygne Environmental Project will be decided within the context of this predetermination docket, so the rider is just a cost recovery mechanism. Using the rider reduces overall costs for the project by reducing the AFUDC amount.

Q: **If the Commission pre-approves the estimated costs of installing environmental equipment at La Cygne in this docket for future recovery, why should it ever allow recovery of any costs in excess of the estimates supported by KCP&L?**

A: Because it is impossible to know the actual costs of a project until the costs are incurred and the project is complete, the Commission should allow KCP&L an opportunity to seek recovery in a future proceeding of any costs in excess of the cost estimate approved in this proceeding. KCP&L has made every effort to limit the opportunity for cost increases on this project; however, the cost to install environmental equipment can escalate. Even the best estimates can materially change due to future events beyond the Company's control that no one can foresee. Under this proposed approach, if costs exceed the cost estimate determined by the Commission in this proceeding to be reasonable and prudent, the Commission will have an opportunity to review the prudence of any such cost increase in a future proceeding.

Q: Please describe the cost of capital and rate of return KCP&L is requesting be applied to the La Cygne Environmental Project.

A: KCP&L requests, in the first KCP&L filing implementing cost recovery of the La Cygne investment, that the Commission apply the same cost of capital and rate of return to the La Cygne Environmental Project as is used for the rest of KCP&L's Kansas jurisdictional business. In subsequent rate cases or rider filings, the same would hold true. In this proceeding, KCP&L is simply requesting that the Commission rule that KCP&L's approved rate of return and cost of capital in subsequent cases will apply to the La Cygne Environmental Project. The Company is not seeking any special rate of return or consideration of capital costs for the La Cygne Environmental Project that would not also apply to the rest of its Kansas jurisdictional business.

IV. REVENUE REQUIREMENT IMPACT

Q: What is the revenue requirement impact from the environmental retrofits at La Cygne?

A: The annual KCP&L Kansas revenue requirement impact is presented in Schedule CBG2011-1 (Summary) and Schedule CBG2011-2 (Detail). KCP&L estimates that once the La Cygne Environmental Project is fully reflected in rates, KCP&L's annual Kansas revenue requirement would increase about $58.2 million. Over time, that amount should decline to about $35.5 million. The decline is attributable to increasing accumulated depreciation and decreasing accumulated deferred income taxes over time, both of which reduce rate base, and therefore the impact the project has on KCP&L's rates. For purposes of this calculation, KCP&L assumed traditional ratemaking treatment, *i.e.*, that KCP&L waits until after the La Cygne Environmental Project is complete in 2015 to include any costs associated with the project in rates. Specifically, KCP&L assumed the rate impact does not begin until 2016 and includes the full estimated cost of the La Cygne Environmental Project plus AFUDC. The Company made this assumption to demonstrate the "worst case scenario" impact on rates. If the Commission permits KCP&L to use a rider for the La Cygne Environmental Project, then less AFUDC will accumulate, and therefore the cost of the project, and in turn the impact of the project on KCP&L's Kansas rates, will be less.

Q: Please translate these revenue requirement impacts to customer rate impacts.

A: As shown in Schedule CBG2011-1, once the La Cygne Environmental Project is fully reflected in KCP&L's Kansas rates, the rate impact would be about $.00827/kWh in 2016, gradually decreasing to about $.00370/kWh. Again, KCP&L assumes traditional ratemaking treatment for purposes of this analysis.

Q: In dollars terms, what impact would the La Cygne Environmental Project have on a typical residential customer's bill?

A: The initial increase would be about $8.27/month, gradually decreasing to about $3.70/month, assuming an average of 12,000 kWh per year (1,200 kWh per summer month and 800 kWh per winter month). Again, KCP&L assumes traditional ratemaking treatment for purposes of this analysis.

Q: What did you assume concerning the depreciable life of the La Cygne Environmental Project for purposes of your rate impact analysis?

A: For purposes of this analysis, the Company assumed a 22-year remaining depreciable life for the environmental control equipment. The initial depreciable life for this equipment will need to be determined as part of the predetermination docket.

Q: Why was a 22-year remaining depreciable life used?

A: Recognizing that depreciation rates and lives change over time, KCP&L decided to utilize the La Cygne remaining depreciable life used in the 415 Docket.

Q: Will Energy Cost Adjustment ("ECA") factors be impacted?

A: Yes. The rate impacts shown on Schedule CBG2011-1 include the combined impacts to base rates and ECA factors. ECA factors will be impacted by certain incremental variable operations and maintenance costs, including ammonia and limestone.

Q: What assumptions are included in the calculation of revenue requirement?

A: The assumptions used in the preparation of Schedule CBG2011-1 and Schedule CBG2011-2 are listed on Schedule CBG2011-3.

Q: Why was a 45.64% Kansas jurisdictional factor used?

A: Recognizing that the allocation factor changes over time, KCP&L decided to utilize the factor used in its most recent rate case, the 415 Docket.

Q: How was this allocation factor derived?

A: In the 415 Docket, generation assets were allocated based on a 12-month weather normalized average of the coincident peak demands for the Kansas and Missouri retail jurisdictional customers and the firm wholesale jurisdiction.

Q: If KCP&L does not undertake the La Cygne Environmental Project, will the rate impacts described above be avoided?

A: No. La Cygne is an important part of KCP&L's generation portfolio. KCP&L needs the capacity and energy from La Cygne Units 1 and 2 to serve its customers. If KCP&L does not undertake the La Cygne Environmental Project, then it must shut the La Cygne units down by June 1, 2015. KCP&L will have to replace that capacity and energy either by building generation facilities or entering into contracts with third parties. We believe that either of those options would be more expensive to our customers than retrofitting La Cygne.

V. 492 DOCKET

Q: The Commission recently opened the 492 Docket, seeking information that might impact its decision in this predetermination docket. How does KCP&L see that docket coinciding with this predetermination proceeding?

A: From KCP&L's perspective, the initiation of this predetermination proceeding under K.S.A. 66-1239 largely renders the 492 Docket moot, at least with respect to the La Cygne Environmental Project. Otherwise, without carefully integrating the two proceedings, it is likely that there will be a significant amount of duplicative efforts and other inefficiencies as both proceedings largely consider the same issues. Timing is also an important consideration. This predetermination filing has a statutory deadline. Specifically, K.S.A. 66-1239(c)(6) provides as follows:

> If the commission fails to issue a determination within 180 days of the date a petition for a determination of rate-making principles and treatment is filed, the rate-making principles and treatment proposed by the petitioning public utility will be deemed to have been approved by the commission and shall be binding for rate-making purposes during the useful life of the generating facility or during the term of the contract.

Unlike a predetermination filing under K.S.A. 66-1239, the 492 Docket does not have a statutory deadline associated with it.

Q: How does KCP&L suggest information provided in response to the questions posed in the 492 Docket be considered in this predetermination docket?

A: KCP&L has included responses to the Commission questions from the 492 Docket in its supporting testimony to this predetermination docket to the extent they directly relate to the La Cygne Environmental Project. Pursuant to the schedule established in the 492 Docket and KCP&L's request for a one-week extension, KCP&L will submit its comments and responses to the Commission's list of questions no later than February 25, 2011. KCP&L anticipates that those responses from both KCP&L and Westar will be wrapped into this docket by administrative notice to the extent that the information is relevant to this predetermination docket.

Q: Please provide a response to the following question from paragraph 15 of the Commission's January 27, 2011 Order in the 492 Docket:

> **Given the broad selection of alternatives (*i.e.*, mothball, retrofit, decommission, and /or build new plant) evaluated for the La Cygne environmental retrofit project, what are the forecasted effects on rates and on the financial performance of the Company with traditional regulatory treatment and with predetermination treatment?**

A: The forecasted effect on KCP&L's revenue requirement of various alternatives are contained in the resource plan analysis and are described in the Direct Testimony of KCP&L witness Burton Crawford. The Net Present Value of Revenue Requirement represents the forecasted effect on revenue requirement assuming contemporaneous ratemaking or "perfect ratemaking." This is the basis for selection of the most preferred alternative at the least cost to customer. Assuming that the amount ultimately approved by the Commission for recovery under either traditional ratemaking or under predetermination is the same, one might assume that the effect on rates is essentially the same under either scenario. However, KCP&L witness Michael Cline describes in his Direct Testimony the impact on cost of capital with traditional regulatory treatment and with predetermination treatment. His testimony states that the ability to raise capital on reasonable terms will be diminished absent predetermination and thus will likely increase KCP&L's cost of capital. This in turn will negatively impact both customers' rates and the financial performance of the Company because of regulatory lag associated with rate cases. KCP&L provided above the impact of the La Cygne Environmental Project on KCP&L's Kansas rates assuming recovery begins in 2016 following conclusion of the project; however, this does not make any assumptions about the effects Mr. Cline discusses.

Q: Does that conclude your testimony?

A: Yes, it does.

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Petition of Kansas City Power & Light Company("KCP&L") for Determination of the Ratemaking Principles and Treatment that Will Apply to the Recovery in Rates of the Cost to be Incurred by KCP&L for Certain Electric Generation Facilities Under K.S.A. 2003 SUPP. 66-1239	)	**Docket No. 11-KCPE-____-PRE**

AFFIDAVIT OF CHRIS B. GILES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Chris B. Giles, being first duly sworn on his oath states:

1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as a regulatory consultant.

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 twenty-one (21) 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 thereof, are true and accurate to the best of my knowledge, information and belief.

Chris B. Giles
Chris B. Giles

Subscribed and sworn before me this 17th day of February 2011.

Notary Public

My commission expires: May 23, 2014

DONNA J. STOWAY
Notary Public, Notary Seal
State of Missouri
Clay County
Commission # 10889620
My Commission Expires May 23, 2014

SCHEDULE CBG2011-1

Kansas City Power & Light Company
Kansas Revenue Requirement Impacts by Year- Summary
La Cygne Environmental Project

	Revenue Requirement ($000)	Estimated Kansas Sales (kWh)	Estimated Change in Rates ($/kWh)
2016	58,211	7,040,210,705	$ 0.00827
2017	55,720	7,134,833,265	$ 0.00781
2018	53,284	7,248,322,239	$ 0.00735
2019	50,899	7,367,603,617	$ 0.00691
2020	49,097	7,511,334,946	$ 0.00654
2021	47,873	7,616,797,572	$ 0.00629
2022	46,693	7,743,545,951	$ 0.00603
2023	45,525	7,858,781,988	$ 0.00579
2024	44,366	8,002,798,566	$ 0.00554
2025	43,214	8,105,798,855	$ 0.00533
2026	45,166	8,245,148,940	$ 0.00548
2027	44,031	8,379,375,961	$ 0.00525
2028	42,904	8,540,801,485	$ 0.00502
2029	41,787	8,651,491,528	$ 0.00483
2030	40,678	8,789,251,722	$ 0.00463
2031	39,579	8,941,362,735	$ 0.00443
2032	38,489	9,120,156,042	$ 0.00422
2033	37,409	9,250,060,118	$ 0.00404
2034	36,339	9,414,528,741	$ 0.00386
2035	35,495	9,582,221,962	$ 0.00370
	$ 896,756		

SCHEDULE CBG2011-2

Kansas City Power & Light Company
Kansas Revenue Requirement Impacts by Year- Summary
La Cygne Environmental Project

	Rate Base						Cost of Service						
	PIS	A/D	ADIT	Fuel inventory	Total rate base	Rev. req.	Annualized depreciation (1)	Fixed O&M	Variable O&M	Insurance	Property taxes	Total expenses	Total rev. req.
2015:													
@6/30	24,447	24,447											
7/1	(24,447)	(24,447)											
7/1	309,500												
7/1-12/31		7,034					7,034						
@12/31	309,500	7,034	4,530	150	298,086								
2016	309,500	21,102	13,369	154	275,183	33,719	14,068	1,958	8,317	148	-	24,492	58,211
2017	309,500	35,170	21,779	158	252,708	30,965	14,068	2,007	8,525	154	-	24,755	55,720
2018	309,500	49,239	29,795	162	230,628	28,260	14,068	2,057	8,739	160	-	25,024	53,284
2019	309,500	63,307	37,444	166	208,915	25,599	14,068	2,108	8,957	167	-	25,300	50,899
2020	309,500	77,375	40,402	170	191,893	23,513	14,068	2,161	9,181	174	-	25,584	49,097
2021	309,500	91,443	38,694	174	179,537	21,999	14,068	2,215	9,410	180	-	25,874	47,873
2022	309,500	105,511	36,697	178	167,470	20,521	14,068	2,270	9,646	188	-	26,172	46,693
2023	309,500	119,580	34,653	183	155,451	19,048	14,068	2,327	9,887	195	-	26,477	45,525
2024	309,500	133,648	32,607	187	143,432	17,575	14,068	2,385	10,134	203	-	26,791	44,366
2025	309,500	147,716	30,563	192	131,413	16,102	14,068	2,445	10,387	211	-	27,112	43,214
2026	309,500	161,784	28,518	197	119,395	14,630	14,068	2,506	10,647	220	3,095	30,536	45,166
2027	309,500	175,852	26,473	202	107,376	13,157	14,068	2,569	10,913	228	3,095	30,874	44,031
2028	309,500	189,921	24,428	207	95,358	11,685	14,068	2,633	11,186	237	3,095	31,220	42,904
2029	309,500	203,989	22,384	212	83,340	10,212	14,068	2,699	11,466	247	3,095	31,575	41,787
2030	309,500	218,057	20,339	217	71,322	8,739	14,068	2,766	11,752	257	3,095	31,939	40,678
2031	309,500	232,125	18,294	223	59,304	7,267	14,068	2,835	12,046	267	3,095	32,312	39,579
2032	309,500	246,193	16,249	228	47,286	5,794	14,068	2,906	12,347	278	3,095	32,695	38,489
2033	309,500	260,261	14,204	234	35,268	4,322	14,068	2,979	12,656	289	3,095	33,087	37,409
2034	309,500	274,330	12,159	240	23,251	2,849	14,068	3,053	12,972	300	3,095	33,490	36,339
2035	309,500	288,398	8,353	246	12,995	1,592	14,068	3,130	13,297	312	3,095	33,902	35,495
		-	-			317,548	281,364	50,011	212,466	4,417	30,950	579,208	896,756
												-	-

SCHEDULE CBG2011-3

Kansas City Power & Light Company
La Cygne Environmental Project

Assumptions

Project cost excluding AFUDC ($000)	$	1,230,000
KCP&L KS jurisdictional	$	280,672
AFUDC (KCP&L KS juris; $000)	$	28,828
Total project cost (KCP&L KS juris; $000)	$	309,500
Retirements attributable to the project (KCP&L KS juris; $000)	$	24,447
Weighted average cost of capital		
Equity/Debt ratio		55/45
Return on equity		10%
Cost of debt		7%
Kansas jurisdictional %		45.64%
La Cygne remaining depreciable life (years)		22
Fixed O&M expense		
$/MW- 2016 $s- La Cygne Unit 1	$	3.84
$/MW- 2016 $s- La Cygne Unit 2	$	8.67
Annual escalator		2.5%
Variable O&M expense		
$/MWh- 2016 $s- La Cygne Unit 1	$	3.46
$/MWh- 2016 $s- La Cygne Unit 2	$	4.39
Annual escalator		2.5%
Property taxes		
% of gross plant, years 1-10		0.0%
% of gross plant, thereafter		1.0%
Insurance		
Year 1 (total project; $000)	$	650
Annual escalator		4.0%
Income taxes		39.58%

THE STATE CORPORATION COMMISSION OF KANSAS

SCHEDULE 81

KANSAS CITY POWER & LIGHT COMPANY
(Name of Issuing Utility)

Replacing Schedule ______ Sheet ______

Rate Areas 2 & 4
(Territory to which schedule is applicable)

which was filed ______

No supplement or separate understanding shall modify the tariff as shown hereon.

Sheet 1 of 2 Sheets

La Cygne Environmental Cost Recovery Rider
Schedule LECR

APPLICABILITY:

This La Cygne Environmental Cost Recovery (ECR) Rider (Schedule LECR) shall be applicable to all Kansas Retail Rate Schedules for the Company from the effective date until all of the Commission-approved Company capital investment associated with the La Cygne Environmental Project (LEP) is included in the Company's base rates. The LEP specifically includes the environmental upgrade projects for La Cygne Units 1 and 2 addressed in Commission Docket No. 11-KCPE-XXX-PRE.

BASIS:

LEP costs will be recovered using an LECR factor applied to each customer's bill. The LECR factor to be recovered is equal to the annual capital investment-related revenue requirement associated with the LEP undertaken by the Company. The calculation of such revenue requirement will be made in conformity with the formula stated in this Rider.

The Company shall provide a report, periodically to the Commission of its collections including a calculation of the total collected under the Rider.

METHOD OF BILLING:

The cents per kilowatt hour (kWh) adjustment will be determined by dividing the LEP revenue requirement by the annual applicable kWh sales.

BASIS FOR DETERMINING ENVIRONMENTAL COST RECOVERY RIDER:

The monthly factor shall reflect the recovery of the LEP revenue requirement as approved by the Commission. After the initial effective date, the LECR Rider factor shall be calculated annually, filed with the Commission in March and be effective for usage beginning June 1.

The following formula shall be used to calculate the annual revenue requirements for the LEP.

$$\text{LECR Factor for the LEP} = \frac{[(RB \times r) + D + OM] \;+\; TRUE}{S_P}$$

Where:

RB = The rate base associated with the LEP that form the basis of this Rider. Rate base shall be the gross plant, less accumulated depreciation, less accumulated deferred income taxes plus construction work in progress associated with the LEP.

Issued: ______ (Month Day Year)	FILED
Effective: ______ (Month Day Year)	THE STATE CORPORATION COMMISSION OF KANSAS
By: Mary Turner, Director – Regulatory Affairs (Title)	By: ______ (Secretary)

THE STATE CORPORATION COMMISSION OF KANSAS

SCHEDULE 81

KANSAS CITY POWER & LIGHT COMPANY
(Name of Issuing Utility)

Replacing Schedule ______ Sheet ______

Rate Areas 2 & 4
(Territory to which schedule is applicable)

which was filed ______

No supplement or separate understanding shall modify the tariff as shown hereon.

Sheet 2 of 2 Sheets

La Cygne Environmental Cost Recovery Rider
Schedule LECR (continued)

BASIS FOR DETERMINING LA CYGNE ENVIRONMENTAL COST RECOVERY RIDER: (continued)

r = The pretax rate of return derived from the Company's most recent rate review by the Commission. If there is not an approved rate of return, the Commission will work with the Company to determine an appropriate value.

D = The depreciation expense associated with the LEP that forms the basis for this Rider.

OM = The operation and maintenance expenses associated with the LEP that forms the basis of this Rider.

S_P = Projected kWhs to be delivered to all of the Company's Retail and Requirements Sales for Resale customers during the year in which the LECR Rider is in effect

TRUE = The annual true-up amount for an LECR Rider, to be determined prior to filing the next LECR Rider and to be applied to the subsequent LECR factor calculation. The true-up amount will reflect any difference between the total LECR revenue collected and the costs (RB) for the previous applicable time period. Such true-up amount may be positive or negative. The true-up amount used to calculate the LECR factor for the first LECR Rider equals zero.

RATE SCHEDULE	**$ per kWh**
All Retail Rate Schedules	$0.00/kWh

Issued: ______ (Month Day Year)

Effective: ______ (Month Day Year)

By: Mary Turner Director -- Regulatory Affairs
Title

FILED

THE STATE CORPORATION COMMISSION OF KANSAS

By: ______
Secretary

VERIFICATION

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

The undersigned, Mary Britt Turner, upon oath first duly sworn, states that she is the Director, Regulatory Affairs of Kansas City Power & Light Company, that she has reviewed the foregoing Initial Comments, that she is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of her knowledge and belief.

Mary Britt Turner

Mary Britt Turner
Director, Regulatory Affairs
Kansas City Power & Light Company

Subscribed and sworn to before me this 25th day of February, 2011.

ANNETTE G. CARTER
Notary Public - Notary Seal
Comm. Number 09779753
STATE OF MISSOURI
Jackson County
My Commission Expires: Oct. 6, 2013

Annette G Carter

Notary public

My commission expires:

October 6, 2013

CERTIFICATE OF SERVICE

I hereby certify that a copy of the above Initial Comments of KCPL was hand-delivered or mailed, postage prepaid, this 25th day of February, 2011 to:

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PATRICK SMITH
KANSAS CORPORATION COMMISSION
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