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

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**DIRECT TESTIMONY OF**

**CHRIS B. GILES**

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

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**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-581-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. RATEMAKING PRINCIPLES

**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**

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| **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 18th 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.



**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

Effective: _____
Month Day Year

By: Mary Turner Director – Regulatory Affairs
Title

FILED

THE STATE CORPORATION COMMISSION OF KANSAS

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