

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

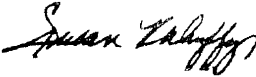
DIRECT TESTIMONY OF

WILLIAM H. DOWNEY

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

STATE CORPORATION COMMISSION

JAN 31 2006

 Docket
Room

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

DOCKET NO. 06-KCPE-828 -RTS

- 1 **Q: Please state your name and business address.**
- 2 A: My name is William H. Downey. My business address is 1201 Walnut, Kansas City,
3 Missouri 64106-2124.
- 4 **Q: By whom and in what capacity are you employed?**
- 5 A: I am employed by Kansas City Power & Light Company ("KCPL") as President and
6 Chief Executive Officer. I also serve as President, Chief Operating Officer, and a
7 member of the Board of Directors for KCPL's holding company, Great Plains Energy,
8 Inc. ("GPE").
- 9 **Q. What are your responsibilities?**
- 10 A. My responsibilities include overall management of all aspects of KCPL.
- 11 **Q. Please describe your education, experience and employment history.**
- 12 A. I hold a Bachelor of Science degree from Boston University, a Master of Science degree
13 from Columbia University and a Master of Business Administration degree from the
14 University of Chicago. I began working for KCPL in 2000 after 28 years of electric

1 utility experience. I was named to my current position in October of 2003. Prior to
2 joining KCPL, I served as vice president of Commonwealth Edison and president of
3 Unicom Energy Services Company, Inc., an unregulated energy marketing and services
4 company operating throughout the Midwest.

5 **Q. Have you previously testified in a proceeding at the Kansas Corporation**
6 **Commission (“KCC” or “Commission”) or before any other utility regulatory**
7 **agency?**

8 A. No, I have not.

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

10 A. The purpose of my testimony is to provide an overview of this Application from a total
11 Company perspective and identify what KCPL believes to be significant and important
12 policy issues to be considered by the Commission related to this case and summarize the
13 basis of KCPL’s position on these significant policy issues.

14 **Q. Please provide an overview of this proceeding from KCPL’s perspective.**

15 A. KCPL is simultaneously filing a rate application in Kansas and Missouri pursuant to the
16 terms of the agreements reached in previous dockets in both states. KCPL witness Chris
17 Giles describes in his direct testimony the background leading up to the Stipulation and
18 Agreement concerning KCPL’s Regulatory Plan reached in Kansas and approved by this
19 Commission in Docket No. 04-KCPE-1025-GIE (“Regulatory Plan Stipulation and
20 Agreement”). A similar agreement was filed in Missouri, and approved by the Missouri
21 Public Service Commission. These dual rate cases are filed as part of the Regulatory
22 Plan set out in those Agreements.

1 **Q. What is the relationship between approval of the Regulatory Plan Stipulation and**
2 **Agreement and this rate proceeding?**

3 A. The Regulatory Plan Stipulation and Agreement provided for a series of rate case filings.
4 The first filing to be made on February 1, 2006, and the last filing to be made eight
5 months prior to the commercial in-service operation date of Iatan Unit 2, are mandatory
6 filings. This 2006 rate case includes expenditures made related to 100 MW of wind
7 generation, the additions to transmission and distribution infrastructure that are or will be
8 in service by December 31, 2006 and affordability, energy efficiency and demand
9 response programs, as defined in the Regulatory Plan Stipulation and Agreement.

10 **Q. Does this case include only the investments in infrastructure identified in the**
11 **Regulatory Plan?**

12 A. No, this rate case proceeding includes all of the Company's expenses, revenues,
13 investments, rate base, capital structure, and return on rate base associated with a test-
14 year revenue requirement rate case. The Regulatory Plan serves as the trigger to file this
15 case, but it includes all costs of providing electric service. The rate increase request is
16 supported by the testimony and schedules of the Company's witnesses in this proceeding.

17 **Q. What does KCPL believe to be significant and important policy decisions to be**
18 **considered by the Commission related to this case and why?**

19 A. The balance of risk and benefits between customers, shareholders, and creditors is a
20 critical policy decision. It is apparent to KCPL and, we believe, to the other signatories
21 to the Regulatory Plan Stipulation and Agreement that the electric utility industry has
22 changed dramatically since the last time KCPL requested a rate increase or constructed a
23 major base-load generation plant. Today, rating agencies and investors are very

1 knowledgeable about our industry. Maintaining investment grade credit quality, while
2 always important, has become more difficult because of the increased scrutiny of this
3 industry in the past five years. Competitive wholesale markets did not exist twenty years
4 ago when KCPL last increased its rates. In addition, deregulated supply for retail
5 customers is in place in parts of the country, while other states continue to regulate
6 vertically integrated utilities such as KCPL.

7 KCPL's Comprehensive Energy Plan includes investment of approximately \$1.3 billion
8 during the next five years in addition to the Company's needs for capital to maintain
9 ongoing operations and to provide the high level of service and reliability our customers
10 have come to expect and deserve. Throughout the workshop and panel discussion
11 processes and development of the Regulatory Plan, KCPL personnel stressed the
12 importance of balancing the interests of customers, shareholders, and creditors. Because
13 of the nature of the workshop and panel discussion processes and the fact that a rate case
14 had not been filed, the ability to achieve this balance was limited in scope. However, to
15 the extent it was possible in those types of proceedings, I believe recognition of the need
16 to balance these interests was accomplished. For instance, establishing a means to
17 provide cash to the Company by utilizing a contribution-in-aid-of-construction ("CIAC")
18 expense, if necessary to meet certain credit ratios, provided creditors with some comfort
19 KCPL could finance its Regulatory Plan and maintain investment grade credit quality.
20 By approval of the Company's Regulatory prior to the in-service commercial operation of
21 certain infrastructure investments such as Iatan Unit 2, customers will benefit because
22 KCPL now has the ability to build low-cost generation that will provide much less costly
23 energy than natural gas alternatives for decades to come. Absent these regulatory

1 assurances, KCPL would not have been able to invest in Iatan Unit 2. It is KCPL's belief
2 that the key policy decisions to be considered in this case concern the balance of risks and
3 benefits among customers, shareholders, and creditors today and during the next five
4 years.

5 **Q. Please explain what you mean by your last statement. Isn't this always a**
6 **consideration of the Commission?**

7 A. Yes, it is, but this case is somewhat unique because of the provisions of the Regulatory
8 Plan, including the need to generate cash to meet certain ratios, and because of the risk
9 and uncertainty inherent in the off-system sales market. KCPL and its customers have
10 benefited extensively from participation in this market. Mr. Giles, KCPL witness
11 Michael Schnitzer, and KCPL witness Burton Crawford provide detailed testimony
12 regarding the off-system sales market risks and benefits. Mr. Giles also provides KCPL's
13 position regarding sharing the risks of off-system sales between customers and
14 shareholders. Credit ratios are impacted by each of these factors. Thus, a balance needs
15 to be achieved between earnings, CIAC, and the risk of off-system sales.

16 **Q. Does the Regulatory Plan Stipulation and Agreement in any way limit the ability of**
17 **signatories to argue for any return on equity they believe is appropriate?**

18 A. No, it does not. KCPL is requesting a return on equity of 11.5%. The basis for the return
19 is contained in the testimony of KCPL witness Samuel Hadaway. GPE must issue a
20 substantial amount of equity during the next five years, and it is critical that the value of
21 its stock is maintained during the five-year Regulatory Plan. In addition, as described in
22 Mr. Giles's testimony, we propose to share the risk of the off-system sales contribution to
23 KCPL's earnings between customers and shareholders. As Mr. Giles states in his

1 testimony, off-system sales contribute a large portion of KCPL's earnings and return on
2 equity. The magnitude of this contribution to earnings compels the Commission and all
3 parties to this case to examine and take account of the benefits and risk of participation in
4 this relatively new market. One simply cannot view return on equity or cost of capital in
5 the same light for a utility with a large portion of earnings from a competitive market as
6 compared to a utility with a small portion of its earnings from a competitive market.

7 **Q. Are there other policy decisions the Commission may find before it in this case?**

8 A. Included in the testimony of KCPL witnesses Dana Crawford and John Marshall are the
9 business plans of the Supply and Delivery business segments, respectively, of the
10 Company. KCPL has improved its productivity, reliability and cost position relative to
11 other utility companies, particularly during the past several years. KCPL witness Robert
12 Camfield provides evidence that justifies an additional return on equity to recognize the
13 value to customers of KCPL's efforts in this area. KCPL is not requesting any additional
14 return on equity as a result of its performance. However, KCPL respectfully requests that
15 before recommending a return on equity for KCPL in this proceeding the Commission
16 Staff and other parties to this case consider all relevant factors, including KCPL's
17 construction program, its off-system sales risk, and its performance.

18 **Q. Does that conclude your testimony?**

19 A. Yes, it does.

