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

DOCKET NO. 10-KCPE- 415 -RTS

1 Q: Please state your name and business address.

2 A: My name is Chris B. Giles. My business address is 1200 Main, Kansas City, Missouri  
3 64105.

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

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

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

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

1 **Q: How long did you hold that position?**

2 A: From March of 2005 until June 2009.

3 **Q: What are your current consulting responsibilities?**

4 A: My responsibilities include assisting and advising the current Senior Director,  
5 Regulatory Affairs. In this capacity, I remain actively involved in KCP&L's regulatory  
6 strategy and the oversight of the Iatan Unit 2 Project.

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

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

11 **Q: Did you provide testimony in Docket No. 09-KCPE-246-RTS ("246 Docket")?**

12 A: Yes, I did. It is attached as Schedules CBG2010-1 through CBG2010-6

13 **Q: And in that case, did you previously testify as to your education, experience and  
14 employment history?**

15 A: Yes.

16 **Q: Has any of your testimony regarding your experience or employment history  
17 changed?**

18 A: No, other than the fact that as I stated above, I retired from KCP&L as the Vice  
19 President of Regulatory Affairs and am now working as a consultant.

20 **Q: What is the purpose of your Direct Testimony?**

21 A: The purpose of my Direct Testimony is to discuss the following: (i) application of the  
22 factors articulated in K.S.A. 66-128g; (ii) KCP&L's prudent management of its  
23 construction projects at the Iatan Generating Station; (iii) identification of the risks that

1 KCP&L's senior management encountered during the Iatan Unit 2 Project and how  
2 those risks were mitigated; (iv) the KCP&L Executive Oversight Committee's role in  
3 vetting of the Iatan Unit 2 Project's data and prudently making decisions during the  
4 course of the Project.

5 **APPLICATION OF THE K.S.A. 66-128g FACTORS**

6 **Q: How does K.S.A. 66-128g relate to the prudence standard, if at all?**

7 A: Company witness Kenneth Roberts testifies that K.S.A. 66-128g identifies specific items  
8 that the KCC can review in order to help it make a determination of prudence, but the  
9 factors do not establish prudence or lack of prudence. I agree with that testimony.

10 **Q: Have you reviewed all of the factors set forth in K.S.A. 66-128g with respect to**  
11 **Iatan Unit 2?**

12 A: Yes, I have. The factors articulated in K.S.A. 66-128g are as follows:

13 (1) A comparison of the existing rates of the utility with rates that would result if the  
14 entire cost of the facility were included in the rate base for that facility;

15 (2) A comparison of the rates of any other utility in the state which has no ownership  
16 interest in the facility under consideration with the rates that would result if the entire  
17 cost of the facility were included in the rate base;

18 (3) A comparison of the final cost of the facility under consideration to the final cost  
19 of other facilities constructed within a reasonable time before or after construction of the  
20 facility under consideration;

21 (4) A comparison of the original cost estimates made by the owners of the facility  
22 under consideration with the final cost of such facility;

23 (5) The ability of the owners of the facility under consideration to sell on the

1 competitive wholesale or other market electrical power generated by such facility if the  
2 rates for such power were determined by inclusion of the entire cost of the facility in the  
3 rate base;

4 (6) A comparison of any overruns in the construction cost of the facility under  
5 consideration with any cost overruns of any other electric generating facility constructed  
6 within a reasonable time before or after construction of the facility under consideration;

7 (7) Whether the utility having an ownership interest in the facility being considered  
8 has provided a method to ensure that the cost of any decommissioning, any waste  
9 disposal or any cost of clean up of any incident in construction or operation of such  
10 facility is to be paid by the utility;

11 (8) Inappropriate or poor management decisions in construction or operation of the  
12 facility being considered;

13 (9) Whether inclusion of all or any part of the cost of construction of the facility  
14 under consideration, and the resulting rates of the utility therefrom, would have an  
15 adverse economic impact upon the people of Kansas;

16 (10) Whether the utility acted in the general public interest in management decisions  
17 in the acquisition, construction or operation of the facility;

18 (11) Whether the utility accepted risks in the construction of the facility which were  
19 inappropriate to the general public interest to Kansas;

20 (12) Any other fact, factor or relationship which may indicate prudence or lack  
21 thereof as that term is commonly used.

22 The statute also states that “the portion of the cost of a plant or facility which  
23 exceeds 200% of the ‘original cost estimate’ thereof shall be presumed to have been

1 incurred due to a lack of prudence. The commission may include any or all of the  
2 portion of cost in excess of 200% of the 'original cost estimate' if the commission finds  
3 by a preponderance of the evidence that such costs were prudently incurred. As used in  
4 this act 'original cost estimate' means: ". . . For property of an electric utility which has  
5 been constructed without obtaining an advance permit under K.S.A. 66-1,159 et seq.,  
6 and amendments thereto, the 'definitive estimate'. . ." I will discuss several of the  
7 factors in detail here. The remaining factors are addressed by Company witness  
8 Kenneth Roberts.

9 **Q: Which of the twelve factors presented in K.S.A. 66-128g are you going to discuss in**  
10 **detail today?**

11 A: Using the numbering from the list above, I will discuss the following eight factors:  
12 (1); (2); (5); (8); (9); (10); (11); and (12). Neither I nor Ken Roberts discuss the seventh  
13 factor, which asks "whether the utility having an ownership interest in the facility being  
14 considered has provided a method to ensure that the cost of any decommissioning, any  
15 waste disposal or any cost of clean up of any incident in construction or operation of  
16 such facility is to be paid by the utility." This factor appears to be applicable only to  
17 nuclear power plants, and therefore, is not necessary for consideration in our case.

18 **Q: With respect to factor K.S.A. 66-128g (1), have you performed a comparison of the**  
19 **existing rates of KCP&L with rates that would result if the entire cost of the facility**  
20 **were included in the rate base for that facility?**

21 A: Yes. Total revenue requirement associated with the addition of Iatan Unit 2 to  
22 KCP&L's Kansas jurisdictional rate base is approximately \$54 million. This revenue  
23 requirement is offset by \$40 million of reduced Net System Cost. Net System Cost is

1 the net amount of the impact on fuel and purchased power costs, and off-system sales  
2 margins that were provided to me by KCP&L's Energy Resource Management Division.  
3 The calculation uses fuel costs with and without Iatan Unit 2. Therefore, the total net  
4 increase in revenue requirement attributable to inclusion of Iatan 2 into rate base is  
5 approximately \$14 million or 2.9%. KCP&L's current average rate would increase by  
6 only \$0.0025 per kwh from \$0.0853 to \$0.0878. or approximately \$2.50 per month for  
7 the average residential customers based on 1000 kWh usage per month.

8 **Q: With respect to factor K.S.A. 66-128g(2), how does the proposed rate that would**  
9 **result if the entire cost of Iatan Unit 2 were included in the rate base compare with**  
10 **the rates of other utilities in Kansas (other than Empire Electric District Company**  
11 **("Empire"))?**

12 A: Westar's North average rates are \$0.0768 per kWh compared to KCP&L's average rate  
13 of \$0.0878, with Iatan Unit 2 included. The increase associated with Iatan Unit 2 is  
14 minimal and will have no discernable impact on the difference between KCP&L and  
15 Westar North rates.

16 **Q: With respect to factor K.S.A. 66-128g(5), have you considered the ability of**  
17 **KCP&L to sell electrical power generated by Iatan Unit 2 on the competitive**  
18 **wholesale or other market if the rates for such power were determined by inclusion**  
19 **of the entire cost of the facility in the rate base?**

20 A: Yes. To address this factor first requires an understanding of how the addition of a  
21 major base-load generating unit such as Iatan Unit 2 is evaluated for potential inclusion  
22 in a generation portfolio. Base-load generation is designed to operate at least 70 to 80%  
23 of the hours of a year including scheduled and unscheduled hours out of service for

1 maintenance. A base-load unit such as Iatan Unit 2 will have a life of 40 years or more.  
2 Adding a base-load unit to rate base means adding the investment cost including  
3 allowance for funds used during construction (AFUDC) to the utility's existing rate  
4 base. The utility earns a return of and a return on its investment placed in its rate base.  
5 As the addition to rate base is depreciated over the life of the generating unit, rate base  
6 declines and the revenue requirement associated with the additional investment  
7 correspondingly declines. Thus, the largest impact on retail rates related to the cost of  
8 the investment occurs in the first year the unit is placed into service and included in  
9 rates. When evaluating generation resource additions to the resource portfolio the  
10 present value of revenue requirements ("PVRR") is calculated for various alternative  
11 resource plans and the plan that reliably meets customer needs over a 20-year period at  
12 the lowest PVRR is typically chosen, unless other factors offset the difference in PVRR.  
13 Use of a PVRR analysis is standard in the regulated utility industry.

14 **Q: Was a PVRR analysis performed prior to KCP&L committing to build Iatan Unit**  
15 **2?**

16 **A:** Yes. This analysis, first conducted in 2004, was the basis for the decision to construct  
17 Iatan Unit 2. The investment cost used in the PVRR analysis at that time was the cost  
18 contained in the Regulatory Plan<sup>1</sup> which was equal to the cost estimate in the Project  
19 Definition Report (PDR) prepared by Burns & McDonnell. This analysis was updated  
20 in 2006 to reflect the Project's Control Budget Estimate ("CBE"), and subsequently  
21 updated in May 2008, to reflect the 2008 Project cost reforecast of the CBE for the

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<sup>1</sup> The 1025 Stipulation refers collectively to the "Regulatory Plan" that is comprised of a Resource Plan set forth in Appendices A and A-1, and the Demand Response, Efficiency and Affordability Programs set forth in Appendices B and B-1, and the Rate Plan set forth in Appendix C. References to the "Regulatory Plan" within this testimony shall have the same meaning.

1 investment cost of Iatan Unit 2. Company witness Daniel Meyer testifies regarding each  
2 of the various project cost estimates. In each of these analyses, Iatan Unit 2 represented  
3 the lowest PVRR. These PVRR analyses were presented to the Commission's Staff and  
4 other parties at the first Quarterly meeting held subsequent to publication of the  
5 revisions to the Project's cost estimates.

6 **Q: Would KCP&L be able to sell the capacity and energy of Iatan Unit 2 in the**  
7 **wholesale market?**

8 A: To answer this question requires an understanding of the wholesale market. The short-  
9 term competitive wholesale market is based on a wholesale market price that is largely  
10 driven by the price of natural gas. In most - if not all - hours of the year, KCP&L has  
11 historically sold into the wholesale market all of the energy it has available from its  
12 coal-based generation that is not used by retail customers. The amount of revenue  
13 received from non-retail customers above fuel and other variable costs is credited as an  
14 offset to the costs to serve retail customers. There is no reason to believe an efficient  
15 low variable or marginal cost generating unit such as Iatan Unit 2 would not be able to  
16 sell all of its excess energy into the wholesale market.

17 Given the need for base-load capacity, the capacity component of Iatan Unit 2  
18 could be sold in a long-term contract for capacity or for capacity and energy. KCP&L  
19 would certainly be able to sell Iatan Unit 2 power in a long-term wholesale contract.

20 **Q: How do you know this to be the case?**

21 A: Utilities use similar planning tools, utilities that are regulated operate under similar, if  
22 not identical, rate of return regulation. Rate base related costs decline over time and the  
23 cost for new base-load construction continues to increase over time. A generating unit



1 such as Iatan Unit 2 would be extremely valuable to any utility seeking long-term  
2 capacity and/or energy because any base-load generation they could contemplate  
3 building in the future would cost more than Iatan Unit 2.

4 **Q: Under what circumstances would KCP&L not be able to sell Iatan Unit 2 capacity**  
5 **and/or energy under a long-term contract?**

6 A: Iatan Unit 2 would have to cost significantly more than similar capacity coming into  
7 service during the same time frame. In addition, it would have to cost more than any  
8 base-load capacity contemplated for completion within the next five to seven years.  
9 Company witness Mr. Roberts testifies that the expected final cost of Iatan Unit 2 is  
10 about average for similar units coming into service within a similar time frame.

11 **Q: Factor K.S.A. 66-128g (8) asks if KCP&L made any inappropriate or poor**  
12 **management decisions in the construction of Iatan Unit 2. Do you have an opinion**  
13 **regarding the management decisions that KCP&L made during the Project?**

14 A: Yes. I do not believe that KCP&L made any inappropriate or poor management  
15 decisions in the construction of Iatan Unit 2. I agree with the testimony of Company  
16 witness Kenneth Roberts who stated that “not all management decisions are going to be  
17 perfect in hindsight. However, management decisions can only be described as  
18 ‘inappropriate’ or ‘poor’ if such decisions are imprudent.” (Schedule KMR2010-1).  
19 Decisions are deemed to be prudent, regardless of the outcome of such decisions, if the  
20 decision-making process was sound. As I discussed in my prior testimony in the 246  
21 Docket, KCP&L put all of the proper tools in place to ensure that KCP&L’s  
22 management could make decisions based upon the available data. I will discuss the  
23 substance and quality of KCP&L management’s decisions along with the processes for

1 making those decisions in more detail later.

2 **Q: Would the inclusion of all or any part of the cost of construction of Iatan Unit 2,**  
3 **and the resulting rates of the utility therefrom, have an adverse economic impact**  
4 **upon the people of Kansas as asked in K.S.A. 66-128g factor (9)?**

5 A: No, Iatan Unit 2 represents only about a 2.9% increase in current rates, including the  
6 impact of fuel, purchased power and off-system sales margins that flow through  
7 KCP&L's Energy Cost Adjustment ("ECA") Rider. This is a minimal increase. In  
8 addition, this minimal increase related to Iatan Unit 2 will likely be reduced in the  
9 future. Current wholesale market prices are depressed due to the economic recession.  
10 Once economic activity returns to pre-recession status, wholesale prices will increase.  
11 This should result in a larger credit to customers from the sale into the wholesale market  
12 of energy from Iatan Unit 2 and may completely offset the increase in rates attributable  
13 to Iatan Unit 2 in this case. Credit for off-system sales are flowed to customers through  
14 the Company's ECA Rider.

15 In addition, you cannot just look at KCP&L's rates when evaluating the  
16 "economic impact" upon the people of Kansas. Value must be placed upon reliability,  
17 and Iatan Unit 2 will have an important, positive impact upon KCP&L's ability to  
18 provide reliable power to its Kansas customers at rates and guarantees of availability  
19 that will not be dictated by the vagaries of the wholesale marketplace.

20 **Q: With regard to K.S.A. 128g factor (10), do you believe KCP&L acted in the general**  
21 **public interest in management decisions in the construction of Iatan Unit 2?**

22 A: Yes. I will discuss many of KCP&L management's decisions in detail below. In  
23 general, KCP&L has made a number of significant decisions that have allowed the Iatan

1 Unit 2 Project to meet the customers' needs, such as adding capacity without adding  
2 harmful emissions, maintaining the overall cost of the Iatan Unit 2 Project as low as it  
3 could be given the market conditions, and providing the customers with confidence in  
4 KCP&L's ability to meet the Project's schedule.

5 **Q: And, regarding K.S.A. 66-128g factor (11), do you believe KCP&L accepted risks**  
6 **in the construction of Iatan Unit 2 which were inappropriate to the general public**  
7 **interest of Kansas?**

8 A: No. As I will point out in the remainder of my testimony, KCP&L knew the risks that  
9 the Iatan Unit 2 Project represented to customers and sought both knowledge of and  
10 mitigation of those risks throughout the length of the Project. To assist us in  
11 indentifying risks, KCP&L consulted with numerous experts in the utility construction  
12 industry and built tools to identify, report and manage risks as they occurred. My  
13 further testimony identifies the risks that KCP&L knew of throughout the Iatan Unit 2  
14 Project. I believe that KCP&L has managed the risks of Iatan Unit 2 Project's costs and  
15 schedule in line with the general public interest.

16 **Q: Do you believe KCP&L was successful in mitigating the known risks?**

17 A: Yes, I do. Given the state of the construction industry from 2005-2009, I do not believe  
18 that KCP&L could have avoided an increase in the projected construction costs for Iatan  
19 Unit 2. As stated by Company witness Kenneth Roberts, that period of time was marked  
20 by commodity prices rising by more than 40% and the cost of power plant construction  
21 rising by 27% in 2007 alone. Because KCP&L constructed Iatan Unit 2 during a  
22 difficult economic environment, our best strategy was to mitigate the impact of these  
23 rising costs, which we successfully did. By comparison, KCP&L's construction budget

1 for Iatan Unit 2 has only grown by approximately thirteen percent (13%) since the  
2 original 2006 Control Budget Estimate, as compared to the 40% increase experienced by  
3 the industry overall. (Schedule KMR2010-1).

4 **Q: K.S.A. 128g factor (12) asks generally if there is any other fact, factor or**  
5 **relationship which indicates prudence, as that term is commonly used, on the part**  
6 **of KCP&L related to the construction of Iatan Unit 2. Do you know of any such**  
7 **items?**

8 A: Yes. There are other facts that overwhelmingly indicate prudence on the part of  
9 KCP&L related to the construction of Iatan Unit 2. I would like to elaborate on the  
10 management tools I referred to earlier, as well as KCP&L's strategies to mitigate the  
11 effects of the market. In order to do this, I will describe the development of the Iatan  
12 Project, development of the Control Budget Estimate and early identification of potential  
13 risks. Ultimately, when Iatan Unit 2 goes into service, KCP&L will have constructed  
14 one of the largest and most efficient low fuel cost and environmentally cleanest base-  
15 load generating units, at a cost of construction that compares very favorably to other  
16 projects being constructed at the same time that are not nearly so impressive.

#### 17 IATAN PROJECT DEVELOPMENT

18 **Q: What was KCP&L's Regulatory Plan?**

19 A: As I stated in my rebuttal testimony in the 246 Docket:

20 "The Iatan project is part of KCP&L's Regulatory Plan. KCP&L engaged in a  
21 year-long public dialogue with outside intervenors and interested parties to arrive  
22 at a solution for the Kansas City area's energy needs as well as identification of  
23 certain environmental upgrades required for the existing KCP&L fleet."

1 (Schedule CBG2010-2 at pp. 4-5). This Plan is often referred to as the Comprehensive  
2 Energy Plan (“CEP”). The Company’s Kansas Regulatory Plan is embodied in the  
3 Stipulation and Agreement approved by the Commission in Docket No. 04-KCPE-1025-  
4 GIE (“1025 S&A”).

5 **Q: What was KCP&L’s senior management’s view of the Iatan Unit 2 Project in mid-**  
6 **2005?**

7 A: Company witness William H. Downey testifies to KCP&L’s senior management’s  
8 realization that an undertaking such as Iatan Unit 2 would require some significant  
9 changes within KCP&L. Those changes included the following: 1) increasing our  
10 capabilities across the Company to support procurement and construction for the Iatan  
11 Unit 2 Project; 2) reviewing our corporate governance policies and deploying senior  
12 management to oversee and make prudent decisions related to the Project; 3) engaging  
13 appropriate entities who were experts in construction, project oversight and compliance  
14 to assist us in defining and implementing the Project; 4) identifying methods for  
15 transparently reporting the Project’s progress to the Commission Staffs of both Kansas  
16 and Missouri as well as our partners and other interested parties; and 5) developing and  
17 implementing new procedures for procurement, project controls, safety and other key  
18 areas that the Project would utilize. (Schedule WHD2010-1).

19 **Q: What did KCP&L’s management do in 2004-2005 to determine whether the Iatan**  
20 **Unit 2 Project could meet an in-service date of June 1, 2010?**

21 A: The first input we received was actually concurrent to the process of obtaining  
22 regulatory approval. In September 2004, Burns & McDonnell provided KCP&L with a  
23 Project Definition Report (“PDR”). Company witness Brent Davis testifies as to the

1 content of the PDR. \*\* [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED] \*\*

10 **Q: After receiving the PDR from Burns & McDonnell in September of 2004, what did**  
11 **KCP&L management do to confirm the viability of the Iatan Unit 2 Project?**

12 A: The steps that management took to confirm the Iatan Unit 2 Project’s viability are  
13 recounted in the 1025 S&A. Additionally, the 1025 S&A at Section 3 requires KCP&L  
14 to, “monitor the reasonableness and adequacy of the Resource Plan until the capital  
15 investments described therein are completed.” KCP&L has, at various times, performed  
16 subsequent analyses in accordance with the 1025 S&A that have confirmed that building  
17 Iatan Unit 2 is the best option at the least cost for Kansas ratepayers. Those subsequent  
18 analyses were presented to the KCC Staff, CURB, and other 1025 S&A signatories in  
19 May 2006, February 2007, September 2008 and August 2009.

20 **Q: Once the Regulatory Plan was approved, what further actions did KCP&L take**  
21 **with respect to proceeding with the Iatan Unit 2 Project?**

22 A: We decided to take certain proactive steps during this review process to insure that the  
23 Project could hit the ground running once management made a final decision on the

1 Project's delivery method. For example, we recognized that the preparation of the boiler  
2 specification was one of the first and longest lead items necessary to meet our  
3 commitment to the Regulatory Plan's in-service date for Iatan Unit 2, and that while  
4 management was studying the potential delivery methods for the Project, we could begin  
5 work on that critical item. Accordingly, soon after obtaining regulatory approval,  
6 KCP&L contracted with Black & Veatch to begin preparation of the Iatan Unit 2 boiler  
7 specification.

8 **Q: Why did KCP&L choose to award the boiler specification to Black & Veatch?**

9 A: KCP&L had previously worked with both Black & Veatch and Burns & McDonnell on  
10 other projects. Both engineering firms are highly respected and both were deemed  
11 capable of providing engineering services as the owner's engineer on the CEP projects.  
12 KCP&L felt that it was beneficial to engage each of these engineering firms in the early  
13 engineering activities to divide the workload and ease the transition upon KCP&L's  
14 selection of its owner's engineer for the Iatan Project. Accordingly, KCP&L requested  
15 that Burns & McDonnell prepare the PDR and other engineering studies and Black &  
16 Veatch prepare a specification for the boiler, which seemed like a natural division of the  
17 work.

18 **Q: What did KCP&L management do next?**

19 A: Management reviewed a number of factors in the third quarter of 2005 that contributed  
20 to the decisions that were made for proceeding with the Project. In October 2005, we  
21 asked Burns & McDonnell and Black & Veatch to each prepare proposals for the  
22 owner's engineering services for the Iatan Unit 2 Project. We requested each firm to  
23 include an assessment of alternate project delivery methods from a scope, cost and

1 schedule basis, among other things. In November 2005, we invited Black & Veatch and  
2 Burns & McDonnell to make separate presentations.

3 **Q: Please describe Black & Veatch’s proposal and presentation in November 2005.**

4 A: Black & Veatch submitted a number of high level schedule scenarios which it associated  
5 with differing contracting methods. Their materials were very impressive and were  
6 based on their current experience in the construction marketplace and, in particular, in  
7 the coal marketplace. Black & Veatch used the Weston 4 project in Wausau, Wisconsin  
8 as a reference plant. Black & Veatch was the owner’s engineer on that project for  
9 Wisconsin Public Service, Co. (“WPS”) and it incorporated some of the lessons learned  
10 from that project into its presentation. The Weston 4 project was performed on a multi-  
11 prime basis and by all accounts was a very successful project for WPS.

12 Nonetheless, for the Iatan Unit 2 Project, Black & Veatch strongly favored an  
13 engineering, procurement, and construction (“EPC”) project delivery method for Iatan  
14 Unit 2. Black & Veatch recommended an EPC project method in which Black & Veatch  
15 would be the engineer and construction manager in a joint venture with Kiewit. While  
16 there were some positive aspects of its proposal, there were aspects of Black & Veatch’s  
17 proposal that KCP&L management did not favor.

18 **Q: What aspects of Black & Veatch’s proposal were viewed negatively by KCP&L?**

19 A: Black & Veatch refused to bid the Project in November 2005 as a fixed-price EPC  
20 project. Instead, it offered a schedule in which it would negotiate an EPC “target” price  
21 approximately one year into the Project, after the award of the boiler, air quality control  
22 systems (“AQCS”) and turbine generator. In its meeting with KCP&L management on  
23 November 8, 2005, Black & Veatch’s team stated that KCP&L did not have time to



1 competitively bid an EPC for the Project; that bidding an EPC would likely extend the  
2 Provisional Acceptance date to October 2011. In addition, KCP&L recognized some of  
3 the inherent problems typical with a “full-wrap” EPC project or one in which a single  
4 EPC contractor performs virtually all the work on a turnkey basis for the entire project.  
5 These problems typically include factors like the inability to select equipment and the  
6 lack of transparency of schedule and cost data.

7 **Q: Did Black & Veatch present an alternative contracting strategy to a negotiated**  
8 **EPC?**

9 A: Yes. Black & Veatch presented multiple derivations including a multi-prime scenario.  
10 However, Black & Veatch did not have confidence that any of the other proposed  
11 contracting strategies could meet a June 1, 2010 in-service date as provided in the 1025  
12 S&A.

13 **Q: Did Black & Veatch highlight any additional risks to KCP&L’s management at**  
14 **this time?**

15 A: Yes. Black & Veatch identified the two biggest risks to the market constraints facing  
16 the Iatan Unit 2 Project as: (1) AQCS equipment, which was in short supply because of  
17 vendors’ backlog; and (2) finding qualified EPC contractors for either a total plant or the  
18 Balance of Plant EPC bid if KCP&L chose this approach. On this point, Black &  
19 Veatch noted, “For a union project of this size, only a few qualified bidders will have the  
20 ware-with-all (sic) and the ability to bid.”

21 **Q: Did Black & Veatch offer any mitigation strategies to KCP&L?**

22 A: Yes. Black & Veatch noted that “the best chance to meet the June 2010 date is by  
23 releasing procurements as early as possible. This will return the specific design

1 information earlier and allow the overall design to proceed. Delaying the process until  
2 sufficient design is complete for a larger package risks delaying the overall schedule.”  
3 Additionally, Black & Veatch stated that initial engineering needed to proceed  
4 immediately.

5 **Q: Describe Burns & McDonnell’s proposal and presentation to KCP&L on**  
6 **November 8, 2005.**

7 A: As I stated in my prior testimony in the 246 Docket,

8 “Burns & McDonnell, [with whom] KCP&L had worked with extensively on  
9 Hawthorn Unit 5 after the explosion in 1999, came to our offices with their entire  
10 proposed project team, including all of their lead designers, their chief executive  
11 officer, their vice president of their power division, and key ancillary support  
12 members of their proposed team.

13 Burns & McDonnell presented multiple scenarios as well to the project  
14 team and to Schiff Hardin LLP (“Schiff”), one of which identified a path for  
15 engineering the boiler and Air Quality Control System (“AQCS”) for Iatan  
16 Unit 2 as well as the AQCS for Iatan Unit 1 over a period of nine months with  
17 major procurements occurring in the first two quarters of 2006.”

18 (CG\_\_\_, Rebuttal Testimony of Chris Giles in the 246 Docket, p. 7, ll. 16 – p. 8, ll. 2)

19 Under this plan, Burns & McDonnell believed that the in-service dates for both the Iatan  
20 Unit 1 AQCS and Iatan Unit 2 could be met and that costs for the projects could be  
21 within industry expectations.

22 **Q: What did KCP&L management do next?**

1 A: The project team and Schiff vetted the information presented by Black & Veatch and  
2 Burns & McDonnell. There were follow-up meetings with each vendor to discuss  
3 aspects of their respective proposals.

4 **Q: What was the result of that vetting process?**

5 A: It was the strong recommendation from the Project team and from Schiff that Burns &  
6 McDonnell presented both the strongest team and the better plan for proceeding with  
7 engineering and procurement by the Iatan projects, and that the plan they presented  
8 preserved the in-service dates for both Iatan Unit 1 and Iatan Unit 2.

9 **Q: Why was it important to preserve the in-service date of Iatan Unit 2?**

10 A: There were several reasons to preserve the in-service date of Iatan Unit 2. First, Senior  
11 Management understood that the costs of commodities, equipment and labor would  
12 continue to increase because of the demand for both new coal based-generation and for  
13 air quality control systems. Second, KCP&L and the joint owners needed additional  
14 capacity in and around the summer of 2010. Third, in late 2005 and early 2006, KCP&L  
15 was able to sell excess energy into the off-system sales market at a price that would  
16 offset nearly the total increase in revenue requirement associated with the fixed costs of  
17 Iatan Unit 2. As I previously stated, the country continues in an economic recession,  
18 even so the impact of Iatan Unit 2 on rates is only 2.9%. Once the economy returns to  
19 pre-recession growth I would expect a lesser impact on rates as wholesale margins  
20 increase. Fourth, KCP&L had made a commitment under the Regulatory Plan to  
21 complete Iatan Unit 2 by June 2010 and wanted to meet its commitment. It was obvious  
22 to Senior Management that waiting 18 months for design to be completed would only  
23 add to the costs of the plant, reduce revenues from wholesale market opportunities, and

1           thus increase the revenue required from customers once Iatan Unit 2 was placed into  
2           service.

3   **Q:   When were KCP&L's Senior Management's decisions regarding the owner's**  
4   **engineer and the procurement method made?**

5   A:   As I stated in my prior testimony in the 246 Docket,  
6           [t]here was a meeting held on November 23, 2005, at which  
7           myself, Mike Chesser, William Downey, Bill Riggins and Steve  
8           Easley were in attendance.  At this meeting both Burns &  
9           McDonnell and Schiff made separate presentations to KCP&L  
10          Senior Management regarding Burns & McDonnell's capabilities  
11          to perform as the Iatan Units 1 and 2 project's owner's engineer,  
12          the key milestones and strategic plan necessary for the Iatan  
13          Units 1 and 2 project, and options for procurement for Iatan  
14          Units 1 and 2.  Schiff prepared a PowerPoint presentation and  
15          adjoining charts showing its view of the strategic plan for the Iatan  
16          Units 1 and 2 projects.

17                 In Schiff's PowerPoint presentation, Schiff recapped [a]  
18          September 29, 2005 presentation [it prepared] regarding contract  
19          methodology and placed that in context with the owner's engineer  
20          proposals from Black & Veatch and from Burns & McDonnell.  
21          There was a discussion of the owner's engineer's need to meet  
22          critical milestones in the strategic plan for Iatan Units 1 and 2 and  
23          how those milestones could impact the procurement strategy for

1 the project. . . Schiff's strategic recommendation consisted of the  
2 following key points. Engineering is critical path and behind  
3 schedule, meaning that design will have to proceed on a "fast-  
4 track" basis. Schiff recommended that balance of plant design  
5 must start by no later than spring of 2006 to meet critical steel  
6 fabrication dates and start of foundations. Also, design of the  
7 boiler foundations must be completed by November 1, 2006 to  
8 start construction by November 15, 2006. And the Iatan Unit 2  
9 boiler module design must be completed by December 1, 2006 to  
10 allow one-year fabrication period.

11 Schiff also noted that the boiler island award for Iatan  
12 Unit 2 was unlikely to occur prior to May 2006 and that the only  
13 opportunity for improvement was for KCP&L to accelerate the  
14 evaluation/award period. Schiff recommended that KCP&L obtain  
15 the boiler final [structural] loads by July 1, 2006 for the balance of  
16 plant contractor(s) to mobilize in early second quarter of 2006 and  
17 for underground construction to start by July 1, 2006. Finally,  
18 Schiff recommended that the schedule show the boiler structural  
19 steel design to be complete by September 1, 2006 to allow for ten  
20 (10) months for steel fabrication.

21 At this meeting, Senior Management discussed and agreed  
22 to the award of the owner's engineering position to Burns &  
23 McDonnell and released Burns & McDonnell to begin work. In

1 addition, senior management also requested that Burns &  
2 McDonnell work closely with Schiff to refine the strategic  
3 schedule and the approach to procuring the major goods and  
4 services for Iatan Units 1 and 2. Also at this meeting, there was a  
5 discussion regarding whether the project was to proceed on a full-  
6 wrap EPC basis in which all detailed engineering, procurement and  
7 construction work is procured from a single-source. It was the  
8 consensus view from Schiff, Burns & McDonnell and the project  
9 team that the first step needed to be the procurement of the major  
10 components for both Iatan Unit 1 AQCS and Iatan Unit 2,  
11 including the Unit 2 boiler, the Unit 2 turbine generator and the  
12 environmental control systems for both units. It was emphasized  
13 by both Burns & McDonnell and Schiff at the November 23, 2005  
14 meeting that these were the key procurements with the longest lead  
15 times and that those needed to be pursued as quickly as possible.  
16 Burns & McDonnell committed to provide the necessary resources  
17 for KCP&L to timely procure and construct the plant.”

18 (Schedule CBG2010-2 at pp. 8-10).

19 **Q: Did KCP&L follow the key recommendations from Schiff and Burns & McDonnell**  
20 **at the November 23, 2005 meeting?**

21 A: Yes. The strategy we employed followed the general recommendations and many of the  
22 very specific recommendations that Schiff and Burns & McDonnell made.

23 **Q: Did KCP&L adhere to this plan in the execution of the Iatan Unit 2 Project?**

1 A: Generally, yes. The major engineering, procurement and construction dates outlined in  
2 this early plan were all met or nearly met by KCP&L and its vendors. Adhering to these  
3 milestones and the strategic schedule was critical to the Iatan Unit 2 Project getting off  
4 to a good start.

5 **IATAN UNIT 2 COST ESTIMATE DEVELOPMENT**

6 **Q: Do you know the origin of the estimate for the Iatan Unit 2 Project that was**  
7 **provided as part of the Regulatory Plan?**

8 A: Yes. The number that was stated in the Regulatory Plan of \$734 million, based on  
9 KCP&L's then-estimated 500 MW share of the proposed 800 MW plant, was a very  
10 preliminary number that was based on the Project Definition Report ("PDR") Burns &  
11 McDonnell provided to KCP&L on September 9, 2004.

12 **Q: Do you have an assessment regarding the quality of the estimate that was in the**  
13 **PDR?**

14 A: Company witness Daniel Meyer testifies that the PDR estimate was a high-level  
15 estimate that was out-of-date by the time the Project was moving forward in early 2006.

16 **Q: Why was the PDR out-of-date at that time?**

17 A: Company witness Brent Davis testifies to the scope and programmatic changes to the  
18 Project that occurred from the time of the PDR to 2006.

19 **Q: Was the cost estimate included in the Regulatory Plan ever used as KCP&L's**  
20 **budget for the Iatan Unit 2 Project?**

21 A: No. It was never intended to be a budget for the Project and I believe that was made  
22 clear during the proceeding before the Commission in the 1025 Docket. Company  
23 witness Mr. Meyer testifies in detail about the evolving levels of cost estimates, their

1 intended purposes, and the specific estimates performed on KCP&L's Iatan Unit 2  
2 Project. This estimate was only indicative of a conceptual coal plant. This estimate is  
3 typical of the estimates used in resource planning analysis. The expectation that costs  
4 would change substantially as the Project became more defined was evident by the  
5 language in the Regulatory plan that specifically required the Resource Plan be re-  
6 evaluated when material changes in cost or schedule occurred (1025 S&A, Section  
7 II.B.3.). As I stated earlier in my testimony, these analyses were performed and  
8 provided to Staff and other parties subsequent to publication of the CBE and the 2008  
9 cost reforecast of the CBE. In each such PVRR analysis, Iatan Unit 2 continued to be  
10 the least cost resource.

11 **Q: What was KCP&L's approved budget for the Project?**

12 A: The CBE referred to in Company witness Brent Davis' direct testimony was the estimate  
13 that was presented to the Board of Directors for budgetary purposes for Iatan Unit 2 in  
14 the fourth quarter of 2006 and once approved, the CBE became the Project's budget.

15 **Q: What was the basis for the CBE?**

16 A: Company witness Daniel Meyer testifies in detail as to the formation of the CBE. In  
17 general, the CBE was developed on the basis of 20-25% complete engineering and after  
18 the award of the ALSTOM Power, Inc. ("ALSTOM") EPC contract, Toshiba turbine  
19 generator and other engineered materials.

20 **Q: What was the contracting model on which the CBE was premised?**

21 A: Company witnesses Daniel Meyer and Brent Davis each testify in detail as to the  
22 contracting model that was in place at that time. In summary of that testimony, the  
23 contracting model was a multi-prime with ALSTOM as the largest and most important



1 vendor. The assumption was that the remaining work outside of the ALSTOM contract,  
2 or the "Balance of Plant" work, would be designed by Burns & McDonnell and  
3 performed by multiple specialty contractors.

4 **Q: What was the amount of the CBE for Iatan Unit 2?**

5 A: The approved CBE for Iatan Unit 2 was **\*\*[REDACTED]\*\*** total project, excluding  
6 Allowance for Funds Used During Construction ("AFUDC").

7 **Q: Was there a point at which KCP&L revisited the costs of the Iatan Unit 2 Project?**

8 A: Yes. The Project's costs have been monitored on a constant basis since establishment of  
9 the CBE in December 2006. Company witnesses Daniel Meyer testifies regarding the  
10 cost reforecast process in which KCP&L engaged from mid-2007 to May 2008, and  
11 again in the first two quarters of 2009.

12 **Q: What were the results of those cost reforecasts?**

13 A: KCP&L recognized that the CBE had to be updated to reflect projections of then-current  
14 cost trends. In the May 2008 cost reforecast, we recognized the results on the Project's  
15 costs from: (1) the maturation of design that occurred from the CBE in 2006, when  
16 engineering was approximately 20% complete to May 2008 when it was 70% complete;  
17 (2) changes in pricing from the impact of escalation on commodities from the  
18 marketplace; and (3) design for plant optimization that increased the reliability of the  
19 unit. At that time, KCP&L recognized an increase in the CBE to **\*\*[REDACTED]\*\***. In  
20 July 2009, as a result of a robust review of the Project's cost trends, the Project  
21 reaffirmed that the 2008 reforecast CBE was adequate to cover the Project's remaining  
22 costs.

1 **Q: What is the projected final cost of Iatan Unit 2?**

2 A: The current projection for the final cost is \*\* [REDACTED] \*\* including a portion of Iatan  
3 common costs. This is the amount of the current CBE as reforecast in July 2009 and  
4 presented to KCP&L's Board of Directors on July 28, 2009 and KCC staff in mid-  
5 August 2009. The final cost will not be known until the Iatan Unit 2 Project is  
6 completed. However, KCP&L continues to carefully track its costs and will inform the  
7 Commission of the final cost when it is known. This is the estimate for Unit 2 which  
8 includes some common costs. As I previously testified in the 246 Docket, a portion of  
9 common costs were included in both Unit 1 and Unit 2 budgets. For the most part,  
10 common costs were addressed in the last rate case and are currently included in rates.

11 **Q: Were any of the increases in the Iatan Unit 2 Project's costs the result of**  
12 **management imprudence by KCP&L's management?**

13 A: No.

14 **IDENTIFICATION OF IATAN PROJECT'S RISKS**

15 **Q: What commitments did KCP&L make to inform the Staff of the Kansas**  
16 **Corporation Commission ("Staff") and the other parties to the 1025 S&A as to the**  
17 **CEP Projects' status?**

18 A: In the 1025 S&A, KCP&L agreed to provide quarterly status updates on these  
19 infrastructure commitments that would include detailed information regarding actual  
20 expenditures in comparison to planned expenditures and a description of any and all  
21 efforts by KCP&L to efficiently and reasonably procure equipment and services related  
22 to the investments. In addition, KCP&L was to continue with its current process of  
23 working with the parties in its long-term resource planning efforts to ensure that its

1 current plans and commitments are consistent with the future needs of its customers and  
2 the energy needs of the State of Kansas.

3 **Q: Did KCP&L prepare such reports?**

4 A: Yes. Beginning with the first quarter of 2006, KCP&L has submitted on a quarterly  
5 basis "Strategic Infrastructure Investment Status Reports," or simply the "Quarterly  
6 Reports," to Staff and the other signatory parties to the 1025 S&A and to CURB. We  
7 have also been available to meet with the Staff, CURB, and representatives of the 1025  
8 S&A signatories<sup>2</sup> on a quarterly basis ("Quarterly Meetings") at the Commission offices  
9 in Topeka, Kansas.

10 **Q: Did the Quarterly Reports and Quarterly Meetings comprehensively address the  
11 Company's management of the Iatan projects?**

12 A: Yes. The Quarterly Reports chronicled the key events that were ongoing at any  
13 particular time. \*\* [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]\*\* As an example, I have attached the  
17 most recent quarterly report to my testimony as Schedule CBG2010-7. It includes data  
18 related to the CEP projects as of September 30, 2009.

19 **Q: When did KCP&L begin identifying risks to the Iatan Unit 2 Project in the  
20 Quarterly Reports?**

21 A: From the inception, we tracked the Iatan Unit 2 Project's major risks. \*\* [REDACTED]

22 [REDACTED]

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<sup>2</sup> All 1025 S&A signatories were invited to these meetings. However, all 1025 S&A signatories did not attend every meeting.

- 1 [REDACTED]
- 2 [REDACTED]
- 3 [REDACTED]
- 4 [REDACTED]
- 5 [REDACTED]
- 6 [REDACTED]
- 7 [REDACTED]
- 8 [REDACTED]
- 9 [REDACTED]
- 10 [REDACTED]
- 11 [REDACTED]
- 12 [REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

1 \*\*

2 Q: **\*\*** [REDACTED]

3 [REDACTED]

4 [REDACTED] **\*\***

5 A: **\*\*** [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED] **\*\***

9 Q: **Did you provide information to the Staff regarding management's decision-making**  
10 **process with respect to these risks?**

11 A: Yes. As noted in the chart above, the Quarterly Reports highlighted these and other  
12 risks and discussed the methods used for mitigation or avoidance of risks from first  
13 quarter of 2006 to the most recent report of third quarter of 2009.

14 Q: **In addition to the Quarterly Meetings and the Quarterly Reports, has KCP&L**  
15 **provided other opportunities to Staff to review the Iatan Unit 2 Project?**

16 A: Yes. On numerous occasions Staff and its consultant, Vantage Consulting, have visited  
17 the site and been given access to Project data, Project team members and KCP&L's  
18 consultants who provide updates of the Project's current status.

1 **Q: What is your opinion regarding the level of transparency KCP&L has provided to**  
2 **Staff during the Iatan Unit 2 Project?**

3 A: Based upon my experience, the high degree of transparency in this process between  
4 KCP&L and Staff is unprecedented.

5 **Q: Your chart identifies engineering as one of the risks to the Project. Please explain**  
6 **in detail how KCP&L mitigated engineering risks?**

7 A: There were multiple ways that KCP&L mitigated the risks of timely and accurately  
8 completing engineering and the potential impacts on the Iatan Unit 2 that are discussed  
9 in the testimony of Company witnesses Kenneth Roberts, Brent Davis, Carl Churchman,  
10 Steven Jones and William Downey. In summary of that testimony, among the  
11 significant mitigation measures KCP&L took with respect to engineering were:

- 12 • As noted in my prior testimony, KCP&L engaged Black & Veatch to prepare the  
13 specification for the boiler in the summer of 2005 so that once the plan for the  
14 Project was in place, we could proceed immediately with the most significant and  
15 longest lead procurement;
- 16 • Also in my prior testimony and in the testimony of Company witness William  
17 Downey, once we selected Burns & McDonnell as the owner's engineer for the  
18 Iatan Unit 2 Project, we immediately engaged Burns & McDonnell and Schiff in  
19 developing a strategic schedule that identified all of the major procurement and  
20 construction milestones. That strategic schedule has been subsequently updated  
21 to reflect the Iatan Unit 2 Project's actual progress but it has largely been intact  
22 since the first quarter of 2006;



- 1           •     On February 28, 2006, during the bidding period for the boiler, KCP&L issued  
2           separate limited notices to proceed (“LNTP”) to both ALSTOM and Babcock &  
3           Wilcox, who were competing for the boiler and AQCS work, for each to supply  
4           structural loads and other key information so that Burns & McDonnell could  
5           begin designing the foundations for the boiler concurrent with the award and  
6           negotiation of the contract;
- 7           •     On April 27, 2006, KCP&L issued a notice of award and LNTP to ALSTOM for  
8           the boiler and AQCS contract, and released ALSTOM to begin its design of the  
9           boiler’s structural steel, which Burns & McDonnell and Schiff had identified as  
10          the critical path to the Iatan Unit 2 Project at that time;
- 11          •     In June 2006, Burns & McDonnell was given the full release to perform Balance  
12          of Plant engineering. As Company witness Steven Jones testifies, Burns &  
13          McDonnell and KCP&L’s procurement team prioritized its engineering work  
14          according to a procurement schedule that was optimized to purchase goods and  
15          services to support the strategic schedule. To date, there have been very few  
16          procurements that have had any impact on the construction schedule and none  
17          have had an impact on the Iatan Unit 2 Project’s in-service date;
- 18          •     As Company witness Brent Davis testifies, in April 2007, with input from the  
19          contractors who were on site at the time, namely ALSTOM, Kissick Construction  
20          and Pullman Power, Inc., and with appropriate place holders for Balance of Plant  
21          work that had not yet been released, KCP&L’s Project Controls team baselined  
22          the Iatan Unit 2 Project’s schedule. Burns & McDonnell recognized that certain  
23          of its schedule activities for engineering work did not support the construction

1 plan and revised its design schedule accordingly. Burns & McDonnell also  
2 improved its tracking metrics for the remaining design work so that it could report  
3 at a more granular level once it entered into the detailed design phase.

- 4 • In June of 2007, KCP&L and Kiewit entered into an LNTP for the remaining  
5 Balance of Plant work that led to the contract with Kiewit in November 2007.  
6 Under the LNTP, Kiewit “co-located” its project team with Burns & McDonnell  
7 to review the engineering product and begin its planning of the construction work,  
8 and Kiewit identified changes to Burns & McDonnell that would increase the  
9 overall efficiency of the construction process.

- 10 • Through the remainder of 2007 and into 2008, the KCP&L project team engaged  
11 in the reforecast of the Project’s costs, during which the engineering team  
12 revisited all aspects of the Project’s design status and any changes that were  
13 necessary to improve the Project’s design, and these considerations were  
14 incorporated into the final design.

15 **Q: What was the result of KCP&L’s efforts to manage these various risks associated**  
16 **with engineering?**

17 A: The Iatan Unit 2 project team has effectively utilized the tools put in place at the  
18 Project’s outset and has maintained all of the major commitments and the most  
19 significant milestones that were identified in the fall of 2005.

20 **Q: What were the major procurement risks that KCP&L management foresaw in the**  
21 **fall of 2005?**

22 A: Company witness William Downey testifies to the major risks that we were facing as of  
23 that time. Clearly, procurement of the boiler, turbine generator and AQCS equipment

1 were the major risks requiring action on management's part in late 2005 to early 2006.

2 Both Burns & McDonnell and Black & Veatch advised us of the market constraints for

3 these procurements in their respective presentations in November 2005.

4 **Q: Did KCP&L report those risks to the Staff?**

5 A: Yes.

6 **Q: How did KCP&L mitigate these risks?**

7 A: Many of the issues discussed in prior testimony regarding engineering also apply to

8 procurement. The initial mitigation of procurement risk occurred with the bidding and

9 awarding of the ALSTOM contract for the boiler and AQCS. Company witnesses

10 Steven Jones testifies to the ways in which the ALSTOM contract benefitted KCP&L by

11 combining the performance risk of the equipment, the transparency required from

12 ALSTOM under the contract and the advantageous price KCP&L received from the

13 competitive bid process. After the award of the ALSTOM contract, we were aware of

14 the need to aggressively manage the ALSTOM contract, and so informed Staff of our

15 acknowledgement of that risk in the Quarterly Reports. As we reported to Staff,

16 KCP&L management recognized the importance of maintaining a strong working

17 relationship at the executive level with ALSTOM and enforcing the contract as

18 necessary.

19 **Q: What has been the result of KCP&L's efforts to manage the various risks**  
20 **presented by the ALSTOM contract?**

21 A: Company witness Kenneth Roberts testifies to KCP&L's success at managing the

22 changes in contract price to ALSTOM to under 10 percent. Moreover, KCP&L's

1 efforts to manage ALSTOM performance on the Project have been critical to the  
2 scheduled completion of the Project during the summer of 2010.

3 **Q: What were the major risks that KCP&L management foresaw in the fall of 2005**  
4 **with developing KCP&L's capabilities for managing the Iatan Unit 2 Project?**

5 A: Company witness William Downey testifies to the major risks that we were facing as of  
6 that time. Because KCP&L had not undertaken a construction project of this magnitude  
7 in some time, we needed to attract project management talent and develop and refine the  
8 tools needed to manage such a complex project.

9 **Q: Did KCP&L report those risks to the Staff?**

10 A: Yes. Our Quarterly Reports track our build-up of staff and capabilities.

11 **Q: How did KCP&L mitigate these issues?**

12 A: We immediately began establishing the Iatan Unit 2 Project team and developed  
13 appropriate processes and procedures. In July 2006, we provided the Staff with the Cost  
14 Control System for the CEP Projects including the Iatan Unit 2 Project. As Company  
15 witness Steven Jones testifies, we used this document as a template for developing the  
16 Project Controls and procurement procedures that have been successfully deployed on  
17 the Project.

18 **Q: What has been the impact of mitigating these risks on the Iatan Unit 2 Project?**

19 A: Company witness Kenneth Roberts testifies as to the effectiveness of the Project  
20 Controls that KCP&L has implemented for the Iatan Unit 2 Project and how those  
21 controls have allowed management to clearly see and timely react to challenges as they  
22 have occurred. Company witness Steven Jones testifies to KCP&L's success in

1           procuring the equipment on time to meet schedule and reduce cost in an overheated  
2           market for such procurements.

3   **Q:   Were there other significant risks that KCP&L addressed as the Iatan Unit 2**  
4   **Project progressed?**

5   A:   As we documented in the Quarterly Reports, there were many other decisions that  
6           management had to make to reduce risk on the Iatan Unit 2 Project. Most notable is the  
7           decision regarding the Balance of Plant contracting strategy.

8   **Q:   What critical decision did KCP&L management make with respect to the Balance**  
9   **of Plant contracting strategy?**

10  A:   In June 2007, we provided Kiewit with an LNTP to be the Balance of Plant contractor.  
11           Ultimately the contract was executed on November 8, 2007 after several months of  
12           vetting Kiewit's proposal.

13  **Q:   What made that decision a critical one for KCP&L?**

14  A:   In order to approve the contract, KCP&L's management had to be convinced that the  
15           price was appropriate for the work, particularly given that it was sole-sourced, and that  
16           there were benefits to changing our multi-prime contracting strategy for procuring  
17           Balance of Plant work.

18  **Q:   Why did KCP&L's management consider changing the contracting method for the**  
19   **Balance of Plant work?**

20  A:   Company witnesses Daniel Meyer and Brent Davis each testify as to the benefits that  
21           Kiewit brought as the Balance of Plant contractor. Kiewit's attributes both as an entity  
22           in the construction business and in its specific proposal for this Project, were judged by  
23           management to offset certain risks KCP&L would have in the management and

1 coordination of multiple smaller contractors in a multi-prime method for Balance of  
2 Plant work. Of particular importance was Kiewit's proven ability to manage labor, plan  
3 work, and work safely, all of which had significant benefit to the overall Project.

4 **Q: Why was KCP&L originally willing to take on the coordination risk of a multi-**  
5 **prime contracting method for the Balance of Plant?**

6 A: As Company witnesses Steven Jones, Brent Davis and Daniel Meyer testify, in early  
7 2006 there was no interest among large general contractors to bid the entire Balance of  
8 Plant work either on an EPC basis or as a general contractor. This fact is confirmed by  
9 Burns & McDonnell in its 2007 supplement to the PDR (Schedule BCD2010-6). In  
10 addition, Burns & McDonnell and KCP&L had worked together on the Hawthorn 5  
11 rebuild on a multi-prime basis and had achieved success doing so. We had proceeded  
12 with a plan for a multi-prime contracting strategy until Kiewit unexpectedly identified  
13 its interest in late December 2006. This interest ultimately resulted in Kiewit  
14 contracting with KCP&L for the unlet portion of the Balance of Plant work.

15 **Q: Was the decision to award the Balance of Plant contract to Kiewit timely?**

16 A: Yes. Company witnesses Steven Jones and Daniel Meyer each testifies as to the timing  
17 of the Kiewit contract award. At the time of Kiewit's proposal in April 2007, KCP&L  
18 had issued contracts for site clearing, foundations and substructures and for the chimney,  
19 all of which needed to be performed early. Entering into these contracts allowed  
20 KCP&L time to further develop the Balance of Plant engineering. By the time Kiewit  
21 submitted its initial estimate of the Iatan Unit 2 Project on April 13, 2007, the  
22 foundation and substructure work was well underway and meeting schedule. This  
23 provided the project team with more time to vet Kiewit's proposal.

1 **Q: Why was the Kiewit contract sole-sourced?**

2 A: As had been the case the prior year, Company witness Steven Jones testifies that there  
3 were no single entities other than Kiewit who expressed an interest in being the Iatan  
4 Unit 2 Project's Balance of Plant contractor in early 2007. Moreover, as Company  
5 witness Brent Davis testifies, there was a significant concern in early 2007 that the  
6 specialty contractors KCP&L had been counting on to bid future Balance of Plant  
7 packages would be too busy and thus refuse to bid. This was the case with the  
8 foundations package. Mr. Davis testifies that Kissick was the only bidder willing to  
9 provide a unit price bid for the foundations and that the other concrete contractors in the  
10 Kansas City market would only bid the foundation package on time and materials basis,  
11 if they bid at all. There was a real concern that we would be left with no competition for  
12 individual critical Balance of Plant packages. Contracting with Kiewit for this work  
13 mitigated such concerns.

14 **Q: What did KCP&L do to confirm that Kiewit's estimate was appropriate?**

15 A: Company witness Daniel Meyer testifies to the vetting that KCP&L and Schiff  
16 performed with respect to Kiewit's estimate for the Balance of Plant work between June  
17 and September of 2007. Company witness Mr. Meyer further testifies that Schiff  
18 analyzed the Kiewit estimate and proposal and found that the risks that were offset by  
19 Kiewit's presence on the Project were worth \*\* [REDACTED]  
20 [REDACTED] \*\* that was being held under the CBE. In addition, Burns & McDonnell had  
21 worked well with Kiewit in the past and we felt that there would be a level of  
22 cooperation between Kiewit and Burns & McDonnell that would increase the Iatan Unit  
23 2 Project's likelihood for success.

1 **Q: Did KCP&L inform Staff of the risks regarding the contracting of the Balance of**  
2 **Plant work?**

3 A: Yes. Our Quarterly Reports detailed each step that we took with respect to the  
4 development of the Balance of Plant contracting plan and highlighted each of the risks  
5 discussed above.

6 **Q: Was the hiring of Kiewit as the Balance of Plant a prudent decision?**

7 A: Yes, it was. Based on the information that was available at the time, contracting with  
8 Kiewit was the best possible alternative for the Balance of Plant work.

9 **Q: Has Kiewit's contract price increased since the execution of the Kiewit contract?**

10 A: Yes it has. The current estimate at completion ("EAC") shows that Kiewit's contract  
11 value will be approximately \*\* [REDACTED] \*\* for the Iatan Unit 2  
12 Project. Company witness Brent Davis testifies that the contract as recently amended  
13 for Iatan Unit 2 is \*\* [REDACTED] \*\*. The EAC includes appropriate allowances and  
14 reserve for possible and likely change orders.

15 **Q: Why has Kiewit's contract increased for the Iatan Unit 2 Project?**

16 A: Company witness Daniel Meyer testifies regarding the reasons for the increases in  
17 Kiewit's contract value. In summary, Kiewit's price increased due in large part to: (1)  
18 design maturation; as the design was completed by Burns & McDonnell, quantities  
19 increased from those in Kiewit's original estimate, and there were scope changes and  
20 additions to optimize the plant's operations; (2) pricing of permanent materials and  
21 commodities that Kiewit purchased increased due to market factors; (3) schedule; at the  
22 time the contract was executed, it was anticipated that Kiewit would have to optimize its  
23 schedule to work around ALSTOM in the boiler and AQCS areas; in order to maintain



1 schedule, Kiewit identified certain productivity issues that it was likely to experience  
2 due to crowding, access and congestion of workers; and (4) Kiewit has assumed certain  
3 work scopes that were not in the original Balance of Plant contract because they were  
4 originally budgeted for other contractors, such as some of the foundation work and  
5 insulation.

6 **Q: When was KCP&L's management first aware that Kiewit's contract price would**  
7 **increase over the \*\* [REDACTED] \*\* estimate?**

8 A: Company witness Brent Davis testifies that there was expected variability in the Kiewit  
9 contract at the outset because the design basis for the contract's estimate was  
10 engineering that was 20% to 25% complete. By the 2008 cost reforecast, it was  
11 understood that Kiewit's contract price **\*\* [REDACTED] \*\*** Company  
12 witness Daniel Meyer testifies that in the 2008 reforecast, the various line items that  
13 were associated with Kiewit's work added up to **\*\* [REDACTED] \*\*** This  
14 amount includes some of the "unallocated contingency" which was developed by  
15 analyzing potential Project risks. Several of the identified risks were associated with the  
16 Kiewit contract.

17 **Q: Did KCP&L inform Staff of this increase?**

18 A: Yes, we did.

1 **Q: You said that the current projection for Kiewit's final contract amount for the**  
2 **Iatan Unit 2 Project was projected to be approximately \*\* [REDACTED] \*\* To what**  
3 **do you attribute the fact that Kiewit has been able to hold or even reduce its**  
4 **projected cost from May 2008?**

5 A: I believe that KCP&L management has thus far held the line on Kiewit's costs through  
6 effective management of Kiewit by using the various project controls and other tools  
7 available.

8 **Q: Were any of the increases in the Kiewit contract price due to imprudence by**  
9 **KCP&L?**

10 A: No.

11 **Q: Are there any other key management decisions that KCP&L faced that could have**  
12 **significantly impacted the outcome of the Iatan Unit 2 Project?**

13 A: Yes. On July 28, 2009, management informed the KCP&L Board of Directors that the  
14 target Provisional Acceptance date of June 1, 2010 needed to be reset to \*\* [REDACTED]  
15 [REDACTED] \*\* and many of the interim milestones would also have to be adjusted.

16 **Q: Why did management take this action?**

17 A: In the first quarter of 2009, as Company witness Carl Churchman testifies, we  
18 recognized that ALSTOM's work had slipped on Iatan Unit 2 as a result of late delivery  
19 of pressure parts from its suppliers and due to its labor performance. KCP&L  
20 management recognized that we needed to have a high confidence level in the  
21 contractors' ability to meet major milestones at the least possible cost. We also  
22 recognized, as Company witness Carl Churchman, William Downey and Daniel Meyer  
23 testify, that had the Iatan Unit 2 Project continued to drive toward the original

1 milestones and Provisional Acceptance target date of June 1, 2010, there was a  
2 significant chance that the costs would increase above the CBE as reforecast in May  
3 2008.

4 Q: \*\* [REDACTED]

5 [REDACTED]\*\*

6 A: \*\* [REDACTED]

7 [REDACTED]\*\*

8 Q: **Was Staff informed of the changes in the milestone and Provisional Acceptance**  
9 **dates?**

10 A: Yes. We informed Staff in the Quarterly Reports and the Quarterly Meetings of the  
11 work progress on the Iatan Unit 2 Project, the reasons that the schedule had slipped and  
12 KCP&L's mitigation of the potential cost and schedule impacts.

13 Q: **Were the dates shifted for Iatan Unit 2 due to any imprudent acts by KCP&L?**

14 A: No. To the contrary, the shifting of the milestone dates for Unit 2 was a prudent  
15 decision.

16 Q: **Does that conclude your testimony?**

17 A: Yes, it does.

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

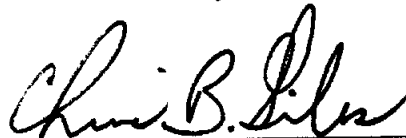
In the Matter of the Application of Kansas City )  
Power & Light Company to Modify Its Tariffs to ) Docket No. 10-KCPE-\_\_\_-RTS  
Continue the Implementation of Its Regulatory Plan )

AFFIDAVIT OF CHRIS B. GILES

STATE OF MISSOURI )  
) ss  
COUNTY OF JACKSON )

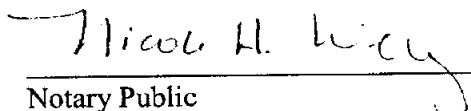
Chris B. Giles, being first duly sworn on his oath, states:

1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am currently a regulatory consultant to Kansas City Power & Light Company.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of forty-three (43) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

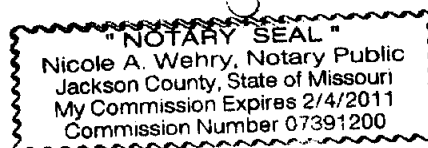


Chris B. Giles

Subscribed and sworn before me this 17<sup>th</sup> day of December, 2009.

  
Notary Public

My commission expires: Feb. 4, 2011



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

**DOCKET NO. 09-KCPE-\_\_\_\_-RTS**

1 **Q: Please state your name and business address.**

2 A: My name is Chris B. Giles. My business address is 1201 Walnut, Kansas City, Missouri  
3 64106.

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

5 A: I am employed by Kansas City Power & Light Company (“KCP&L” or the “Company”)  
6 as Vice President, Regulatory Affairs.

7 **Q: What are your responsibilities?**

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

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

11 A: I graduated from the University of Missouri at Kansas City in 1974 with a Bachelor of  
12 Arts degree in Economics and in 1981 with a Master of Business Administration degree  
13 with concentrations in accounting and quantitative analysis. I was first employed at

1 KCP&L in 1975 as an Economic Research Analyst in the Rates and Regulation  
2 Department. I held positions as supervisor and manager of various rate functions until  
3 1988 when I was promoted to Director of Marketing. In January 1993, I returned to the  
4 rate area as Director, Regulatory Affairs. In March of 2005, I was promoted to Vice-  
5 President, Regulatory Affairs.

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

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

11 **Q: What is the purpose of your testimony?**

12 A: The purpose of my testimony is to provide a summary and overview of this case. I will  
13 address the progress of KCP&L’s Regulatory Plan (“Regulatory Plan”), which the  
14 Commission approved in Docket No. 04-KCPE-1025-GIE, including the status of the  
15 investments associated with the Regulatory Plan. I will describe the major drivers  
16 underlying the proposed rate increase. Finally, I will ask for Commission authorization  
17 on certain additional matters.

18 **Q: Please describe the results of the first two rate cases under the Regulatory Plan?**

19 A: The Company filed its first rate case in nearly 20 years on January 31, 2006 (06-KCPE-  
20 828-RTS, or “2006 case”). The Company requested an increase of \$42.3 million  
21 (10.56%). The Order in that case, issued by the Commission on December 4, 2006,  
22 approved the jointly filed Stipulation and Agreement which was submitted by KCP&L,  
23 KCC Staff, the Citizens’ Utility Ratepayers Board (“CURB”), Midwest Utility Users’

1 Group, Wal-Mart and the International Brotherhood of Electrical Workers Locals 412,  
2 1464 and 1613. The Order granted KCP&L an increase in Kansas revenues in the  
3 amount of \$29 million or (7.46%) effective January 1, 2007. The increase included an  
4 annual amount for pre-tax payment on plant of \$4 million.

5 KCP&L filed the second rate case under the Regulatory Plan on March 1, 2007 (07-  
6 KCPE-907-RTS, or “2007 case”). The Company requested an increase of \$47 million  
7 (10.82%), which included \$12.8 million for additional pre-tax payment on plant. The  
8 Order in that case, issued by the Commission on November 11, 2007, approved the  
9 jointly filed Stipulation and Agreement which was submitted by KCP&L, KCC Staff, and  
10 CURB. The Order granted KCP&L an increase in Kansas revenues in the amount of \$28  
11 million or (6.4%) effective January 1, 2008. The increase included an annual amount for  
12 pre-tax payment on plant of \$11 million.

13 **Q: Did KCP&L reflect the impact of the Regulatory Plan in these two rate cases?**

14 A: Yes, KCP&L included in the 2006 case the investment to build 100 MW of wind  
15 generation, which was completed in September 2006, as well as the investments in  
16 customer affordability, energy efficiency, and demand response programs (“Customer  
17 Programs”), and system reliability focused transmission and distribution (“T&D”)  
18 projects. The Company included in the 2007 case the investment to install selective  
19 catalytic reduction (“SCR”) equipment at LaCygne Unit 1, as well as continued  
20 investments in Customer Programs and T&D projects. These investments are consistent  
21 with and represent continued implementation of the Company’s Comprehensive Energy  
22 Plan (“CEP”), as set forth in the Regulatory Plan.

1 **Q: Please describe this rate case filing and how it reflects the continued implementation**  
2 **of the CEP and the Regulatory Plan?**

3 A: The Regulatory Plan contemplated as many as four rate cases; however, only two are  
4 mandatory, the 2006 case and a case to be filed in 2009 (“2009 case”). The 2007 case  
5 was optional, as is the current rate case (“2008 case”). The 2008 case includes rate  
6 schedules that are expected to become effective on July 5, 2009. The Company is  
7 requesting an increase of \$71.6 million (17.5%), including \$11.2 million related to an  
8 additional annual amount for pre-tax payment on plant as described in the Direct  
9 Testimony of KCP&L witness Michael Cline. The 2008 case includes the installation of  
10 the Iatan Unit 1 Air Quality Control (“AQC”) equipment, as set out in the Regulatory  
11 Plan. The ACQ equipment is expected to be in service in early 2009. The 2008 case also  
12 includes continued implementation of Customer Programs, as described in the Direct  
13 Testimony of KCP&L witness Allen Dennis, and T&D infrastructure, as described in the  
14 Direct Testimony of Company witness William Herdegen, both as set out in the  
15 Regulatory Plan.

16 **Q: When will KCP&L file the 2009 case?**

17 A: It is anticipated that rate schedules with an effective date of June 1, 2010, will be filed  
18 with the Commission on or about August 15, 2009, approximately nine to ten months  
19 prior to the commercial in-service operation date of Iatan Unit 2.

20 **Q: Please describe the progress of the Regulatory Plan investments in power supply**  
21 **infrastructure.**

22 A: KCP&L completed 100 MW of wind generation at a site near Spearville, Kansas in  
23 September 2006. The SCR at the LaCygne Unit 1 generating plant was placed in



1 operation in May 2007. The Iatan Unit 1 AQC equipment is currently under construction  
2 and is expected to be in service in early 2009. Company witnesses Brent Davis, Carl  
3 Churchman and Kenneth Roberts discuss various aspects of the AQC project in their  
4 direct testimonies.

5 The Iatan Unit 2 project is well underway. A control budget and schedule has  
6 been established. Contracting, procurement, and construction strategies are in place  
7 along with a cost control system to track and monitor schedule and costs. Partnership  
8 agreements have been executed. Ownership shares, based upon a total of 850 MW, are as  
9 follows: KCP&L - 465 MW, The Empire District Electric Company - 102 MW, Aquila,  
10 Inc. - 153 MW, Missouri Joint Municipal Electric Utility Commission - 100 MW, and  
11 Kansas Electric Power Cooperative - 30 MW. As part of the Regulatory Plan, the  
12 Company submits to the signatories of the Stipulation and Agreement in the Regulatory  
13 Plan docket a quarterly report outlining the overall progress of the project. Periodically,  
14 the Company meets with the parties to discuss progress.

15 A second phase of investment in environmental equipment for LaCygne Unit 1  
16 was planned to be completed in 2009. This investment included a fabric filter (baghouse)  
17 and scrubber. In late 2006 to early 2007, it became known that it would not be possible to  
18 complete the second phase of the LaCygne project until 2011 due to the increased lead  
19 time required to procure the equipment. Both LaCygne 1 and LaCygne 2 generating  
20 units will be required to have equipment designated as Best Available Retrofit  
21 Technology (“BART”) sometime in the year 2013. BART includes SCR, baghouse, and  
22 scrubber equipment. In addition to the extended lead time to procure AQC equipment,  
23 the installed cost of the equipment has increased dramatically since the Regulatory Plan

1 was constructed. Given the increased cost and the need to evaluate all options regarding  
2 both LaCygne units KCP&L contracted with Sargent and Lundy to study various options  
3 regarding construction of AQC equipment at both units, KCP&L is also reviewing  
4 options as part of its Sustainable Resource Strategy (“SRS”) and will seek to collaborate  
5 with interested parties in formulating this strategy over the course of the next six to nine  
6 months.

7 The Regulatory Plan also contemplated the potential for a second 100 MW wind  
8 generation investment. The Company issued an RFP, received an evaluated bids in 2007  
9 for another 100 MW of wind generation including both ownership and purchase power  
10 agreement (“PPA”) options. In mid-to late 2007 uncertainty of the capital markets began  
11 to increase substantially and, as a result, KCP&L determined that it was not prudent to  
12 pursue adding wind generation at that time. Since then, KCP&L has continued to  
13 evaluate future wind generation options.

14 **Q: Please describe the status of Customer Programs.**

15 A: Of the ten Customer Programs in the portfolio of affordability, energy efficiency and  
16 demand response programs envisioned under the Regulatory Plan, KCP&L has  
17 developed, submitted, received KCC approval for, and implemented all but two of the  
18 programs. KCP&L witness Allen Dennis more fully describes the progress and success  
19 of the Customer Programs in his Direct Testimony.

20 **Q: Please describe the status of the T&D infrastructure investments.**

21 A: Numerous projects have been completed and others are well under way, as described  
22 more fully in the Direct Testimony of KCP&L witness William Herdegen.

23 **Q: How was the 2008 case test year and resultant rate increase amount determined?**

1 A: Pursuant to the Regulatory Plan, the test year for the 2008 case is based on the historical  
2 year ending December 31, 2007. Although the Regulatory Plan contemplated that the  
3 Company would file the 2008 case on March 1, 2008, the Regulatory Plan also  
4 recognized that KCP&L might need to adjust the timing of its rate filings due to the  
5 magnitude of its investments and the length of time of the Regulatory Plan. The  
6 Company sought and obtained Commission approval to file at a later date. Accordingly,  
7 test year data was annualized and normalized and reflects projected values for known and  
8 measurable changes prior to the effective date of new rates. The resulting annualized and  
9 normalized amounts were then allocated between FERC, Kansas and Missouri  
10 jurisdictions. The allocation process is described in the Direct Testimony of KCP&L  
11 witness John Weisensee. The cost of service and revenue requirement determination is  
12 also supported by the Direct Testimony of KCP&L witness John Weisensee and included  
13 in his Schedule JPW-1.

14 **Q: What is the amount of rate increase requested in this case?**

15 A: The amount of rate increase is 17.5% or \$71.6 million dollars based on test year revenue  
16 of approximately \$409 million.

17 **Q: Does this rate increase include fuel costs recovered under the fuel adjustment**  
18 **clause?**

19 A: No. While energy cost adjustments (“ECA”) revenue and expenses are included in the  
20 Company’s Revenue Requirements Model, the revenue requirement is not affected by  
21 these revenues and expenses because adjusted Kansas revenue includes ECA revenue  
22 equal to the sum of all adjusted ECA expenses. The ECA effect is considered in the rate  
23 design in this case.

1 **Q: Does the requested rate increase amount include an additional amount for**  
2 **contribution in Aid of Construction (“CIAC”)?**

3 A: Yes. KCP&L’s requested rate increase includes additional CIAC of \$11.2 million, as  
4 described in the Direct Testimony of KCP&L witness Michael Cline. The requested  
5 amount is only about 42% of the amount that could have been requested utilizing the  
6 metrics specified in the Regulatory Plan. The lower request resulted from the use of  
7 metrics more future-oriented than those encompassed in the Regulatory Plan formulas.  
8 However, as Mr. Cline discusses, the additional CIAC request is dependent on the results  
9 of this rate proceeding; that is, the additional annual amount will be adjusted to reflect the  
10 outcome of the case as determined by the Commission.

11 **Q: What is the total cumulative amount of CIAC KCP&L proposes to include in rates**  
12 **in this case?**

13 A: The \$11.2 million requested in this case is in addition to the \$4 million ordered in the  
14 2006 case and the \$11 million ordered in the 2007 case. This would result in an annual  
15 level of approximately \$26.2 million. This total amount will result in an offset to rate  
16 base under the Regulatory Plan and will lower rates in future KCP&L rate proceedings.

17 **Q: What is the return on equity KCP&L is requesting in this case?**

18 A: KCP&L is requesting a return on equity of 10.75% based upon a 55.39% equity capital  
19 structure of KCP&L’s parent holding company Great Plains Energy Incorporated (“Great  
20 Plains Energy”). KCP&L witness Samuel Hadaway presents in his Direct Testimony his  
21 cost of capital study results and recommendations in support of a 10.75% return on  
22 equity. Dr. Hadaway has utilized the same approach as in the 2007 case, which is based

1 on a traditional approach to estimate the underlying cost of equity capital for a group of  
2 investment grade electric utility companies.

3 **Q: Has KCP&L implemented its SO<sub>2</sub> allowance plan?**

4 A: Yes. KCP&L witness Wm. Edward Blunk describes in his Direct Testimony the plan, its  
5 implementation and the 2008 plan submitted to the Commission Staff and CURB.

6 **Q: Has the Surface Transportation Board (“STB”) litigation involving Montrose  
7 freight rates been resolved and reflected in revenue requirement?**

8 A: In May 2008, the STB found that the Union Pacific Railroad ("UP") freight rates for  
9 Montrose were excessive and ordered UP to reimburse KCP&L for amounts previously  
10 collected above the maximum lawful rate. The projected reparations, less unrecovered  
11 litigation costs, were reflected as a reduction in cost of service in this rate proceeding  
12 based on a two-year amortization. Company witnesses William Blunk and John  
13 Weisensee discuss the STB litigation and the impact of the litigation on KCP&L's rates  
14 in their respective direct testimonies.

15 **Q: Has the Company included the revenue requirement impact of the recent  
16 acquisition of Aquila, Inc. by Great Plains Energy in the revenue requirement for  
17 this case?**

18 A: No. The effects of this acquisition have not been included in this rate case, as ordered by  
19 the Commission in Docket No. 07-KCPE-1064-ACQ.

20 **Q: Are there any other revenue requirement matters that you would like to bring to the  
21 Commission's attention?**

22 A: I would like to briefly address the issue of commodity price sensitivity. Our T&D and  
23 production operations and maintenance commodity costs have experienced dramatic

1 price increases driven by increased demand, the weakness of the U.S. dollar and other  
2 causes. Company witnesses William Herdegen and Dana Crawford discuss this impact in  
3 their direct testimonies addressing T&D and production, respectively. In each instance  
4 we have attempted to reflect this sensitivity in the maintenance normalization indexing.

5 **Q: Does the Company request Commission authorization on any additional matters?**

6 A: Yes, KCP&L requests Commission authorization on an accounting matter and a tariff  
7 matter.

8 **Q: Please briefly describe the accounting request.**

9 A: Financial Accounting Standard (“FAS”) 158 requires the Company to convert its pension  
10 and other post-employment benefits (“OPEB”) measurement date from September 30,  
11 2008 to December 31, 2008. As a result, KCP&L will incur a “catch up” of three months  
12 of additional pension and OPEB expense in 2008. As more fully discussed in the Direct  
13 Testimony of Company witness John Weisensee, KCP&L requests the Commission to  
14 authorize the deferral of incremental FAS 158 pension and OPEB expense in a regulatory  
15 asset account and the amortization of such costs into rates over a five-year period  
16 commencing with the effective date of new rates in this rate proceeding. Additionally,  
17 the Company requests that the accumulated unamortized FAS 158 pension costs be  
18 included in rate base.

19 **Q: Please briefly describe the tariff request.**

20 A: As more fully discussed in the Direct Testimony of Company witness Allen Dennis,  
21 KCP&L requests the Commission to authorize the implementation of a new Resident  
22 with Economic Relief Pilot Program. This program delivers a monthly \$50 “fixed credit”  
23 to low-income customers in an effort to improve low-income home energy affordability.

1           The details behind this program are included in the Company's proposed tariffs. The  
2           Company requests that 50% of the cost of this program be deferred until the 2009 case,  
3           with cost recovery determined at that time. The remaining 50% will be borne by KCP&L  
4           shareholders.

5   **Q:   Does that conclude your testimony?**

6   **A:   Yes, it does.**

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

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

**AFFIDAVIT OF CHRIS B. GILES**

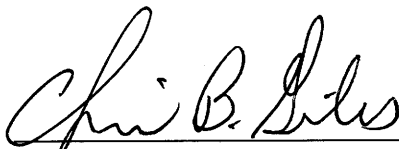
**STATE OF MISSOURI    )**  
  **) ss**  
**COUNTY OF JACKSON    )**

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

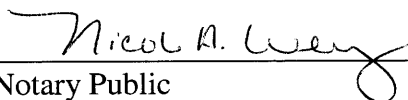
1.     My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President, Regulatory.

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 eleven (11) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

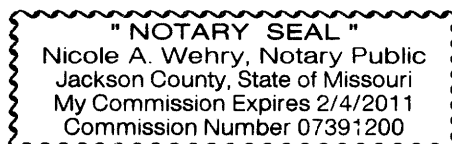
3.     I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
Chris B. Giles

Subscribed and sworn before me this 4<sup>th</sup> day of ~~August~~ <sup>September</sup> 2008.

  
\_\_\_\_\_  
Notary Public

My commission expires: Feb. 4, 2011





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

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**REBUTTAL TESTIMONY OF**

**CHRIS B. GILES**

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

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

**DOCKET NO. 09-KCPE-246-RTS**

1   **Q:**    Are you the same Chris B. Giles who submitted Direct Testimony in this case on  
2            behalf of Kansas City Power & Light Company (“KCP&L”) on or about September  
3            5, 2008?

4    A:    Yes, I am.

5   **Q:**    What is the purpose of your Rebuttal Testimony?

6    A:    The purpose of my Rebuttal Testimony is to respond to the testimony of certain  
7            witnesses, as specifically identified in my testimony, concerning the following topics:  
8            (i) KCP&L’s prudent management of its construction projects at the Iatan Generating  
9            Station; (ii) KCP&L’s rate case in the context of current economic conditions; (iii) the  
10          proposal by the Citizens’ Utility Ratepayer Board (“CURB”) for conservation-based rate

1 design changes; (iv) the proposal by the Midwest Utility Users Group (“MUUG”) for a  
2 Green Power Tariff; (v) the appropriate ratemaking treatment for the settlement KCP&L  
3 entered into concerning the selective catalytic reduction system on Unit 5 of its Hawthorn  
4 Generating Station (“Hawthorn SCR”); (vi) the appropriate ratemaking treatment for the  
5 warranty payment KCP&L received with respect to wind turbine availability at its  
6 Spearville wind generation facility; (vii) the appropriate level of cost recovery related to  
7 incentive compensation; and (viii) policy considerations involving the contribution in aid  
8 of construction (“CIAC”) provided for in the regulatory plan approved by the  
9 Commission in Docket No. 04-KCPE-1025-GIE (“Regulatory Plan”).

10 **IATAN PROJECT**

11 **Q: Have you read and are you familiar with the Vantage Consulting report and**  
12 **testimony filed in this case?**

13 A: Yes.

14 **Q: Are you aware that Vantage recommended that certain of the Iatan Unit 1 Risk and**  
15 **Opportunities (“R&Os”) be disallowed for this rate case?**

16 A: Yes.

17 **Q: What is your view of Vantage’s disallowances of KCP&L’s Iatan Unit 1 costs?**

18 A: Although KCP&L maintains that it has prudently managed the Iatan project, it  
19 acknowledges that some of Vantage’s observations have a degree of validity. KCP&L  
20 thus chooses not to challenge the disallowances Vantage proposes related to R&O 139,  
21 R&O 330 and R&O 360. With respect to R&O 125, the costs of locating the Unit 1  
22 selective catalytic reduction (“SCR”) air compressor, Company witness Brent Davis

1 addresses in his rebuttal testimony the basis for KCP&L seeking rate recovery of the  
2 actual costs spent by KCP&L for this item, which will be known prior to June 30, 2009.

3 Regarding R&O 94 (inefficiencies due to site layout), R&O 135 (ID fan stall  
4 warning), and R&O 240 (Coal Chute tripper floor curb), these items were each identified  
5 as potential risks to the project at the time of the Cost Reforecast in the second quarter of  
6 2008; however, these events have not thus far materialized and the contingency  
7 associated with them remains unspent. While KCP&L will not seek rate recovery of  
8 these items, these are improper disallowances from the final Iatan Unit 1 Project cost.  
9 KCP&L will, prior to the issuance of a final order in this docket, provide the Staff of the  
10 Kansas Corporation Commission (“Staff”) with an assessment of the amount of  
11 contingency that will not be utilized on Iatan Unit 1, a portion of which includes these  
12 three specific R&O items.

13 With respect to the assessed disallowance for R&O 185 (Platforms and Ports for  
14 Ammonia Slip Tests), KCP&L notes that this R&O was established for Iatan Unit 2; thus,  
15 this is an improper disallowance for Iatan Unit 1. Nonetheless, the costs paid per change  
16 orders to ALSTOM for additional platforms were justified extras to the Iatan Unit 1 and  
17 Unit 2 projects.

18 Finally, with respect to Vantage’s proposed \*\* [REDACTED] \*\* disallowance from  
19 the ALSTOM Settlement Agreement, KCP&L strongly disagrees with the fundamental  
20 premise behind Vantage’s conclusion. As an initial matter, Vantage cites no basis for  
21 concluding the ALSTOM Settlement Agreement was imprudent. For the reasons stated  
22 in Company witnesses Mr. Downey, Mr. Churchman, Mr. Jones, Mr. Davis, Mr. Roberts,  
23 and Dr. Nielsen testimony, KCP&L disagrees with Vantage’s “Overall Conclusions and

1 Major Findings” regarding: (1) Initial Management Decisions; (2) Construction  
2 Management and Owner’s Engineering Oversight; and (3) Contractor Oversight in the  
3 direct testimony and accompanying report from Mr. Drabinski. To the contrary, and as  
4 referenced in the testimony of Company witnesses Mr. Roberts and Dr. Nielsen, KCP&L  
5 acted prudently in the management and oversight of the Iatan Unit 1 Project, though as  
6 both Mr. Roberts and Dr. Nielsen testify, to the fact that large, complex construction  
7 projects such as Iatan Unit 1 and Unit 2 carry with them considerable risk and it is  
8 unreasonable to assume that such projects will be performed perfectly in all respects.  
9 The ALSTOM Settlement Agreement allowed the Iatan Unit 1 project to move forward  
10 so that the construction work could support a timely return of Iatan Unit 1 to service; thus  
11 it was a prudent expenditure of money for this project and for the customers in Kansas.

12 KCP&L also notes that the manner in which Vantage arrived at the amount of the  
13 disallowance, *i.e.*, \*\* [REDACTED] \*\* of the ALSTOM Settlement Agreement, was improper as a  
14 basis for disallowance. Vantage fails to draw a nexus between the imprudence it alleges  
15 and the disallowance of \*\* [REDACTED] \*\* from the ALSTOM Settlement Agreement.

16 **Q: Do you have any other observations concerning Vantage’s assessment of KCP&L’s**  
17 **prudent management of the Iatan project?**

18 A: Yes, I do. Vantage attributes many of its allegations to actions the Company took early  
19 in the development of the Regulatory Plan capital projects, including the Iatan project. I  
20 would like to speak to that.

21 **Q: Please do so.**

22 A: The Iatan project is part of KCP&L’s Regulatory Plan. KCP&L engaged in a year-long  
23 public dialogue with outside intervenors and interested parties to arrive at a solution for

1 the Kansas City area's energy needs as well as identification of certain environmental  
2 upgrades required for the existing KCP&L fleet. The process began in 2004 and KCP&L  
3 originally contemplated completing the process in the first quarter of 2005. However, the  
4 process was not completed until the summer of 2005.

5 **Q: How did the Stipulation impact the schedule for the Iatan project?**

6 A: The actual time necessary for KCP&L to obtain regulatory approval of the  
7 Comprehensive Energy Plan ("CEP") projects required that KCP&L modify its original  
8 plan in order to meet the in-service dates for the Iatan Unit 1 AQC project and Iatan  
9 Unit 2 construction project. The in-service dates for these projects did not change even  
10 though the regulatory approval process took longer than originally envisioned by  
11 KCP&L. As a result, KCP&L's management took a number of steps to verify and  
12 validate the Project's plan to meet these in-service dates.

13 **Q: Could you please describe those steps?**

14 A: First, KCP&L prioritized the engineering services for the Iatan project. We recognized  
15 that the preparation of the boiler specification was one of the first and longest lead items  
16 necessary to meet the regulatory in service dates for Iatan Unit 2. Accordingly, soon  
17 after obtaining regulatory approval, KCP&L contracted with Black & Veatch to begin  
18 preparation of the Iatan Unit 2 boiler specification.

19 During 2004, KCP&L hired Burns & McDonnell to prepare a Project Definition  
20 Report ("PDR"). The PDR contained recommendations regarding the scope of the work,  
21 a high level schedule, a cost estimate, and assessed Iatan Unit 2's technical requirements.  
22 Subsequently, KCP&L contracted with Burns & McDonnell to provide additional  
23 consulting support for aspects of the CEP projects.

1 KCP&L had previously worked with both Black & Veatch and Burns &  
2 McDonnell. Both engineering firms are highly respected and both were deemed capable  
3 of providing engineering services as the owner's engineer on the CEP projects. KCP&L  
4 felt that it was a benefit to engage each of the engineering firms in these early  
5 engineering activities in order to ease the transition upon KCP&L's selection of its  
6 owner's engineer for the Iatan project.

7 **Q: Describe the process for selecting the owner's engineer for Iatan?**

8 A: As stated, both Black & Veatch and Burns & McDonnell were invited by KCP&L to  
9 participate in a selection process for the owner's engineer position for Iatan. In October,  
10 2005, a letter was issued to both Black & Veatch and to Burns & McDonnell requesting  
11 that they provide detailed information regarding their potential project plan for Iatan,  
12 their proposed project teams, their expertise, their financial capabilities, and their survey  
13 of the current construction marketplace.

14 It was the intention through this process for KCP&L to assess the qualifications of  
15 the prospective owner's engineers on the basis of these multiple considerations. At that  
16 time KCP&L management had not made a decision regarding the procurement  
17 methodology for Iatan.

18 Both Black & Veatch and Burns & McDonnell submitted written materials and  
19 they were each invited to make oral presentations to the project team and to Schiff Hardin  
20 LLP ("Schiff") in early November, 2005. Prior to and during those meetings both the  
21 project team and Schiff vetted the multiple considerations discussed.

22 **Q: Please describe Black & Veatch's proposal and presentation.**

1 A: Black & Veatch submitted a number of detailed schedule scenarios with attached  
2 contracting methods. Their materials were very impressive and were based on their  
3 current experience in the construction marketplace and, in particular, in the coal  
4 marketplace.

5 At that time, Black & Veatch was involved in a new build coal project as an  
6 engineering, procurement, and construction (“EPC”) partner with other contractors.  
7 Black & Veatch’s recommendation to KCP&L was to proceed with an EPC project in  
8 which Black & Veatch would be the lead joint venture partner.

9 Under that proposed EPC arrangement and per the materials presented, Black &  
10 Veatch identified that the only way that the June 1, 2010 in service date for Iatan could be  
11 met, was to proceed immediately with initial engineering.

12 However, under their proposal, Black & Veatch could not commit to anything  
13 beyond an indicative budget and scope for Iatan until the third quarter of 2006 at the  
14 earliest.

15 **Q: Describe Burns & McDonnell’s proposal and presentation on November 8, 2005.**

16 A: Burns & McDonnell, who KCP&L had worked with extensively on Hawthorn Unit 5  
17 after the explosion in 1999, came to our offices with their entire proposed project team,  
18 including all of their lead designers, their chief executive officer, their vice president of  
19 their power division, and key ancillary support members of their proposed team.

20 Burns & McDonnell presented multiple scenarios as well to the project team and  
21 to Schiff, one of which identified a path for engineering the boiler and Air Quality  
22 Control System (“AQCS”) for Iatan Unit 2 as well as the AQCS for Iatan Unit 1 over a

1 period of nine months with major procurements occurring in the first two quarters of  
2 2006.

3 Under this plan Burns & McDonnell believed that the in-service dates for both the  
4 Iatan Unit 1 AQCS and Iatan Unit 2 could be met. Over the subsequent three weeks the  
5 project team and Schiff vetted the results of these interviews with Black & Veatch and  
6 Burns & McDonnell as well as the proposed project plans from each.

7 It was the strong recommendation from the project team and from Schiff that  
8 Burns & McDonnell presented both the strongest team and the better plan for proceeding  
9 with engineering and procurement of Iatan.

10 **Q: When were decisions regarding the owner's engineer and the procurement method**  
11 **made?**

12 **A:** There was a meeting held on November 23, 2005, at which myself, Mike Chesser, Bill  
13 Downey, Bill Riggins and Steve Easley were in attendance.

14 At this meeting both Burns & McDonnell and Schiff made separate presentations  
15 to KCP&L Senior Management regarding Burns & McDonnell's capabilities to perform  
16 as the Iatan Units 1 and 2 project's owner's engineer, the key milestones and strategic  
17 plan necessary for the Iatan Units 1 and 2 project, and options for procurement for Iatan  
18 Units 1 and 2. Schiff prepared a PowerPoint presentation and adjoining charts showing  
19 its view of the strategic plan for the Iatan Units 1 and 2 projects.

20 In Schiff's PowerPoint presentation, Schiff recapped the September 29, 2005  
21 presentation regarding contract methodology and placed that in context with the owner's  
22 engineer proposals from Black & Veatch and from Burns & McDonnell. There was a  
23 discussion of the owner's engineer's need to meet critical milestones in the strategic plan



1 for Iatan Units 1 and 2 and how those milestones could impact the procurement strategy  
2 for the project.

3 In Schiff's presentation, Schiff's team highlighted that certain key milestones that  
4 were part of a presentation made to the Board of Directors on February 1, 2005 had  
5 slipped. The net effect of the regulatory process for obtaining the stipulation had caused  
6 these dates to slip. Also in its presentation, Schiff identified ways to mitigate the lost  
7 project float on Iatan Units 1 and 2. Schiff's strategic recommendation consisted of the  
8 following key points. Engineering is critical path and behind schedule, meaning that  
9 design will have to proceed on a "fast-track" basis. Schiff recommended that balance of  
10 plant design must start by no later than spring of 2006 to meet critical steel fabrication  
11 dates and start of foundations. Also, design of the boiler foundations must be completed  
12 by November 1, 2006 to start construction by November 15, 2006. And the Iatan Unit 2  
13 boiler module design must be completed by December 1, 2006 to allow one-year  
14 fabrication period.

15 Schiff also noted that the boiler island award for Iatan Unit 2 was unlikely to  
16 occur prior to May 2006 and that the only opportunity for improvement was for KCP&L  
17 to accelerate the evaluation/award period. Schiff recommended that KCP&L obtain the  
18 boiler final loads by July 1, 2006 for the balance of plant contractor(s) to mobilize in  
19 early second quarter of 2006 and for underground construction to start by July 1, 2006.  
20 Finally, Schiff recommended that the schedule show the boiler structural steel design to  
21 be complete by September 1, 2006 to allow for ten (10) months for steel fabrication.

22 At this meeting, Senior Management discussed and agreed to the award of the  
23 owner's engineering position to Burns & McDonnell and released Burns & McDonnell to

1 begin work. In addition, senior management also requested that Burns & McDonnell  
2 work closely with Schiff to refine the strategic schedule and the approach to procuring  
3 the major goods and services for Iatan Units 1 and 2. Also at this meeting, there was a  
4 discussion regarding whether the project was to proceed on a full-wrap EPC basis in  
5 which all detailed engineering, procurement and construction work is procured from a  
6 single-source. It was the consensus view from Schiff, Burns & McDonnell and the  
7 project team that the first step needed to be the procurement of the major components for  
8 both Iatan Unit 1 AQCS and Iatan Unit 2, including the Unit 2 boiler, the Unit 2 turbine  
9 generator and the environmental control systems for both units. It was emphasized by  
10 both Burns & McDonnell and Schiff at the November 23, 2005 meeting that these were  
11 the key procurements with the longest lead times and that those needed to be pursued as  
12 quickly as possible. Burns & McDonnell committed to provide the necessary resources  
13 for KCP&L to timely procure and construct the plant.

14 **Q: Did KCP&L follow the key recommendations from Schiff and Burns & McDonnell**  
15 **at the November 23, 2005 meeting?**

16 A: Yes. The strategy we employed followed the general recommendations and many of the  
17 very specific recommendations that Schiff and Burns & McDonnell made. Company  
18 witness Kenneth Roberts refers to the multiple ways in which KCP&L attempted to and  
19 succeeded at moving key milestones forward in the project schedule for Iatan Units 1  
20 and 2.

21 **Q: Did any of the other witnesses in this case express an opinion about KCP&L's**  
22 **management of the Iatan project?**

1 A: Yes, the Direct Testimony of Mr. Dittmer and Ms. Crane include a high-level discussion  
2 of the cost of the Iatan project. They purport to compare the initial budget estimates to  
3 the actual costs of the project. The inference they appear to be attempting to make is that  
4 cost increases automatically mean the Company acted imprudently. Ms. Crane goes so  
5 far as to suggest that shareholders should pay some portion of the cost increases.

6 **Q: Please explain the comparisons they attempt to make.**

7 A: The following quote from Ms. Crane's testimony accurately summarizes their testimony  
8 on this point:

9 The Regulatory Plan included \$271.8 million for the Iatan Unit 1 environmental  
10 upgrades. According to the direct testimony of Mr. Davis, the original 'control  
11 budget estimate', developed when the projects were approximately 20-25%  
12 engineered, was \$376.8 million. The current estimate is a total of \$484.2 million,  
13 an increase of 28.5% over the control budget estimate and an increase of 78.1%  
14 over the amount approved in the Regulatory Plan.

15 **Q: Can you explain the basis for the three numbers Ms. Crane cites as purported costs  
16 of the Iatan Unit 1 project?**

17 A: Yes. The number that was stated in the Regulatory Plan of \$271.8 million was a very  
18 preliminary number that was based on the best information available at the time from the  
19 Electric Research Power Institute ("EPRI") and other industry indices regarding average  
20 costs for similar projects at that time. I recall that this number was in 2004 dollars and  
21 was not escalated to capture the burgeoning market for environmental equipment that  
22 caused costs throughout the industry to increase in subsequent years. In addition, at that  
23 time no engineering of the project had occurred, no bids had been issued or received for  
24 equipment or construction. It should also be noted that the increases in costs of air  
25 quality control systems have increased substantially since 2004, and the availability of  
26 this equipment has decreased. These increased costs combined with the lack of

1 availability of AQCS equipment, and delay in implementation rules by Kansas  
2 Department of Health and Environment that would require such equipment has caused  
3 KCP&L to defer the second phase of La Cygne Unit 1 environmental upgrades. The  
4 estimated cost today, to complete the second phase of La Cygne Unit 1 (baghouse,  
5 scrubber) is in excess of \$500 million. The SCR on La Cygne Unit 1 was completed in  
6 2006 for about \$80 million. Thus, including the same AQCS system at La Cygne Unit 1,  
7 as Iatan Unit 1, the cost is now close to \$600 million, which is also the current estimate to  
8 install a full AQCS at La Cygne Unit 2. Consistent with economic theory, demand for  
9 these systems increases the cost of engineering procurement and construction.

10 **Q: Please continue.**

11 A: The Control Budget Estimate (“CBE”) referred to in Company witness Brent Davis’  
12 direct testimony was the estimate that was presented to the Board of Directors for  
13 budgetary purposes for Iatan Unit 1 in the fourth quarter of 2006. This estimate was  
14 based upon the AQCS scope that was part of ALSTOM’s fixed-price contract that was  
15 executed on August 10, 2006. In addition, the project was only 20% engineered.  
16 Subsequent to the development of the CBE, the scope of Iatan Unit 1 increased to  
17 incorporate additional equipment that will optimize the Unit’s performance and make it  
18 more reliable; and as engineering progressed additional scope was added to accommodate  
19 retro-fit of the unit. For example, Unit 1 existing steel was modified and additional  
20 foundation support added to Unit 1 to support the design of the SCR. These scope  
21 conditions were not known at the time of the CBE.

22 **Q: Please go on.**

1 A: The additional costs associated with the scope additions to Iatan Unit 1 as well as the  
2 additional complexity of the Unit 1 Outage were captured in the Cost Reforecast of the  
3 CBE in second quarter 2008. At that time, the Project's budget was changed to  
4 incorporate the additional scope and costs associated with performance of the work,  
5 which resulted in the current Control Budget of \$484.1 million for Iatan Unit 1.

6 **Q: What is your overall opinion about Mr. Dittmer's and Ms. Crane's comparison of**  
7 **preliminary cost estimates to actual costs?**

8 A: Actual costs have been higher than the Company's preliminary estimates. However, it is  
9 incorrect to imply that a project manager was imprudent based solely on the fact that  
10 costs were higher than initially anticipated. Neither Mr. Dittmer nor Ms. Crane alleges  
11 that any specific actions or decisions by the Company concerning the Iatan project were  
12 imprudent. They simply note that actual costs are greater than the preliminary estimate.  
13 Such observations do not support a disallowance. To support a disallowance one has to  
14 demonstrate that the Company acted imprudently and that such imprudence resulted in  
15 quantifiable increased costs. In fact, contrary to their suggestion, the Company has gone  
16 to great lengths to manage cost during a period of tremendous cost pressures in the  
17 construction industry, and in particular for generation-related construction, as explained  
18 in the Rebuttal Testimony of Company witnesses William Downey, Carl Churchman,  
19 Brent Davis, Steve Jones, Ken Roberts, and Kris Nielsen.

20 As I stated earlier, the costs of AQCS have risen dramatically and will continue to  
21 do so as increased demand for these systems continues in order for utilities to meet  
22 environmental regulations and achieve cleaner air.

1 **Q: Does Mr. Dittmer or Ms. Crane have any other observations about Iatan project**  
2 **costs?**

3 A: Yes, Mr. Dittmer attempts to compare the anticipated revenue requirement impacts of the  
4 CEP projects that the Company provided in 2004 to the rate increase the Company  
5 received in prior rate cases (Docket Nos. 06-KCPE-828-RTS and 07-KCPE-905-RTS)  
6 and its request in this case. He adds up the cumulative rate increase the Company  
7 received in the 828 and 905 Dockets and the Company's requested increase in this case,  
8 and suggests that the resulting aggregate rate increase is greater than what was  
9 contemplated in the Regulatory Plan.

10 **Q: Do you have any observations about Mr. Dittmer's comparison?**

11 A: Yes, I do. Generally speaking, Mr. Dittmer's comparison is an inaccurate one. By  
12 comparing the rate increases that the Company believed would be attributable to the  
13 capital projects provided for in the Regulatory Plan to the total rate increase the Company  
14 has received and requested, Mr. Dittmer is comparing apples to oranges to arrive at a  
15 conclusion that puts the Company in the worst possible light.

16 **Q: Please explain.**

17 A: Subsequent to my testimony in the Regulatory Plan docket, the Company stated publicly  
18 that the capital projects provided for under the Regulatory Plan would likely result in  
19 rates that are approximately 20-25% higher than the Company's rates at the time the  
20 Regulatory Plan was finalized. That continues to be true. Currently, the Company  
21 estimates that the capital projects will result in an increase of approximately 25-28%.

22 **Q: If that is the case, what is incorrect about Mr. Dittmer's reference to an aggregate**  
23 **34.4% increase?**

1 A: Significant portions of the costs included in our current rate case, as well as our  
2 Docket 828 and Docket 905 cases have nothing to do with the capital projects provided  
3 for in the Regulatory Plan. For example, although the Docket 828 case included the  
4 Company's 100.5 MW Spearville wind generation facility, costs associated with that  
5 project account for only a portion of the rate increase the Company received in that case.  
6 Similarly, although the Docket 905 case included the addition of an SCR on La Cygne 1,  
7 costs associated with that project account for only a portion of the rate increase the  
8 Company received in that case. Simply put, it is not accurate to take the rate increase the  
9 Company requests in this case and the rate increase it received in the 828 and 905  
10 Dockets and compare that aggregate number to the Company's prior statements about the  
11 rate impact of the capital projects contemplated in the Regulatory Plan. Contrary to the  
12 inference Mr. Dittmer attempts to make, the Company believes the projects will  
13 ultimately have about the same impact on rates as the Company indicated they would  
14 shortly after the Regulatory Plan was approved.

15 **Q: Please explain the costs included in this case related to Iatan Unit 1.**

16 A: As discussed in the Direct Testimony of Laura Bowman at pages 3-12, KCP&L's CBE of  
17 approximately \$484 million included some but not all common costs between Unit 1 and  
18 Unit 2. Common facilities are generally described in the Direct Testimony of Brent  
19 Davis. We have identified that common costs between Unit 1 and Unit 2 total  
20 approximately \$383 million. Mr. Steven Jones and his support staff are in the process of  
21 identifying and calculating the amount that should be deducted from the Iatan Unit 1 and  
22 Iatan Unit 2 CBE so that the total cost of Iatan 1 can be determined. That cost will then  
23 equal \$484 million – X (Common costs included in the \$484 estimate) + \$383 million

1 prior to AFUDC and allocation to partners and Kansas jurisdictional. The CBE costs  
2 have not changed for either Iatan Unit 1 or Iatan Unit 2. This identification simply  
3 isolates common costs from the CBE for Units 1 and 2.

4 **ECONOMIC CONDITIONS**

5 **Q: Have you reviewed the Direct Testimony filed by Donald Johnstone on behalf of**  
6 **MUUG and James Dittmer on behalf of the Hospital Intervenors?**

7 A: Yes, I have

8 **Q: How would you characterize their testimony?**

9 A: Mr. Dittmer and Mr. Johnstone devote several pages of their testimony to describing the  
10 challenges of the current economic environment and the impact those challenges are  
11 having on KCP&L's customers.

12 **Q: How would you respond to their suggestion that KCP&L's request for rate increase**  
13 **should be adjusted to reflect the current economic environment?**

14 A: KCP&L is keenly aware of the difficult times many of its customers are facing. KCP&L  
15 has done everything it can to minimize the impact of the rate increase it requested in this  
16 case, as perhaps best demonstrated by the Company's request to receive a dramatically  
17 lesser amount of CIAC than the formula included in the Regulatory Plan would justify.  
18 The Company's direct case includes a request for \$11 million of CIAC. The formula set  
19 forth in the Regulatory Plan would have supported more than \$27 million of CIAC in our  
20 direct case. However, the Company re-evaluated its cash needs for 2009 and determined  
21 that it would not ask its customers to support the full amount, especially in the current  
22 economic environment.



1 I would also note that although KCP&L is sensitive to the impacts of a rate  
2 increase, as a regulated public utility, KCP&L's rates are based upon its historical costs.  
3 KCP&L committed to the environmental control projects at Iatan Unit 1 in 2005 as part  
4 of the Regulatory Plan, has been paying for the project since that time, and filed its  
5 current rate case using a 2007 test year. So while the timing of this case is unfortunate,  
6 that fact is unrelated to the merits of the Company's requested rate increase. Ultimately,  
7 the Commission sets KCP&L's rates based on the Company's cost of service. Those  
8 costs are audited extensively by Staff, CURB, and intervenors. The Commission  
9 determines what rates are just and reasonable. I have never in my long career with the  
10 Company observed this Commission, or any other commission in the country, consider  
11 overall economic conditions (other than the obvious impact such conditions have on a  
12 utilities' capital structure and cost of capital) as a determinant of just and reasonable  
13 rates.

14 **Q: In his testimony Mr. Johnstone questions whether the Company is reacting**  
15 **prudently to the current economic conditions. Can you respond to that assertion?**

16 A: Yes, I can. At the time Mr. Johnstone submitted his data requests in this case, KCP&L  
17 had not yet made public its efforts to respond to the current economic environment.  
18 Since that time and as part of the Company's February 11<sup>th</sup> Fourth Quarter Earning  
19 webcast, the Company made public a number of proactive, responsive, and prudent  
20 measures taken in response to the changing economic conditions. Those measures  
21 include:

- 22 • Lowering 2009 earnings guidance (KCP&L's revenues are declining as a result of
- 23 the economy);
- 24 • Eliminating or deferring additional 2009-2010 capital expenditures;
- 25 • Suspended external hiring for all but essential skills;

- 1 • Continuing its focus of tightly managing O&M expenses; and
- 2 • Reducing the common stock dividend by 50% effective Q1-2009.

3 Of these measures, the lowering of earnings guidance reflects reduced revenue growth  
4 due to economic conditions. The reduction of common stock dividend is a major  
5 response to the current economic climate and demonstrates KCP&L's commitment to  
6 balancing the interests of its customers, creditors, and shareholders. KCP&L did not  
7 simply rely on rate increases to weather this economic recession, its shareholders are also  
8 contributing substantially by a 50% reduction in their dividend.

9 **CONSERVATION RATE DESIGN PROPOSAL**

10 **Q: Have you reviewed the testimony filed by Brian Kalcic on behalf of CURB**  
11 **concerning this topic?**

12 A: Yes, I have.

13 **Q: How would you characterize Mr. Kalcic's testimony?**

14 A: Mr. Kalcic recommends significant modifications to the underlying structure of  
15 KCP&L's residential and small general service ("SGS") rates. Specifically, in the name  
16 of conservation Mr. Kalcic proposes (i) to introduce a two-step inclining block rate  
17 structure to KCP&L's residential customers and (ii) to significantly modify the decline of  
18 hours use energy charges contained in KCP&L's SGS rate schedule.

19 **Q: Do you have any general observations about his proposal?**

20 A: Yes, I do. My general observations are two fold. First, I believe Mr. Kalcic's focus on  
21 conservation is misplaced. Second, I believe Mr. Kalcic failed to evaluate and  
22 understand the full impact of his proposal on KCP&L's customers.

23 **Q: Please explain.**

1 A: Mr. Kalcic indicates the Commission should implement policy that encourages  
2 conservation. I disagree, Commission policy should encourage the most efficient use of  
3 electricity, not conservation of electricity. For example, promoting economic  
4 development and bringing more businesses to the KCP&L service territory will result in  
5 more electricity being consumed, but nonetheless continues to be a positive policy  
6 objective. To my second observation, I think it would be irresponsible to implement  
7 Mr. Kalcic's proposals without the appropriate cost of service data to back it up.  
8 Otherwise, there is no way to determine if the rates customers will pay as a result of his  
9 proposals will accurately reflect the Company's cost of serving those customers.  
10 Moreover, without individual billing data, it is impossible to know what the real impact  
11 of his proposals would be on KCP&L's individual customers.

12 **Q: Do you have any further observations specific to Mr. Kalcic's proposed changes to**  
13 **KCP&L's residential rates?**

14 A: Yes, I do. Mr. Kalcic opposes the Company's winter-time declining block energy  
15 charges. He also opposes the Company's summer-time flat energy charge. His proposal  
16 is to "provide a flat rate for the first 1,000 kWh of consumption, with a significant price  
17 increase applying to all consumption in excess of that level (*i.e.*, a two-step inclining  
18 block rate structure)." First of all, such a significant change should not be made without  
19 a cost of service study to support it. Second of all, such a change would likely have  
20 severe unintended consequences. There is a misconception that only relatively affluent  
21 people with large homes would consume enough energy to surpass Mr. Kalcic's  
22 1,000 kWh threshold. That is simply not true. Many lower income customers living in  
23 less energy efficient, older homes would also be adversely impacted. Moreover, renters

1 who often have no ability to increase the efficiency of their homes would be adversely  
2 impacted. Taking into consideration the testimony of Mr. Johnstone and Mr. Dittmer  
3 concerning the current economic environment, this is the wrong time to introduce such a  
4 “tough love” approach, essentially telling customers that they will see a rate increase  
5 greater than what is necessarily justified by the Company’s cost to serve them, but it is  
6 for their own good. If the Commission makes the policy decision that something along  
7 the lines of what Mr. Kalcic suggests needs to be done, it should do so in a thoughtful,  
8 deliberate process. At a minimum, the Commission should have cost of service data on  
9 which to base its decision, and any proposed changes should be used together with  
10 individual customer billing data, to determine impacts on individual customers. In this  
11 manner a distribution can be determined that indicates the range of price increase across  
12 all individual customers.

13 **Q: Do you have any further observations specific to Mr. Kalcic’s proposed changes to**  
14 **KCP&L’s SGS rates?**

15 **A:** Yes, I do. Mr. Kalcic proposes to begin phasing out the Company’s declining hours of  
16 use energy charges. Mr. Kalcic acknowledges the potential that such a change would  
17 have “excessive rate impacts within the class,” but attempts to address that concern by  
18 noting that it could be worse. He could be proposing to eliminate the declining hours of  
19 use energy charges entirely. My concerns are that there is no indication that his proposed  
20 changes are in anyway cost justified and that it has the potential to dramatically and  
21 unnecessarily increase the rates of businesses that are likely already struggling as a result  
22 of the current economic environment. As above, if the Commission decides there are  
23 policy objectives to be met by adopting such a proposal, it should have before it a cost of

1 service study, and individual billing data before seeking to implement it. Mr. Kalcic also  
2 appears to fail to take into account that all of KCP&L's customers benefit when an SGS  
3 customer improves the Company's load factor. That is yet another example of the  
4 difference between creating a blanket incentive to use less electricity and creating an  
5 incentive to use electricity efficiently and wisely. Many individuals or policy makers are  
6 uninformed regarding the efficiency of declining hours of use energy charges. This  
7 feature of rate design or rate structure relates energy charge to the number of hours an  
8 individual customer uses its kW demand for power. This is consistent with economic  
9 efficiency and energy efficiency. For example, installation of more efficient equipment  
10 will result in reduced kW demand and reduced energy use (kWh). However, the  
11 customer is not forced to use the equipment less frequently. The customer can produce  
12 the same amount of product or stay as comfortable in their home, and still use less  
13 energy. Under the hours of use energy charges in the SGS Schedule the savings to the  
14 customer would be equal to the average price of the customer's bill prior to installing the  
15 efficient equipment. Conservation in and of itself is not consistent with efficiency. In  
16 addition, electricity fuels economic growth. Conservation is not consistent with  
17 economic growth. As Mr. Johnstone indicates, the economy is currently in a severe  
18 recession. Conservation of electricity usage will serve only to further drive the economy  
19 to continued negative growth impacting our customers and communities even more than  
20 the current crisis. I would also note that the Commission is addressing energy efficiency  
21 issues in a number of pending dockets.

22 **GREEN POWER PROGRAM PROPOSAL**

1 **Q: Have you reviewed the testimony filed by Donald Johnstone on behalf of MUUG**  
2 **concerning this topic?**

3 A: Yes, I have.

4 **Q: What are your concerns regarding Mr. Johnston's testimony?**

5 A: On page 8, line 9 of Mr. Johnstone's testimony, he indicates that he is unaware of any  
6 Green Power program and implies that the Company has been unresponsive to a  
7 customer inquiry. While he is correct that we do not currently have a Green Power  
8 program, I would like to respond that we have heard the requests of our customers and  
9 have been very active in environmental issues.

10 **Q: Has the Company started exploring Green Power programs?**

11 A: Yes. As detailed in the rebuttal testimony of Tim Rush, the Company is already on track  
12 to propose new sustainability programs during the 2009 calendar year. Further, the  
13 Company is aggressively participating in initiatives that support clean and sustainable  
14 energy sources.

15 **Q: Please explain some of the initiatives.**

16 A: At the national level, the Company is a founding member of the Institute for Electrical  
17 Efficiency (IEE) within the Edison Electric Institute. This group was formed to advance  
18 energy efficiency practices and demand response among electric utilities, promote the  
19 sharing of information, ideas, and experiences in energy efficiency and demand response  
20 in the power sector, and develop a resource base of effective business models, practices,  
21 and processes. As a member of the IEE, the Company joined the Clinton Global  
22 Initiative to extend these concepts to the global level.

1           At the regional level, the Company is a member of the Greater Kansas City  
2 Climate Protection Partnership, an organization formed by the Greater Kansas City  
3 Chamber of Commerce to help reduce regional greenhouse gas emissions and increase  
4 economic competitiveness. The Company is a sponsor and member of the Bridging the  
5 Gap Partnership. The Partnership serves as a coordinating organization for diverse, local  
6 environmental projects. Further, the Company has been recognized by the Mid-America  
7 Regional Council through its Leadership Award and by the Bridging the Gap Partnership  
8 through its David Garcia Award for Environmental Leadership.

9                                   **HAWTHORN 5 SCR PERFORMANCE SETTLEMENT**

10                                   **STAFF ADJUSTMENT No. 23 (IS-23)**

11   **Q:    Have you reviewed the testimony filed by Laura Bowman on behalf of Staff**  
12           **concerning this topic?**

13   **A:    Yes, I have.**

14   **Q:    Staff's witness Laura Bowman has proposed a five-year amortization for a portion**  
15           **of the Hawthorn 5 SCR Performance Settlement and recommended that the other**  
16           **two portions be refunded to customers through KCP&L's Energy Cost Adjustment**  
17           **("ECA") mechanism. Do you believe this is appropriate?**

18   **A:    No, I do not. Ms. Bowman points out that the refund KCP&L received is an unusual**  
19           **event that was recorded in the test year, but was related to services purchased during prior**  
20           **years. This in and of itself supports KCP&L's position that this refund is not a normal**  
21           **occurrence, and should not be reflected in the current case. Ms. Bowman further states**  
22           **"ratepayers have paid for the costs associated with the SCR through various rate cases**  
23           **over the past several years. It would be inappropriate to allow KCP&L to recover these**

1 costs through rates as well as receive the benefit of the refund.” As for the portion related  
2 to boiler maintenance that Ms. Bowman recommends be included and amortized in this  
3 case, this is inappropriate as noted above because it is for prior periods and is not a  
4 normal item. As for the portion of the SCR performance settlement payment that  
5 Ms. Bowman recommends should be passed back to customers through the ECA  
6 mechanism, it is important to note that KCP&L did not have an ECA in place at the time  
7 of the non-performance. There was no ECA mechanism in place at the time that flowed  
8 the additional fuel and purchased power costs incurred by KCP&L through to customers.  
9 To now require that the settlement payment for those increased fuel and purchased power  
10 expenses that the Company incurred be flowed back to ratepayers is inappropriate.

11 Furthermore, reaching back to prior years outside the test period, in order to apply  
12 a “refund” going forward constitutes retroactive ratemaking, and is not appropriate. The  
13 Commission is setting rates for future years. It is no more appropriate to reach back  
14 beyond the test year as Ms. Bowman proposes, than it is for the Company to reach back  
15 for rate increases foregone during this period. KCP&L did not have a rate increase until  
16 January 2007. Ratepayers did not pay for any costs of the Hawthorn 5 SCR until 2007.  
17 The settlement of the Hawthorn 5 SCR performance goes back to the year 2001. Clearly,  
18 customers did not pay and should not now have rates set for the future based on events  
19 that occurred prior to implementation of an ECA.

20 **WIND TURBINE PERFORMANCE WARRANTY SETTLEMENT**

21 **STAFF ADJUSTMENT No. 6 (IS-6)**

22 **Q: Have you reviewed the testimony filed by Justin Grady on behalf of Commission**  
23 **Staff concerning this topic?**



1 A: Yes, I have.

2 **Q: Please summarize the adjustment.**

3 A: Staff proposes that warranty payment received from General Electric (“GE”) related to  
4 the performance of the Spearville Wind Farm Facility be set into a regulatory liability and  
5 amortized to income over a five-year period.

6 **Q: What is your concern with this adjustment?**

7 A: My concern is two-fold. First, the warranty payment was incorrectly recorded to a  
8 maintenance account when received and second, the availability condition and the  
9 resulting purchase of replacement power occurred outside of the period covered by the  
10 terms of the ECA.

11 **Q: Please describe the warranty payment issue.**

12 A: According to the warranty agreement between GE and enXco/KCP&L, there is a  
13 provision for payment when the project availability is lower than the warranted 95%. In  
14 2007 a payment was received for warranty payment and incorrectly recorded to  
15 Maintenance account 551. Given that the payment was intended to compensate the  
16 Company for power it was required to purchase due to the unavailability, the warranty  
17 payment should have been charged to the Purchase Power account 555. This error has  
18 been corrected in the subsequent income statements provided by the Company.

19 **Q: How does this impact the assertion that the warranty payment should be amortized  
20 through a regulatory liability?**

21 A: As the warranty is truly intended to offset purchased replacement power, not a  
22 maintenance expense, the Company is not double collecting on this matter and should be

1 allowed to retain the payment to offset the expense incurred for purchase of replacement  
2 power, prior to implementation of an ECA.

3 **INCENTIVE COMPENSATION**

4 **Q: Please briefly describe KCP&L's short-term and long-term incentive programs.**

5 A: The short-term program is a cash-based incentive program whereas the long-term  
6 program is equity-based. As Ms. Crane correctly states in her direct testimony, these  
7 programs provide incentive payments to employees throughout the organization,  
8 including bargaining employees, based on financial, operational and individual goals.

9 **Q: Have you reviewed the testimony filed by CURB witness Andrea Crane and Staff  
10 witness Justin Grady concerning this topic?**

11 A: Yes, I have.

12 **Q: What is Ms. Crane's proposal regarding incentive compensation?**

13 A: Ms. Crane proposes in her adjustment ACC-18 that 100% of KCP&L's incentive  
14 compensation be disallowed (\$2,696,401 Kansas jurisdictional).

15 **Q: What is Mr. Grady's position?**

16 A: Mr. Grady proposes that the short-term component of this expense be limited to test year  
17 levels, rather than the three-year average proposed by KCP&L in its filing, resulting in an  
18 adjustment (IS-3) for \$1,327,344 (Kansas jurisdictional). Mr. Grady does not propose  
19 any adjustment to the long-term component.

20 **Q: Do you agree with their respective positions?**

21 A: I agree with Staff's position. As Mr. Grady points out in his direct testimony, the short-  
22 term payout has decreased in recent years and use of the test year is appropriate. I do not,

1           however, agree with Ms. Crane’s proposal to eliminate all short-term and long-term  
2           incentive expense.

3   **Q:   One of Ms. Crane’s concerns with this program is that payout is tied to KCP&L**  
4   **meeting its financial objectives. Is that a valid concern?**

5   A:   No, it is not. Strong financial performance, as measured by earnings per share (“EPS”),  
6       provides a utility the cash it requires to invest in ongoing maintenance and upgrading of  
7       facilities, which ensures a steady, reliable, low cost supply of electricity to the customer.  
8       The use of incentive compensation to focus employees, including management, on the  
9       achievement of EPS goals makes good business sense. Additionally, a strong EPS  
10      generally translates to strong cash flow or funds provided by operations (“FFO”), a key  
11      component utilized by credit rating agencies to evaluate utilities. The credit rating is  
12      directly tied to the interest rate that the Company must pay for debt needed to finance the  
13      Company’s Comprehensive Energy Plan as well as ongoing operations. If credit ratings  
14      are not maintained, the Company’s cost of borrowing increases, leading over time to  
15      higher rates.

16 **Q:   Are financial goals the only consideration in the incentive programs?**

17 A:   No, as I mentioned earlier, financial goals such as EPS are just one element of the  
18      incentive compensation programs. The combination of financial, operational and  
19      individual goals helps ensure a continuing focus on enhancement of services and  
20      performance, directly benefiting customers.

21 **Q:   Another of Ms. Crane’s positions is that customers should not have to pay for these**  
22 **costs since KCP&L employees are already “well paid”. Do you agree with this**  
23 **position?**

1 A: No, I do not. As I have mentioned, the purpose of these programs is to give employees  
2 an incentive to provide high quality, reasonably priced service to KCP&L's customers,  
3 not simply to augment compensation.

4 **Q: Finally, Ms. Crane states that incentive program costs should be disallowed because**  
5 **the amounts are not known and measurable. Do you agree with this statement?**

6 A: No, while the amounts do vary from year-to-year, KCP&L has had incentive  
7 compensation payouts consistently for years. The use of test year incentive expense, as  
8 recommended by Mr. Grady, is a reasonable approach.

9 **POLICY CONCERNING CIAC UNDER THE REGULATORY PLAN**

10 **Q: Have you reviewed the testimony filed by Jeff McClanahan concerning the amount**  
11 **of CIAC the Company requested in its case?**

12 A: Yes, I have.

13 **Q: Why did KCP&L limit its request to \$11.2 million for CIAC?**

14 A: KCP&L re-evaluated its cash needs for 2009 and determined that it would not need the  
15 entire amount of CIAC the formula set forth in the Regulatory Plan would justify.  
16 Recognizing that fact, the Company did not believe it was reasonable to ask to have the  
17 full amount reflected in its customers' rates. Although I continue to believe that was the  
18 correct decision, I acknowledge in response to Mr. McClanahan's testimony that the  
19 Company did not do a very good job of communicating its intent to Staff. Moreover, I  
20 would like to note that Mr. McClanahan is correct when he suggests that the Regulatory  
21 Plan does not permit KCP&L to unilaterally change how it derives the CIAC amount.  
22 Having said that, I continue to believe it was appropriate for the Company to ask for less  
23 than the full amount that could have been justified using the formula set forth in the

1 Regulatory Plan. No party in this case, including KCP&L wants the customers to bear  
2 more costs than are necessary. Mr. Cline discusses KCP&L's cash requirements and  
3 CIAC in his testimony.

4 **Q: Do any other witnesses address the CIAC issue?**

5 A: Yes, Ms. Crane makes a general statement that the Commission should reconsider  
6 including CIAC in KCP&L's case because KCP&L's parent company acquired Aquila,  
7 Inc., and because the Iatan project will cost more than initially anticipated.

8 **Q: How would you respond to her assertions?**

9 A: The acquisition of Aquila, Inc., which was approved by this Commission as consistent  
10 with the public interest, has no relevance whatsoever to KCP&L's need for cash to  
11 maintain its credit ratios, which is the purpose of the CIAC. Also, as described above,  
12 although the Iatan Unit 1 project will cost more than initially anticipated, KCP&L's  
13 management of the project has been prudent and Ms. Crane offers no grounds for  
14 penalizing KCP&L and potentially putting its credit rating at risk.

15 **Q: Does that conclude your testimony?**

16 A: Yes, it does.

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

In the Matter of the Application of Kansas City           )  
Power & Light Company to Modify Its Tariffs to        )  
Continue the Implementation of Its Regulatory Plan        ) Docket No. 09-KCPE-246-RTS

**AFFIDAVIT OF CHRIS B. GILES**

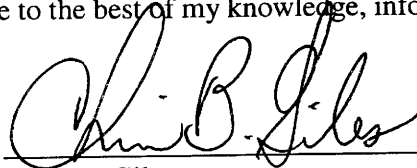
**STATE OF MISSOURI**    )  
  ) ss  
**COUNTY OF JACKSON**    )

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

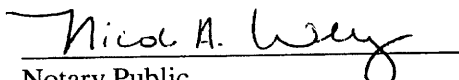
1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of twenty-nine (29) pages ~~and Schedule(s) \_\_\_\_\_ through \_\_\_\_\_~~, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

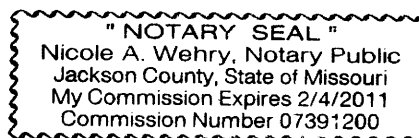
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

  
Chris B. Giles

Subscribed and sworn before me this 22<sup>nd</sup> day of February 2009.

  
Notary Public

My commission expires: Feb. 4, 2011



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

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**TESTIMONY IN RESPONSE TO THE SUPPLEMENTAL/SURREBUTTAL  
TESTIMONY OF THE KANSAS CORPORATION COMMISSION STAFF**

**CHRIS B. GILES**

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

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

**DOCKET NO. 09-KCPE-246-RTS**

1 **Q: Are you the same Chris B. Giles who submitted Direct Testimony and Rebuttal**  
2 **Testimony in this case on behalf of Kansas City Power & Light Company**  
3 **(“KCP&L” or “the Company”)?**

4 **A:** Yes, I am.

5 **Q: What is the purpose of your Testimony?**

6 **A:** The purpose of my testimony is to respond to the Supplemental/Surrebuttal Testimony  
7 submitted by Kansas Corporation Commission Staff witness Jeff McClanahan on  
8 February 27, 2009.

9 **Q: How would you characterize Mr. McClanahan’s testimony?**

10 **A:** First, although Mr. McClanahan entitles his testimony “Supplemental/Surrebuttal”, it is  
11 more properly characterized as only “Supplemental”. It explains how Staff proposes to  
12 change the position it took in its Direct Testimony in this proceeding, allegedly due to the

1 Company's correction and update to its case concerning the allocation of costs among  
2 Iatan Unit 1, Iatan Unit 2, and common plant.

3 **Q: What is common plant?**

4 A: Common plant is generally plant that is or will be used by two or more units at a site; in  
5 this case by both Iatan Unit 1 and Unit 2. Common plant can fall into one of three  
6 categories: plant shared by both units, plant providing operational redundancy, or plant  
7 consisting of a common structure. The Project's chimney is an example of common plant  
8 shared by both units. The chimney shell houses separate liners for each unit. KCP&L  
9 determined in early 2007 that the cost of adapting the existing Unit 1 stack to new flue  
10 gas properties from the new Iatan Unit 1 Air Quality Control System ("AQCS")  
11 equipment would be greater than building an entirely new chimney that could be  
12 common to both units. In addition, while there is a separate Iatan Unit 2 liner that will  
13 not be used until 2010, the entire stack must be put into service in order to facilitate start-  
14 up and operations of Iatan Unit 1.

15 Portions of the reagent preparation building utilized for preparation of limestone  
16 slurry is an example of common plant providing operational redundancy. These facilities  
17 are required for Iatan Unit 1 operations and start-up, though ultimately will be utilized for  
18 the volumes of both units. Included in this definition are systems comprised of purely  
19 common pieces of equipment and equipment providing the necessary redundancy to  
20 ensure continued operation of both units.

21 The recycle pump building that ALSTOM is building as part of its contract is an  
22 example of common plant consisting of a common structure. The building will house  
23 both units' equipment; therefore it is a Common Facility. However, inside the recycle



1 pump building is equipment that will only operate for each unit independently.

2 Therefore, the building is a Common Facility while the equipment within the building is  
3 considered either Iatan Unit 1 or Iatan Unit 2 property.

4 **Q: Please describe the Company's correction and update to which Mr. McClanahan is**  
5 **responding?**

6 A: The Company's application filed on September 5, 2008 included total plant cost for Iatan  
7 Unit 1 including common in the amount of approximately \$435 million. This included  
8 "actual" cost amounts through December 31, 2007 and projections of actual amounts of  
9 cash to be spent for the Iatan Unit 1 project from January 1, 2008 through March 31,  
10 2009. On a KCP&L share basis including AFUDC and allocating the common plant cost  
11 projections between Iatan Units 1 and 2 on a MW basis, the total included in the  
12 application was \$325 million.

13 The Stipulation and Agreement in Docket No. 04-KCPE-1025-GIE ("1025 S&A"  
14 or "Regulatory Plan") allowed KCP&L to include in rate base in this third rate case Iatan  
15 Unit 1 environmental project costs, even though those actual costs would not be known at  
16 the time the application was to be filed. Thus, it was understood that KCP&L's  
17 application would present KCP&L's best estimate on Iatan Unit 1 project costs, and that  
18 KCP&L would update that estimate as the project got nearer to completion and better  
19 cost information became available.

20 **Q: What happened after the application was filed on September 5, 2008?**

21 A: KCP&L updated the Iatan Unit 1 project costs several times and corrected several errors  
22 with the calculation used for its application. To assist the Commission in understanding

1 the timing, amount and purposes for these updates, I have prepared Schedule CBG-1,  
2 which is attached to this testimony.

3 **Q: Please continue.**

4 A: The first update/correction was made on December 15, 2008 in response to Staff Data  
5 Request KCC-94 (“KCC-94”). In responding to this data request, which in part requested  
6 an updated estimate with a detailed explanation for the update, KCP&L realized that it  
7 should have used the full budget amount for the Unit 1 project and common costs,  
8 including all contingency and retention amounts included in the Control Budget rather  
9 than a March 31, 2009 cash basis. This response both updated the cost projection as well  
10 as corrected the cost projection from a cash basis to a budget basis and from a March 31,  
11 2009 cut-off date to a July 4, 2009 cut-off date. The response, in part, provided the  
12 following explanation:

13 The original Control Budget Estimate for the Iatan Unit 1 Project was established  
14 in December 2006. A cost reforecast was completed in May 2008. The estimate  
15 provided in this filing, discussed in response to question 1 above, was based upon  
16 that cost reforecast. That May 2008 cost reforecast remains KCP&L’s best  
17 estimate of the final cost for the Iatan Unit 1 Project but, to be clear, it is still an  
18 estimate.

19  
20 The original estimate provided in the filing, \$325 million (KCPL Share), was based upon  
21 the May 2008 cost reforecast but excluded portions of the reforecast for contingency and  
22 retention amounts because of the uncertainty surrounding the payment and/or timing of  
23 payment for these categories. On further review, while the amount and timing of these  
24 payments remained uncertain, KCP&L determined that these amounts should have been  
25 included in the original filed estimate. With these inclusions, “Iatan I AQC Add included  
26 in Total Adjustment” in Adjustment No. 21 would have been approximately \$381 million  
27 instead of \$325 million. This adjusted estimate represents KCP&L’s share of the project

1 including Iatan Unit 1 share of common facilities based upon the May 2008 cost  
2 reforecast of the overall Iatan projects on a total KCP&L company basis (both Kansas  
3 and Missouri jurisdictions).

4 **Q: Please explain the second update.**

5 The second update/correction was provided on January 16, 2009 as a subsequent  
6 response to KCC-94 (“KCC-94S”) and provided an update to the common cost amounts  
7 as well as a correction for inclusion of all common plant costs pursuant to FERC  
8 requirements. KCC-94S explained:

9 KCP&L has updated the common costs to be placed in service at the time that  
10 Unit 1 is placed in service to reflect all common plant necessary for the startup of  
11 Unit 1. This update includes amounts for common that up to this point have been  
12 reflected in the Unit 2 project costs. This update provides total common costs to  
13 be placed in service at the time Unit 1 is placed in service consistent with FERC  
14 requirements as described in 18 CFR Ch. 1 Pt. 101 account 107 – Construction  
15 work in progress – Electric, para. B.  
16

17 **Q: Please explain the third update.**

18 A: The third formal update/correction included both an update to the amount of common  
19 plant costs as well as a correction for the distribution of those costs between the Unit 1  
20 and Unit 2 Control Budgets, i.e., the separation of the common costs out of these control  
21 budget “buckets” into a separate third common plant bucket. This last update was  
22 discussed with and provided in part to Staff on February 5, 2009, both Staff and CURB  
23 on February 10, 2009, and again with Staff during a plant site visit to review the updated  
24 common plant costs on February 19, 2009. These discussions and materials provided the  
25 update to the common plant but KCP&L did not yet have the results of the review to pull  
26 these costs out of the Unit 1 and Unit 2 Control Budgets until February 24, 2009. This  
27 update was formally made on February 25, 2009 as a second subsequent response to

1 KCC-94 (“KCC-94S”) to update the amount of common costs again as well as to correct  
2 the amount included in this case based upon KCP&L’s review of common costs  
3 contained within the Unit 1 and Unit 2 Control Budgets. KCC-94S explained:

4 KCP&L has updated the common costs to be placed in service at the time that  
5 Unit 1 is placed in service to reflect a corrected amount for common plant. Please  
6 see attachment Common Cost High Level Asset Valuation 2\_25\_2009.pdf for a  
7 breakdown of the Common Costs.  
8

9 This update reflects the separation of amounts for common plant that up to this  
10 point have been reflected in both Unit 1 and Unit 2 project Control Budget  
11 Estimates into a separate Common Cost category. This update provides total  
12 common costs to be placed in service at the time Unit 1 is placed in service  
13 consistent with FERC requirements as described in 18 CFR Ch. 1 Pt. 101 account  
14 107 – Construction work in progress – Electric, para. B. It is important to note  
15 that the total overall cost of the Iatan projects is not increasing as a result of these  
16 updates to Common Cost; it is simply a process of identifying those common  
17 costs that were included in the Iatan Unit 1 and Unit 2 Control Budget Estimates  
18 that represent costs associated with Common plant.  
19  
20

21 **Q: Did KCP&L believe that Staff understood each modification made to the**  
22 **Company’s initial filing?**

23 A: Yes, we did. However, I recognize that it sounds more confusing than it really is. I think  
24 the easiest way to visualize what transpired is to think in terms of budget “buckets” for  
25 the Iatan project costs. KCP&L acknowledges that there should initially have been three  
26 such “buckets”; an Iatan Unit 1 bucket, an Iatan Unit 2 bucket, and a common facilities  
27 bucket. However, instead of establishing three buckets, KCP&L initially only  
28 established two buckets; one for Iatan Unit 1 costs and one for Iatan Unit 2 costs.  
29 Budgeted common costs were allocated between and incorporated within these two  
30 buckets.

31 **Q: Specifically, how have the costs in the “buckets” you described changed?**

1 A: It was always contemplated that the estimated costs placed in these buckets would need  
2 to be updated as the case progressed. As I describe later in my testimony, such updating  
3 is inherently necessary under the rate case timelines set forth in the Regulatory Plan. The  
4 Iatan Unit 1 Control Budget bucket included \$484 million (total project basis), and  
5 KCP&L originally identified only common costs related to the chimney within the Unit 1  
6 Control Budget noting that the remaining common plant costs were contained within the  
7 Unit 2 Control Budget. Later, as KCP&L went through the process of identifying and  
8 valuing the common facilities, it became obvious that the Iatan Unit 1 bucket included  
9 more of the common plant costs than originally thought. All of these costs were then  
10 identified, valued and placed into the common facilities bucket. Consequently, KCP&L  
11 pulled those costs out of the Iatan Unit 1 and Unit 2 buckets and placed them in the  
12 common facilities bucket.

13 Although there were a couple of admittedly confusing iterations along the way,  
14 the buckets as they stand today on a total project basis are: (i) Iatan Unit 1 includes \$370  
15 million, meaning that KCP&L identified \$114 million of common facility costs that had  
16 incorrectly been placed in the Iatan Unit 1 bucket [ $\$484 \text{ million} - \$114 \text{ million} = \$370$   
17 million]; (ii) common facilities includes \$383 million; and (iii) Iatan Unit 2 includes  
18 approximately \$1.6 billion. I cannot overemphasize the fact that the aggregate number  
19 for the projects has not changed. The same amount of dollars has simply been correctly  
20 reallocated to the appropriate buckets.

21 **Q: Why is it important to ensure that the various costs are allocated to the appropriate**  
22 **bucket?**

1 A: While KCP&L is constructing and will operate the new equipment, the ownership of each  
2 of these buckets is different. KCP&L owns 70 percent of Iatan Unit 1 and other utility  
3 companies own the remaining 30 percent of the plant. KCP&L will own approximately  
4 55 percent of Iatan Unit 2 with other utility companies owning various percentages of the  
5 remainder of the plant. The common plant will be owned by all of the parties for both  
6 units based upon a MW basis as defined in the ownership agreements. KCP&L will own  
7 approximately 61 percent of the common plant.

8 **Q: Are there any other reasons why these buckets must be identified for this case?**

9 A: Yes. As noted above and in KCP&L's rebuttal testimony, Federal Energy Regulatory  
10 Commission ("FERC") accounting rules require KCP&L to place all common plant in  
11 service at the same time that the first unit served by such common plant is placed in  
12 service. In this case, the Iatan Unit 1 AQC equipment will make Unit 1 the first unit  
13 served by the common plant to be placed in service. Therefore, KCP&L must place all of  
14 the common plant for both units in service at the same time as the Unit 1 AQC project  
15 and address them within this case.

16 **Q: Was Staff aware of the need to separate costs associated with common facilities and**  
17 **the need to update those costs when it filed its direct case?**

18 A: Yes, it was. First, in the Direct Testimony of Company witness Brent Davis, he  
19 explained what common facilities are and that there will be a need to allocate costs to  
20 such facilities as the case progresses. Second, Staff included an amount for common  
21 facilities in its direct case. In its direct case, Staff included the \$484 million Unit 1  
22 control budget number that represented the initial Iatan Unit 1 bucket described above, as  
23 well as \$84 million in additional common facilities (\$36.9 million allocated to Unit 1),

1 which represented the amount of common costs identified within the Unit 2 Control  
2 Budget at that time as provided in response to KCC-94. In sum, in its direct case, Staff  
3 agreed to include a total of \$568 million in Iatan Unit 1 and common facility costs in this  
4 case (subject to the disallowances proposed by Mr. Drabinski), of which \$472 million  
5 represented Unit 1 AQC costs and \$96 million represented common costs. Although the  
6 Company subsequently updated the \$84 million for common facilities in the Unit 2  
7 Control Budget to \$121 million and the amount of common costs included in the Unit 1  
8 Control Budget from \$12 million to \$22 million (see KCC-94S), Staff chose not to use  
9 this update in its direct case pending the ability to audit the updated figures. KCP&L  
10 then updated the common costs figure again to the \$383 million (see above), comprised  
11 of \$114 from the Unit 1 Control Budget and the remainder from the Unit 2 Control  
12 Budget.

13 **Q: What is the overall impact of these changes on KCP&L's rate increase request?**

14 A: As pointed out in the rebuttal testimony of KCP&L witness Mr. Michael Cline, these  
15 changes do not have any impact on the overall amount of KCP&L's rate increase request.  
16 KCP&L requested an increase of \$71.6 million or 17.5% and that has not changed. It  
17 has, however, changed the makeup of that request somewhat. Originally, that request  
18 was made up of \$60.4 million of traditional revenue requirement and \$11.2 million of  
19 CIAC. With the change in Iatan plant in service estimates, the overall resulting increase  
20 to Kansas jurisdictional Iatan plant in service within this request is about \$90 million.  
21 This translates to approximately \$14 million in additional revenue requirements;  
22 however, taking these updates and corrections to Iatan plant in service, along with other  
23 corrections and updates as well as issues raised by Staff or CURB that KCP&L has not

1           rebutted, KCP&L's rate request still stands at \$71.6 million but with \$64.6 million in  
2           traditional revenue requirement and the remaining \$7.0 million in CIAC.

3   **Q:   How does Mr. McClanahan propose to change Staff's position in response to the**  
4   **update and correction of KCP&L?**

5   A:   Mr. McClanahan proposes to do two things. First, he proposes to use actual dollars as  
6       opposed to the previously agreed upon methodology of using budgeted dollars in this  
7       case and truing those numbers up as part of KCP&L's next rate case, which is scheduled  
8       under the Regulatory Plan to be filed later this year. Second, Mr. McClanahan proposes  
9       to impose a cut-off date of January 28, 2009 for costs to be included in this case.

10 **Q:   Do you have any concerns with Mr. McClanahan's proposal?**

11 A:   Yes, I do. His new position is not consistent with the 1025 S&A, and moreover, it is  
12       unreasonable and unfair. The result of his proposal is simply not a financially viable  
13       option for the Company. Staff's direct case included \$381 million for Iatan Unit 1 and  
14       common facilities (KCP&L Share). Staff's new proposal would result in the inclusion of  
15       only \$278 million for Iatan Unit 1 and common facilities (KCP&L Share). Staff's new  
16       proposal is more than a \$100 million less for Iatan Unit 1 and common costs than what  
17       Staff proposed to include in its direct case and nearly \$250 million less than the current  
18       estimated total cost of the project including common costs (KCP&L Share). The  
19       Company simply cannot bear such a dramatic under-recovery of costs in this case. The  
20       rate case timing provided in the Regulatory Plan was undertaken to ensure the Company  
21       recovers its prudently incurred costs in a timely manner. As KCP&L witness,  
22       Mr. Michael Cline, explains in more detail in his responsive testimony being filed  
23       concurrently today, in light of the current overall economic environment and KCP&L's



1 specific economic challenges, the Company cannot defer such a significant amount of  
2 cost recovery until the rates from its next rate case are implemented, as much as two  
3 years from now.

4 **Q: Do you have any additional concerns?**

5 A: Yes, I do. Mr. McClanahan's proposal is contrary to the Regulatory Plan to which Staff  
6 is a signatory. As I have explained, under the Regulatory Plan, KCP&L can include in  
7 this rate case plant that goes into service on or before July 4, 2009. Staff's insistence on  
8 using actual cost numbers in this case, rather than budgeted numbers, makes it impossible  
9 to include plant in service as of July 4, 2009. More specifically, Staff's imposition of a  
10 cut-off date of January 28, 2009 for costs to be included in this case prevents the  
11 Company from including costs for plant that goes into service between January 28, 2009,  
12 and July 4, 2009, when the Regulatory Plan specifically allows inclusion of these costs.

13 **Q: If the 1025 S&A anticipated that updates to the Iatan costs would have to occur**  
14 **during the pendency of this rate case, and that all actual costs would not be known**  
15 **by the time testimony was filed by the parties and the hearing was conducted, is it**  
16 **reasonable for Staff to assert that "actual costs expended on Iatan Unit 1 to date"**  
17 **should now be used in this case rather than budgeted amounts? (McClanahan**  
18 **Supplemental, page 7.)**

19 A: No, it is not. Under the schedule established for this rate case in the 1025 S&A, Staff  
20 would not have had "actual" costs to audit before filing testimony and going to hearing,  
21 even if KCP&L had not submitted any updates. The deadline date for Iatan Unit 1 to go  
22 into service is July 4, 2009. The "actual" costs cannot be known until the end of April  
23 (and even then there would likely be invoices not yet received and other potential

1 changes to the “actual” costs for months to come), so any costs considered prior to that  
2 time will, by definition, include some estimates or budgeted amounts. Staff and KCP&L  
3 were always going to have to “true-up” these costs once actual became known, either as  
4 part of the next rate case or through some interim proceeding. The true-up proceeding  
5 had not been worked out by the parties, but it was always known it would have to be  
6 done.

7 **Q: But what about Staff’s claim that the 1025 S&A “does not bind any party to a**  
8 **valuation method (e.g., budgeted vs. actual) for new investment”? (McClanahan**  
9 **Supplemental, page 11-12.)**

10 A: This makes no sense in the context of the terms of the 1025 S&A. The precise timeline  
11 established for this third rate case was to allow KCP&L to place into rates its costs for the  
12 Iatan Unit 1 project as soon as it went in-service. The cost of that plant would have to be,  
13 in part, estimated at the time of filing testimony and hearing. The 1025 S&A did not say  
14 that only actual costs incurred by a certain time prior to hearing could be included for  
15 plant going into service by July 4, 2009. Yet, the position Staff now takes is the same as  
16 saying that plant in service by July 4, 2009 can be included in rates, but all of the costs  
17 for that plant in service cannot. Again, this makes no sense.

18 **Q: What about Staff’s claim that they do not have the time to properly review and**  
19 **audit the revisions proposed by KCP&L? (McClanahan Supplemental, page 6.)**

20 A: This claim is very perplexing to KCP&L because Staff has audited the budgeted costs  
21 KCP&L has proposed be included in rate base in this case. The initial filing contained  
22 budgeted cost for Iatan Unit 1 of \$484 million, *and Staff performed its audit on this*  
23 *amount.* The later updates did not change this overall number – they simply reclassified

1 certain costs contained as part of this number into the common cost bucket. In other  
2 words, the numbers making up this \$484 million did not change, only the category to  
3 which they were allocated changed. In Staff's Direct Testimony, the \$484 million was  
4 accepted and used as the basis to which Staff tied its proposed adjustments. These  
5 audited costs did not become "unaudited" by virtue of the fact that they were shifted into  
6 a different cost category, and they did not go from reliable to unreliable just because  
7 corrections to their overall classification had to be made.

8 **Q: Has KCP&L attempted to "update numbers outside of the record" or use numbers**  
9 **that are "not contained within the record and subject to proper cross examination?"**  
10 **(McClanahan Supplemental, page 10.)**

11 A: No. As explained above, the \$484 million contained in the initial filing included the  
12 same costs that are still contained in the updated numbers. The reclassification of some  
13 of those amounts between Iatan Unit 1 AQC costs and common costs is explained in the  
14 record as part of KCP&L's Rebuttal Testimony.

15 **Q: What about Staff's comment that the FERC accounting guidelines - the reason for**  
16 **KCP&L to make its correction to include all common costs in this case instead of**  
17 **just those common costs allocated to Unit 1 – have been in place for some time prior**  
18 **to KCP&L establishing its Iatan cost control system. (McClanahan Supplemental,**  
19 **page 1-2.)**

20 A: This is true. However, at the time of filing the application, KCP&L was unaware of this  
21 FERC guideline, an oversight KCP&L has readily admitted. However, once KCP&L  
22 realized its error, a correction had to be made, and that is what was done.

23 **Q: Recognizing Staff's concerns, how do you propose to go forward in this case?**

1 A: I see two options, but am open to any others that are fair and consistent with the 1025  
2 S&A. The Commission could adopt the methodology consistent with the Regulatory  
3 Plan wherein budgeted Iatan Unit 1 and common costs would be included in this case,  
4 recognizing that these estimates would be updated and that actual numbers would  
5 ultimately be audited and KCP&L's rate base would be corrected as part of its next case.  
6 Alternatively, the Commission could adopt a "true-up" proceeding. This process is used  
7 by the Missouri Public Service Commission and is part of the Company's pending rate  
8 case in Missouri. Under that process, we would try all cost of service issues, including  
9 any prudence issues related to Iatan during the currently scheduled evidentiary hearings  
10 in this case. Then, some time later, perhaps in mid or late May, there would be a brief  
11 second hearing, likely no more than a day or two, to address what the final number for  
12 Iatan should be. This would give Staff additional time to audit costs incurred beyond  
13 January 28, 2009. A possible schedule could be:

14	May 4 -	True-up costs presented by KCP&L with supporting testimony.
15	May 22 -	Staff and Intervener file testimony.
16	May 26 -	KCP&L files rebuttal.
17	May 28/29 -	True-up cost Hearing.
18	June 2 -	Simultaneous Summations on true-up costs.
19	June 15 -	KCC Order on true-up costs.

20 **Q: You stated earlier that Staff's new recommendation to use actual costs as of**  
21 **January 28, 2009, is simply not a financially viable option for KCP&L. Does Staff's**  
22 **recommendation that common costs and any Iatan Unit 1 costs not included in rates**  
23 **in this case be placed into a regulatory asset as they are incurred and addressed in**  
24 **the next rate case make Staff's recommendation financially viable for the**  
25 **Company?**

1 A: No, it does not. First, only the depreciation and carrying costs associated with the Iatan  
2 assets appropriately recorded to Electric Plant in Service at the time of in-service of Iatan  
3 Unit 1 that do not get included into rate base in the current rate case would be included in  
4 a regulatory asset. The Iatan assets placed in service that are not included in rate base in  
5 this rate proceeding would not begin rate recovery until as long as two years from now.  
6 Until that time, KCP&L would have to carry the asset, without recovery, to the serious  
7 detriment of the Company's cash flow. Staff's offer to allow KCP&L carrying costs on  
8 the assets not included in rate base in this case would provide some degree of relief from  
9 an earnings perspective during a delay, but would result in no cash flow. This onerous  
10 burden would be imposed upon the Company at the worst possible point in the  
11 Regulatory Plan, when construction cost have been high and the overall economy has  
12 plummeted.

13 Another problem with Staff's recommendation for a regulatory asset concerns  
14 Staff's statement that "there should be no guarantee recovery" in KCP&L's next rate  
15 case. (McClanahan Supplemental, page 7-8.) The language chosen by Staff in this  
16 regard makes it very likely that GAAP accounting rules would not permit the Company  
17 to claim the regulatory asset as such on its books, compounding the negative financial  
18 impact Staff's recommendation has on KCP&L.

19 **Q: Do you have any response to Mr. McClanahan's supplemental testimony regarding**  
20 **how to handle the disallowances recommended by Staff witness, Mr. Walt**  
21 **Drabinski?**

22 A: Yes, I do. In Staff's Direct Testimony Mr. Drabinski's proposed disallowances were  
23 based upon the budgeted amounts for the Iatan project related to specific items of costs

1 Mr. Drabinski found to be “imprudent”. KCP&L pointed out in its rebuttal that some of  
2 these disallowances were for costs that might never be incurred. Staff now wants to back  
3 off from applying Mr. Drabinski’s disallowances to the specific items he said should be  
4 disallowed, and instead Staff states it will address disallowances on an actual cost basis.  
5 (McClanahan Supplemental, page 9.) Similar to Staff’s other supplemental testimony,  
6 this is simply a direct rejection by Staff of its own Direct Testimony. If Mr. Drabinski felt  
7 in his Direct Testimony that a certain budgeted cost should be disallowed because it was  
8 the result of imprudence, then if it turns out that that cost is never incurred, Mr. Drabinski  
9 should not be allowed to shift his disallowance to other items.

10 **Q: Do you have any closing statements?**

11  
12 The Company recognizes the confusion that resulted from the combination of (i) the  
13 inherent updating of plant costs required under the Regulatory Plan and (ii) the  
14 Company’s correction of the Iatan Unit 1, Iatan Unit 2, and common facilities allocation  
15 buckets. Staff’s proposed remedy goes too far. Its arbitrary imposition of a January 28,  
16 2009 cut-off date for Iatan-related costs to be included in this case violates the Regulatory  
17 Plan and imposes more unrecovered costs on the Company than it can bear, putting its  
18 credit rating at risk, and thus, flying in the face of one of the primary purposes of the  
19 Regulatory Plan approved by the Commission - protecting the Company’s credit rating  
20 during an intense construction cycle.

21 **Q: Does that conclude your testimony?**

22 A: Yes, it does.



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

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**ADDITIONAL DIRECT TESTIMONY OF**

**CHRIS B. GILES**

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

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

**DOCKET NO. 09-KCPE-246-RTS**

1 **Q: Please state your name and business address.**

2 A: My name is Chris B. Giles. My business address is 1201 Walnut, Kansas City, Missouri  
3 64106-2124.

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

5 A: I am employed by Kansas City Power & Light Company (“KCP&L”) as Vice President,  
6 Regulatory Affairs.

7 **Q: Are you the same person that provided direct testimony, rebuttal testimony, and**  
8 **responsive testimony to the supplemental and surrebuttal testimony of the**  
9 **Commission Staff in this docket?**

10 A: Yes, I am.

11 **Q: What is the purpose of your additional direct testimony?**



1 A: The purpose of my testimony is to provide an overview and summary of KCP&L's rate  
2 application filed in this docket on September 5, 2008 ("Application"), summarize the  
3 events that led to the parties' joint motion to amend the procedural schedule in this  
4 proceeding ("Joint Motion"), and provide the necessary context for the additional direct  
5 testimony of KCP&L witness John Weisensee regarding the actual costs paid or approved  
6 for payment through April 30, 2009 for the Iatan Unit 1 Air Quality Control ("AQC")  
7 equipment and Iatan common costs for which KCP&L is seeking recovery in this docket.  
8 The remaining costs for these items, those actual costs paid after April 30, 2009, will be  
9 included in KCP&L's next rate case; however, I will discuss the need for a regulatory  
10 asset to address the effect of these remaining Iatan Unit 1 AQC equipment and Iatan  
11 common costs. I will also address the impact of the change in this case from use of the  
12 Control Budget Estimate to use of actual costs paid or approved for payment through  
13 April 30, 2009 as the basis for the Iatan Unit 1 AQC equipment and Iatan common costs  
14 included in KCP&L's revenue requirement request.

15 **Q: By way of summary, what were the primary components of KCP&L's Application?**

16 A: The schedules and supporting testimony filed with KCP&L's Application established a  
17 gross revenue deficiency of approximately \$71.6 million, based upon normalized  
18 operating results for the 12 months ending December 31, 2007, adjusted for known and  
19 measurable changes in revenues, operating and maintenance expenses, cost of capital and  
20 taxes, other adjustments, and new investment in plant through March 31, 2009. Pursuant  
21 to the Contribution In Aid of Construction ("CIAC") mechanism established in the  
22 Stipulation and Agreement in Docket No. 04-KCPE-1025-GIE approved by the  
23 Commission in August 2005 ("1025 S&A"), KCP&L included as part of this \$71.6 million

1 deficiency an additional \$11.2 million of CIAC. The gross revenue deficiency represents  
2 a rate increase of approximately 17.5% based upon test year revenue of approximately  
3 \$409 million.

4 **Q: What were the pre-filed positions of the Commission Staff and the Citizens' Utility**  
5 **Ratepayer Board ("CURB")?**

6 A: On February 3, 2009, Staff, CURB and other interveners filed their direct testimony in this  
7 proceeding. Staff recommended a total increase of \$53.8 million, \$42.6 million of which  
8 was traditional revenue requirement and \$11.2 million of which was CIAC. CURB's  
9 testimony indicated that KCP&L had a net revenue shortfall of \$22.85 million, and  
10 included CIAC of \$23.93 million, for a recommended total increase of \$46.78 million.

11 **Q: Did KCP&L file rebuttal testimony in this proceeding?**

12 A: Yes. On February 23, 2009, KCP&L filed its rebuttal testimony. KCP&L's rebuttal  
13 testimony reflected updates to its budgeted Iatan Unit 1 AQC equipment and Iatan  
14 common costs and to certain other plant investment. The Iatan Unit 1 AQC equipment  
15 and Iatan common costs included costs through the in-service date of July 4, 2009 (as  
16 opposed to the March 31, 2009 date used in error in the original filing) based upon the  
17 Control Budget. The other plant investment included updated costs through March 31,  
18 2009. KCP&L also indicated in its rebuttal testimony that Iatan Unit 1 AQC equipment  
19 costs and Iatan common costs would be further updated in a follow-up data request  
20 response. This updated data request response, Staff Data Request No. 94S2, was  
21 provided to the parties on February 25, 2009.

22 **Q: Did the other parties to this proceeding respond to KCP&L's rebuttal testimony?**

1 A: Yes, several parties filed pleadings in response to KCP&L's rebuttal testimony. On  
2 February 25, 2009, CURB filed a Motion for Expedited Order, requesting a Commission  
3 Order striking KCP&L's rebuttal testimony on the grounds that it contained estimated  
4 and double-counted costs, constituted improper rebuttal testimony, amounted to a  
5 material change to KCP&L's Application and was a denial of due process to all parties.  
6 Similarly, also on February 25, 2009, the Hospital Interveners filed a Motion seeking a  
7 Commission Order that KCP&L had amended its Application and that such amendment  
8 had restarted the 240-day statutory clock contained in K.S.A. 66-117. Alternatively, the  
9 Hospital Interveners requested that the Commission strike all KCP&L testimony related  
10 to Iatan common costs for the period subsequent to March 29, 2009.

11 **Q: How did Staff respond to KCP&L's rebuttal testimony?**

12 A: On February 27, 2009, Staff filed a Motion to File Supplemental Testimony Out of Time  
13 and for Acceptance of Surrebuttal Testimony. Attached to Staff's Motion was the  
14 supplemental testimony of several Staff witnesses. Staff's testimony indicated that it was  
15 no longer comfortable utilizing the budgeted cost information it relied upon in its  
16 February 3, 2009 direct testimony, and instead recommended that the Commission use  
17 only actual costs incurred for Iatan Unit 1 AQC equipment and Iatan common costs  
18 included with Unit 1 as of the update of such actual costs from KCP&L on January 28,  
19 2009.

20 **Q: Did KCP&L agree with Staff's new proposal regarding Iatan Unit 1 AQC**  
21 **equipment and Iatan common costs?**

22 A: No, KCP&L viewed this proposal as inconsistent with the 1025 S&A. In addition, this  
23 proposal was not a financially viable option for KCP&L for numerous reasons. On

1 March 2, 2009, KCP&L filed a response to Staff's February 27, 2009 Motion, along with  
2 my testimony and testimony from KCP&L witness Michael W. Cline in response to the  
3 supplemental/surrebuttal testimony of Staff.

4 **Q: How did the parties arrive at the current, amended procedural schedule?**

5 A: The Commission held oral arguments on March 3, 2009 to hear the various motions  
6 pending at the time. Following this oral argument, the Commission recessed the hearing  
7 to allow the parties time to explore: (1) the possibility of arriving at a resolution that  
8 would address the parties' concerns regarding the use of budgeted cost information;  
9 (2) the issues raised by KCP&L's February 23, 2009 rebuttal testimony and February 25,  
10 2009 updated data request response regarding the level of Iatan common cost recovery  
11 sought in this case; (3) KCP&L's concerns regarding the exclusion of significant plant  
12 costs from its revenue requirement in this case; and (4) concern over the impact of any  
13 delays in the existing hearing schedule. On March 4, 2009, the Commission reconvened  
14 its hearing on the pending motions, and the parties verbally set forth a proposed amended  
15 procedural schedule for the Commission's determination. The primary goals of the  
16 amended procedural schedule were to: (1) provide an April 30, 2009 cut-off date for  
17 actual costs on Iatan Unit 1 AQC equipment and Iatan common costs paid or approved  
18 for payment to be included in this case; (2) allow Staff and interveners more time to  
19 perform an audit on the actual costs; and (3) provide for additional direct and rebuttal  
20 testimony regarding the actual costs. The parties were asked by the Commission to file a  
21 joint motion reflecting their mutual agreement to amend the procedural schedule, and this  
22 motion was timely filed on March 6, 2009.

1 **Q: How did the Joint Motion define the cut-off for actual costs on Iatan Unit 1 and**  
2 **Iatan common costs?**

3 A: KCP&L agreed that its May 5, 2009 additional direct testimony would only include  
4 testimony directly related to actual costs for Iatan Unit 1 and Iatan common costs paid or  
5 approved for payment through April 30, 2009, and directly related to the updated costs on  
6 non-Iatan plant through March 31, 2009, as addressed in KCP&L's rebuttal testimony.  
7 KCP&L also agreed that its testimony would detail the effects of the updated costs on  
8 KCP&L's requested overall increase, but pursuant to the Joint Motion, KCP&L would  
9 not increase its overall request above the original application for a \$71.6 million increase  
10 in revenue requirement.

11 **Q: Does the additional direct testimony being filed today by KCP&L comply with the**  
12 **Joint Motion directives?**

13 A: Yes. KCP&L witness Mr. John Weisensee's Additional Direct Testimony sets forth the  
14 Iatan Unit 1 costs paid or approved for payment through April 30, 2009, the updated non-  
15 Iatan plant investment through March 31, 2009, and the effects of the these costs on  
16 KCP&L's requested overall increase.

17 **Q: How do the actual costs for Iatan Unit 1 through April 30, 2009 compare to the**  
18 **Control Budget costs for this project as addressed in your responsive testimony filed**  
19 **March 2, 2009?**

20 A: On page 7, lines 13 – 29 of my responsive testimony, I explained,

21 "the buckets as they stand today on a total project basis are: (i) Iatan Unit 1  
22 includes \$370 million, meaning that KCP&L identified \$114 million of common  
23 facility costs that had incorrectly been placed in the Iatan Unit 1 bucket  
24 [\$484 million less \$114 million = \$370 million]; (ii) common facilities includes  
25 \$383 million; and (iii) Iatan Unit 2 includes approximately \$1.6 billion."  
26

1 These costs were based upon the Control Budget for the Unit 1 project and the estimated  
2 common costs as described in the Rebuttal Testimony of KCP&L witnesses Steven Jones  
3 and John Weisensee. The Control Budget includes all costs for the Unit 1 AQC Project  
4 from start to finish. The process used to identify the actual costs paid or approved for  
5 payment through April 30, 2009 for this filing is detailed in Mr. Weisensee's Additional  
6 Direct Testimony. Overall, KCP&L's request, based upon the Control Budget and the  
7 common facility cost estimate, was \$370 million for the Iatan Unit 1 AQC equipment and  
8 \$383 million for the Iatan common costs for a total of \$753 million plant investment for  
9 these projects. Revising these figures to include only actual costs paid or approved for  
10 payment through April 30, 2009 lowers them to \$307.9 million for the Unit 1 AQC  
11 equipment and \$318.7 million for the Iatan common costs for a comparison total of  
12 approximately \$626.6 million. (All amounts discussed are on a total project basis.)

13 **Q: Did KCP&L also update the non-Iatan plant as of March 31, 2009, as required by**  
14 **the amended procedural schedule?**

15 A: Yes. Mr. Weisensee's Additional Direct Testimony details that update. In general, the  
16 amount in this update is approximately \$36 million less than the projection included in  
17 KCP&L's last update in its rebuttal testimony on February 23, 2009.

18 **Q: Has KCP&L assessed the effect of these updated costs on KCP&L's requested**  
19 **overall increase?**

20 A: Yes. As noted in the Joint Motion, "...KCP&L may not increase its overall request  
21 above the original application for a \$71.6 million increase." KCP&L's requested overall  
22 increase of \$71.6 million remains unchanged as a result of cost updates presented here.  
23 However, the amount of the request termed "traditional revenue requirement" has

1 declined from the \$60.4 million in KCP&L's Application to about \$54 million including  
2 these updates and other positions taken or essentially accepted by KCP&L throughout the  
3 course of the docket to date as indicated by the first Issues List filed by KCP&L on  
4 February 23, 2009 in this case. Mr. Weisensee addresses the changes in the portion of  
5 the requested increase related to these updated costs in his Additional Direct Testimony.

6 As Mr. Cline stated in his Rebuttal Testimony of February 23, 2009,

7 "As KCP&L is bound by the initially-requested amount of rate relief of  
8 \$71.6 million, ... Essentially, the amount of CIAC requested would be determined  
9 by the difference, if any, between the traditional revenue requirement authorized  
10 by the KCC and the total rate relief request of \$71.6 million."  
11

12 The essential premise of Mr. Cline's rebuttal testimony regarding the combination of the  
13 traditional revenue requirement and the amount of CIAC totaling to KCP&L's original  
14 rate relief request of \$71.6 million has not changed as a result of this update which moves  
15 the case from budgeted to actual costs. Consistent with the change in the traditional  
16 revenue requirement portion of KCP&L's requested overall increase from approximately  
17 \$60.4 million to about \$54 million, the CIAC portion of KCP&L's requested overall  
18 increase now moves from \$11.2 million to approximately \$17.6 million resulting in the  
19 same overall requested increase of \$71.6 million.

20 **Q: You mentioned the need for a regulatory asset for the remaining costs incurred for**  
21 **the Iatan Unit 1 AQC equipment and Iatan common costs but not included in this**  
22 **case. Please explain what this regulatory asset would include.**

23 A: Pursuant to the Joint Motion, KCP&L will only be allowed to include in this rate case  
24 actual costs paid or approved for payment through April 30, 2009 for Iatan Unit 1 and  
25 Iatan common costs. As detailed in Mr. Weisensee's Additional Direct Testimony, this  
26 accounts for only 83% of the Control Budget for the Unit 1 project. This percentage was

1 also applied to the Iatan common cost included in the Unit 2 Control Budget, leaving an  
2 estimated \$126 million (total project basis) of the Unit 1 AQC and Iatan common costs  
3 until KCP&L's next rate case. This next case is expected to be filed later this year with  
4 rates effective sometime during the summer of 2010. In the meantime, until the rates for  
5 that next case become effective, KCP&L will be incurring these additional costs without  
6 recovery of the associated depreciation expense and finance costs. KCP&L is requesting  
7 that the Commission approve a regulatory asset to defer the additional depreciation  
8 expense and finance costs associated with these remaining Iatan Unit 1 and Iatan  
9 common costs and allow KCP&L to include this deferral in its next rate case subject to  
10 the normal review process in that case.

11 **Q: Why should the depreciation expense and finance costs for these items be treated**  
12 **differently than the normal ebb and flow of plant investment between rate cases?**

13 A: KCP&L is involved in a major construction program to provide power for the future to  
14 our customers and to meet environmental requirements on our generating plants. This  
15 level of capital investment is much more significant than the typical level of plant  
16 investment that is often offset, at least in part, by customer load growth, thereby allowing  
17 the utility to weather the regulatory lag. In the current situation, not only are the costs  
18 involved much greater than normal plant investment but customer load growth is  
19 basically nonexistent. If the depreciation expense and finance costs are not captured in a  
20 regulatory asset with the opportunity for future recovery, then KCP&L will lose the  
21 ability to recover this depreciation expense and finance costs. Under the construct of the  
22 1025 S&A, this negative financial impact was avoided because KCP&L was to include  
23 all Iatan Unit 1 costs in rate base in this case. The Joint Motion now applies a different



1 methodology to this particular case, so that KCP&L will include only actual costs paid or  
2 approved for payment through April 30, 2009, instead of including Control Budget costs.  
3 Thus, the amount of investment that will be in-service but not included in rates set in this  
4 case now must be recovered through a different mechanism. That mechanism is the  
5 regulatory asset now being proposed by KCP&L, which is similar to the manner of  
6 treatment for these costs recommended by Staff Witness, Mr. Jeff McClanahan, in his  
7 February 27, 2009 Supplemental/Surrebuttal Testimony, pages 7-8.

8 **Q: Is KCP&L's regulatory asset proposal the same as that proposed by**  
9 **Mr. McClanahan in his Supplemental/Surrebuttal Testimony?**

10 A: It is similar; however, certain differences between KCP&L's proposal and  
11 Mr. McClanahan's proposal should be identified.

12 **Q: Please explain those differences.**

13 A: The basic differences are: (1) depreciation expense rather than actual costs incurred  
14 would be included in the regulatory asset; (2) actual costs paid or approved for payment  
15 as of April 30, 2009 for all Iatan common costs would be included in this case leaving  
16 only those costs incurred for Iatan common costs after April 30, 2009 subject to the  
17 regulatory asset; and (3) carrying costs included for Iatan common costs would be based  
18 upon whether the costs resided in the Unit 1 or Unit 2 Control Budget.

19 **Q: Please explain the first difference.**

20 A: In his second bullet point on page 7, Mr. McClanahan implies that the actual costs  
21 incurred for the Unit 1 AQC project over and above the amount included in this case,  
22 should be deferred in a regulatory asset account as they are incurred. Using the figures  
23 presented by KCP&L, this would include all costs incurred over and above the actual

1 costs paid or approved for payment as of April 30, 2009, or those costs over and above  
2 the \$307.9 million noted earlier in my testimony. Similarly in his third bullet point,  
3 Mr. McClanahan notes that all Iatan common costs should be deferred in a separate  
4 regulatory asset account.

5 **Q: How does KCP&L's proposal differ from Mr. McClanahan's on this process?**

6 A: Only the depreciation expense and carrying costs associated with the actual costs for  
7 Iatan Unit 1 AQC equipment and Iatan common costs would be placed in the regulatory  
8 asset account rather than the actual incurred costs.

9 **Q: Please explain the second difference.**

10 A: Mr. McClanahan suggests that all costs associated with the Iatan common plant be  
11 deferred to a regulatory asset for review in the next rate case. KCP&L's proposal would  
12 include an appropriate amount of the Iatan common costs in this rate case and defer only  
13 the depreciation expense and carrying costs associated with those Iatan common costs  
14 above that amount to the regulatory asset.

15 **Q: Please explain the third difference.**

16 A: While KCP&L agrees that it should be allowed to accrue finance costs (or carrying  
17 charges) on additional incurred costs to a regulatory asset, because of the manner in  
18 which these costs have been accounted for, KCP&L requests that any carrying charges  
19 associated with Iatan common costs set within the Iatan Unit 1 Control Budget be  
20 accrued at a rate equal to the allowance for funds used during construction (AFUDC)  
21 used by KCP&L for Iatan Unit 1 at the time the costs are incurred. Any carrying charges  
22 associated with Iatan common costs set within the Iatan Unit 2 Control Budget would be

1 accrued at a rate equal to the AFUDC used by KCP&L for the Iatan Unit 2 plant as  
2 discounted per the 1025 S&A.

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

4 A: Yes, it does.

5

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

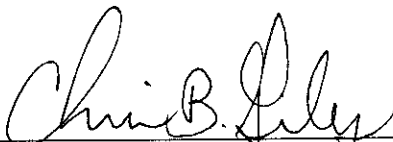
In the Matter of the Application of Kansas City )  
Power & Light Company to Modify Its Tariffs to ) Docket No. 09-KCPE-246-RTS  
Continue the Implementation of Its Regulatory Plan. )

**AFFIDAVIT OF CHRIS B. GILES**

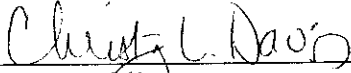
**STATE OF MISSOURI** )  
  ) ss  
**COUNTY OF JACKSON** )

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

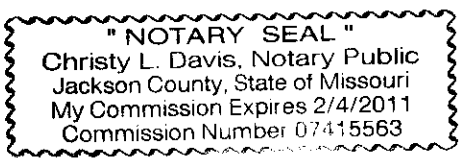
1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President, Regulatory Affairs.
  
2. Attached hereto and made a part hereof for all purposes is my Additional Direct Testimony on behalf of Kansas City Power & Light Company, twelve (12) pages, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.
  
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

  
Chris B. Giles

Subscribed and sworn before me this 5th day of May 2009.

  
Notary Public

My commission expires: 2/4/2011



\*\*\*[REDACTED]\*\*\* *Designates Confidential Information Has Been Removed.*

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

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**ADDITIONAL REBUTTAL TESTIMONY OF**

**CHRIS B. GILES**

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

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

**DOCKET NO. 09-KCPE-246-RTS**

1 **Q: Are you the same Chris B. Giles who pre-filed Direct Testimony, Rebuttal**  
2 **Testimony, Responsive Testimony to the Supplemental/Surrebuttal Testimony of**  
3 **the KCC Staff and Additional Direct Testimony in this case on behalf of Kansas**  
4 **City Power & Light Company (“KCP&L” or the “Company”)?**

5 **A: Yes, I am.**

6 **Q: What is the purpose of your Additional Rebuttal Testimony?**

7 **A: The purpose of my testimony is to (1) respond to certain points made by KCC Staff**  
8 **witness Walt Drabinski of Vantage Consulting, Inc., regarding disallowance of costs,**  
9 **(2) rebut arguments made by Citizens’ Utility Ratepayer Board (“CURB”) witness**  
10 **Andrea Crane regarding allowance of a regulatory asset, (3) address arguments made by**

1 Ms. Crane and Staff witness Jeff McClanahan regarding the amount of Contribution in  
2 Aid of Construction (“CIAC”) to grant KCP&L in this case, (4) address the determination  
3 of what common plant costs to include in this case including the standards for  
4 establishing that a facility is “in-service” as discussed by both KCC Staff witness Justin  
5 Grady and Ms. Crane, as well as the appropriate in-service cut-off date in this case,  
6 (5) rebut statements by Ms. Crane regarding the filing time frame, (6) address additional  
7 points made by Midwest Utility Users Group (“MUUG”) witness Donald Johnstone  
8 regarding KCP&L implementation of a green power tariff, and (7) respond to arguments  
9 on rate structure and rate design made by CURB witness Mr. Brian Kalcic. To the extent  
10 that KCP&L has already provided arguments on issues including, but not limited to,  
11 CIAC or a regulatory asset in prior testimony, such arguments will generally not be  
12 repeated here but stand as previously provided.

13 **DISALLOWANCE**

14 **Q: Has Mr. Drabinski updated his position with respect to the disallowances previously**  
15 **set forth in his Direct Testimony?**

16 A: Yes. Mr. Drabinski has taken note of KCP&L’s Rebuttal Testimony regarding these  
17 items and has incorporated this information as well as his own additional audit  
18 information into his Additional Direct Testimony. Of the nine Risk & Opportunity  
19 Analysis Sheet (“R&O”) items included in his original disallowance claim, he removed  
20 two items from this case because no expenditures have been made against these R&O’s  
21 and he removed two additional items because they were directly and solely related to  
22 Iatan Unit 2 and not to either the Unit 1 air quality control system (“AQCS”) or the Iatan  
23 common costs. One item, R&O 125, was reduced from approximately \*\* [REDACTED] \*\* to

1 about \*\* [REDACTED] \*\* based upon actual expenditures to date, and one, R&O 367, related  
2 to the Alstom settlement claim, was reduced from \*\* [REDACTED] \*\* to \*\* [REDACTED] \*\*  
3 based upon his additional audit. The three remaining items are those that KCP&L chose  
4 not to challenge in its rebuttal testimony although KCP&L maintained then as now that  
5 its managements' actions were reasonable and do not support a finding of imprudence.

6 **Q: Does KCP&L agree with Mr. Drabinski's updated disallowance claim regarding**  
7 **R&O 125?**

8 A: No, we do not. As explained in the Rebuttal Testimony of KCP&L witness Brent Davis,  
9 the amounts spent in association with R&O 125 are valid costs that should be allowed  
10 and recoverable in this case. KCP&L's position on this has not changed.

11 **Q: Does KCP&L agree with Mr. Drabinski's updated disallowance claim regarding**  
12 **R&O 367?**

13 A: No, we continue to strongly disagree with the fundamental premise behind Vantage's  
14 conclusion. As previously argued in detail in the Rebuttal Testimony of KCP&L  
15 witnesses Mr. Davis, Carl Churchman, Bill Downey, Ken Roberts, Dr. Kris Nielsen<sup>1</sup> and  
16 myself, the Alstom settlement was a reasonable and prudent management decision.  
17 Mr. Drabinski's updated testimony still contains no basis for concluding that the Alstom  
18 settlement was imprudent. In fact, Mr. Drabinski continues to apply an arbitrary 50%  
19 disallowance factor (albeit to a slightly different base number this time) supported only  
20 by the statement "After reviewing the specific change order summaries, Vantage  
21 concluded that 50% of the claims for additional hours should be treated as avoidable."  
22 No basis for the determination of the percentage disallowance is provided nor does he  
23 link it in any way to imprudence.

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<sup>1</sup> Although it is rebuttal testimony, Dr. Nielson's testimony was titled "Direct Testimony of Kris R. Nielson."

1 **Q: Do you have any other observations concerning Vantage's assessment of KCP&L's**  
2 **management of the Iatan project?**

3 A: In closing on this point, I would like to point out that KCP&L's overall management of  
4 the Iatan project has been excellent, and as a result, we have saved money where a less  
5 proactive management team might not have been able to identify and achieve such  
6 savings. Mr. Kenneth Roberts of Schiff Hardin testified to this fact in more detail in his  
7 Rebuttal Testimony filed on February 23, 2009 (beginning on page 26.) I do not think  
8 the overall effective and efficient management by KCP&L should be ignored while  
9 attempting to find imprudence by judging a single settlement agreement. The arguments  
10 made in KCP&L's rebuttal testimony still stand. KCP&L witness Dr. Kris Nielsen  
11 addresses the Alstom settlement disallowance argument in more detail in his Additional  
12 Rebuttal Testimony.

13 **Q: Are there other issues related to Mr. Drabinski's testimony that you would like to**  
14 **address?**

15 A: Yes. Mr. Drabinski's Direct Testimony discusses what he believes is imprudent  
16 management on the part of KCP&L. The statutory standard for disallowance of costs in  
17 Kansas is whether or not they were prudently incurred. Mr. Drabinski's Additional  
18 Direct Testimony no longer uses the term "imprudent" but instead refers to the costs he  
19 recommends for disallowance as "avoidable costs." Dr. Nielsen addresses this concern in  
20 more detail in his Additional Rebuttal Testimony.



1 REGULATORY ASSET

2 **Q: What arguments does Ms. Crane make to support her position that KCP&L should**  
3 **not be allowed a regulatory asset for Unit 1 AQCS and Iatan Common costs that are**  
4 **not included in this case?**

5 A: Ms. Crane makes several arguments against the allowance of such a regulatory asset,  
6 some of which are addressed in the Additional Rebuttal Testimony of KCP&L witness  
7 John Weisensee as well as in my May 5<sup>th</sup> Additional Direct Testimony. Specifically,  
8 Ms. Crane addresses three arguments against provision of a regulatory asset: that  
9 regulatory lag for cost recovery is routine and normal for utilities between rate cases; that  
10 the authorized return on equity (“ROE”) takes this risk into consideration; and that, if  
11 these costs are not offset by increasing revenue between rate cases, the shareholders  
12 simply need to absorb this cost.

13 **Q: Do you agree that regulatory lag for cost recovery is routine and normal for utilities**  
14 **between rate cases?**

15 A: As noted in my Additional Direct Testimony, some level of regulatory lag on cost  
16 recovery is typical between rate cases and, in periods of growth, can be at least partially  
17 offset by customer growth. However, the construction program that KCP&L has  
18 undertaken pursuant to the Stipulation & Agreement in Docket No. 04-KCPE-1025-GIE  
19 (the “1025 S&A”) to provide environmental upgrades and new generation for its  
20 customers is significant and certainly not routine. The associated costs are much greater  
21 than in normal times and certainly greater than KCP&L experienced in the years  
22 preceding the 1025 S&A. Additionally, customer growth is currently flat to negative,  
23 essentially assuring little or no offset between this case and the Iatan Unit 2 case.

1 **Q: Do you agree that the authorized ROE takes this risk into consideration and that**  
2 **shareholders should simply absorb any regulatory lag cost that is not offset?**

3 A: No. The authorized ROE does not take into account regulatory lag, even when normal or  
4 routine capital expenditures are made between rate cases. The only means a utility has of  
5 earning its authorized rate of return between rate cases is to have growth in sales, reduced  
6 expenses, or a reduction in rate base relative to sales, expenses, and rate base used to set  
7 rates in the prior rate case. This is obviously a challenge under the best of circumstances,  
8 but is clearly impossible when expenses are increasing, rate base is increasing  
9 dramatically under the comprehensive energy plan, and sales are declining due to a  
10 severe economic recession. The magnitude of the capital investment between this rate  
11 case and the next rate case is unprecedented in the history of the Company. In addition,  
12 this unprecedented capital investment is required during the most severe economic  
13 recession since the Great Depression and with each dollar of capital raised between this  
14 case and the next case at a higher incremental cost.

15 **Q: Does Staff support allowance of a regulatory asset for Iatan Unit 1 and Iatan**  
16 **common costs not included in this case?**

17 A: Yes. As discussed in the Additional Direct Testimony of Mr. McClanahan, Staff  
18 supports a regulatory asset similar in structure to that proposed by KCP&L.  
19 Mr. Weisensee discusses this further in his Additional Rebuttal Testimony.

20 **CIAC**

21 **Q: Did Staff raise any new issues in its Additional Direct Testimony regarding CIAC?**

22 A: No. Mr. McClanahan reiterates Staff's previous position that KCP&L should be allowed  
23 only its original ask of \$11.2 million in CIAC based upon its view that CIAC has become

1 a policy decision rather than a straight-forward calculation as originally intended by the  
2 1025 S&A. Mr. McClanahan states that, as a policy question, KCP&L should make its  
3 case to the Commission. KCP&L witness Michael Cline clearly articulated KCP&L's  
4 position on CIAC in his Direct Testimony, Rebuttal Testimony and Responsive  
5 Testimony to Supplemental/Surrebuttal Testimony of the KCC Staff. As outlined in  
6 Mr. Cline's Rebuttal Testimony, KCP&L would need CIAC of approximately  
7 \*\* [REDACTED] \*\* in addition to the \$11.2 million originally requested to achieve the  
8 same level of projected 2009 FFO / Debt assumed in the September 2008 filing. This  
9 increase results from the combined effects of the recessionary economy on the  
10 Company's earnings and cash flow and its access to and cost of capital during a period  
11 that requires significant capital in order to fund major capital investments. KCP&L is  
12 limited to the total amount of rate increase it requested, \$71.6 million, as reflected in the  
13 tariffs submitted with our Application. Thus, once the Commission determines the  
14 traditional or earnings-related increase, the Commission is limited to approving an  
15 amount of increase related to CIAC such that the total increase does not exceed  
16 \$71.6 million. This is consistent with the 1025 S&A. The Commission Staff's departure  
17 from the 1025 S&A regarding the calculation of CIAC is based on the Company's  
18 decision not to include the full amount of CIAC justified pursuant to the formula in the  
19 1025 S&A when it determined its initial rate increase of \$71.6 million. The Company  
20 made this decision intentionally to minimize the amount of rate increase it would need  
21 from customers. At the time of the Application, the Company believed that, on a  
22 forward-looking basis, it needed less CIAC to achieve reasonable credit metrics than that  
23 which would have resulted from the historic formulaic calculation of CIAC.

1           Unfortunately, the severe recessionary economy has adversely impacted the Company's  
2           earnings and cash flow and made raising capital, particularly equity-related capital,  
3           difficult and very costly. This has caused projected credit metrics to worsen, as  
4           evidenced by the substantial amount of CIAC that would be needed to keep KCP&L in  
5           the same place it thought it was last fall as described in Mr. Cline's Rebuttal Testimony.  
6           KCP&L cannot receive more than its requested rate relief but the extent of the shortfall  
7           described by Mr. Cline highlights the need for CIAC to bridge the full gap between the  
8           traditional revenue requirement and the original ask. For the Commission to limit the  
9           amount of CIAC approved in this case to less than the difference between the earnings-  
10          related rate increase and the total amount reflected in the Company's tariffs, or  
11          \$71.6 million, punishes the Company for its efforts to minimize the impact on customers  
12          of its initial request and places the Company's credit ratings at risk, when it must still  
13          raise substantial amounts of capital to complete the investments contemplated under the  
14          1025 S&A.

15   **Q: Did CURB raise any new issues regarding CIAC in its Additional Direct**  
16   **Testimony?**

17   A: Yes. I would like to address Ms. Crane's suggestion that the Commission consider  
18   shifting part of any approved increase from traditional revenue requirement to CIAC in  
19   order to benefit ratepayers and apparently punish KCP&L for unfounded and  
20   unsupported allegations of imprudent management.

21   **Q: What exactly does Ms. Crane suggest?**

22   A: Ms. Crane states that if

23           the KCC decides to approve some level of CIAC for KCP&L, then CURB notes  
24           that it is in the best interest of ratepayers if the KCC assigns more of its approved

1 rate increase to CIAC than to the traditional ratemaking mechanism. This is  
2 because the amounts paid via CIAC by ratepayers will ultimately be used as a  
3 direct offset to the Iatan construction projects. Therefore, at the end of the  
4 regulatory plan, ratepayers will receive a rate base deduction for amounts paid  
5 through the CIAC mechanism. This will serve to reduce the investment on which  
6 ratepayers must pay a return. (Additional Direct Testimony of Andrea Crane,  
7 page 25.)

8 Ms. Crane goes on to argue that such action could be justified by the fact that the costs  
9 for the projects exceed the estimates for the projects at the time the 1025 S&A was  
10 approved.

11 **Q: Does KCP&L believe such action is available to the Commission in this case?**

12 A: No. Although I am not an attorney, I have worked in the regulatory area for more than  
13 thirty years and it is clear to me such an action would violate the Commission's  
14 regulatory obligations under the law and arbitrarily, with no evidence to support such  
15 action, deprive KCP&L of recovering prudently incurred costs. Ms. Crane does not  
16 determine imprudence as a result of the audit conducted on the costs associated with Iatan  
17 Unit 1 AQCS and Iatan Common costs. The mere fact that actual costs for a project are  
18 greater than the original estimate does not imply imprudent management of the project.  
19 The Commission is bound by statute to determine just and reasonable rates prior to any  
20 determination of CIAC. In fact, the possible use of CIAC was contemplated in the 1025  
21 S&A which was not signed by CURB. CURB does not support CIAC and has repeatedly  
22 voiced its opposition to the concept of CIAC. On the other hand, CURB takes the  
23 position that use of CIAC is appropriate in lieu of the Commission's obligation to follow  
24 the statutory requirement to set just and reasonable rates, when CURB chooses to use it  
25 as a means to reduce the Company's earnings-related rate increase with cash (no  
26 earnings) CIAC. As I indicated, I am not an attorney, and I am sure this issue will be  
27 addressed in briefs; however, anyone with any background in rate making would

1 understand the baseless, unsupported, and illegal proposition of CURB. I explained this  
2 process in exactly this way at the hearing on the 1025 S&A, in response to questions  
3 from CURB counsel when he suggested a similar “shifting” of revenue recovery from  
4 traditional mechanisms (ROE) to CIAC. (Transcript of June 17, 2005 Hearing, pages 67-  
5 76. See also pages 113-114.) As I stated at that time before the Commissioners, it is not  
6 appropriate for CIAC to be used in the way Ms. Crane is now suggesting.

7 **COMMON COSTS TO INCLUDE IN THIS CASE**

8 **Q: What position does Ms. Crane take with regard to the amount of Iatan common**  
9 **costs to include in this case?**

10 **A:** Ms. Crane contends that only a portion of the Iatan common costs should be considered  
11 in this case. She seeks to include only an allocated portion based upon the capacity of  
12 Iatan Unit 1 as a percent of the Iatan Station total capacity (once Unit 2 is completed) or  
13 approximately 44% of the Iatan common costs. She contends that KCP&L is allocating  
14 100% of the common costs to Unit 1. And she claims that only plant absolutely  
15 necessary for the operation of Unit 1 should be considered in this case.

16 **Q: Ms. Crane testified:**

17 **since much of the common plant is not yet complete, I believe that there is a**  
18 **good argument to be made that not all of the plant identified by the**  
19 **Company as common plant is, in fact, common plant required by both units.**  
20 **For example, I understand that many of the common plant elements are**  
21 **items that will provide redundancy and back-up to Iatan Unit 1 systems, but**  
22 **are not necessarily vital to the operation of Iatan Unit 1. If all common plant**  
23 **was necessary for the operation of Iatan Unit 1, then Unit 1 could not, by**  
24 **definition, be placed into service until after all the common plant was**  
25 **completed and placed in-service. (Crane Additional Direct, pages 14-15.)**

26 **Do you agree with this statement?**

27 **A:** No, I do not. As Mr. Brent Davis stated in his Direct Testimony filed on September 5,  
28 2008,

1 Common Facilities are facilities that Iatan 1 and Iatan 2 will ultimately share once  
2 Iatan 2 goes into service. However, those facilities are necessary now for the  
3 operation of Iatan 1 with the new AQC equipment. (Page 13.)  
4

5 He went on to explain that the common facilities are *essential* for the operation of  
6 Iatan 1<sup>2</sup>. Ms. Crane is incorrect in her assertion that these assets would only be  
7 considered “vital” or “necessary” for the operation of Iatan 1 if Iatan 1 could not operate  
8 at all without them. Redundancy is essential in the plant’s structure to ensure continued  
9 service to customers in the event that a primary facility malfunctions. Just because a  
10 particular facility serves as back-up for a Unit 1 primary facility does not mean that it is  
11 not essential to the operation of Unit 1.

12 **Q: Do you agree with Ms. Crane’s position that only an allocated portion (44%) of**  
13 **common costs should be included in rate base in this case?**

14 A: No. First, I must clarify that KCP&L is not allocating any portion of Iatan common costs  
15 to Unit 1 or Unit 2. Common costs are just that – they are common and useful to both  
16 generating units. These costs will reside in a separate account when booked to plant. As  
17 Ms. Crane correctly points out, KCP&L’s ownership interest in the Iatan common plant  
18 (61.45%) is different than its ownership interest in either Unit 1 (70%) or Unit 2  
19 (54.71%). Therefore, Iatan common plant will reside in a separate account from either  
20 Unit 1 or Unit 2 plant. The issue at hand is how much of the Iatan common costs will be  
21 included in rate base as a result of this case.

22 **Q: What drives the decision on how much common plant to include in this case?**

23 A: Three things: the definition of common plant, the actual amount paid or approved for

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<sup>2</sup> Mr. Davis recommended at that time that only a portion of the costs of the common facilities be put into rates in this case based upon an allocation of the common costs between Unit 1 and Unit 2, but has since been made aware of the FERC accounting rule that rejects this reasoning by requiring all common costs be placed in-service at the time the first Unit goes into service.

1 payment against common plant as of April 30, 2009, and the definition of the term “in-  
2 service” as used within the framework of the 1025 S&A.

3 **Q: Please provide the definition of common plant.**

4 A: Common plant in this situation is defined as structures or facilities that are used by one or  
5 more generating units. KCP&L specifically identified common assets shared by both  
6 Iatan Unit 1 and Unit 2, common assets providing operational redundancy, and common  
7 assets consisting of a common structure housing equipment for both Unit 1 and Unit 2.  
8 This is the definition used by KCP&L to identify common plant. Ms. Crane questions  
9 whether plant that is not absolutely necessary for the operation of Iatan Unit 1 is truly  
10 common plant. In fact, she questions whether any plant “not necessarily vital to the  
11 operation” of Iatan Unit 1 “meets the common plant definition pursuant to the FERC  
12 regulation.” Such Federal Energy Regulatory Commission (“FERC”) regulation  
13 effectively defines common plant as “any expenditures which are common to and which  
14 will be used in the operation of the project as a whole.” KCP&L believes that its  
15 definition of common plant is reasonable and appropriate. Redundancy is a critical  
16 component of power plants. The fact that a system is capable of being used by more than  
17 one unit but does not operate at all times to support a specific unit does not make it less  
18 critical or less of a common asset.

19 **Q: Please describe the second driver for determining the amount of common plant to**  
20 **include in this case.**

21 A: The 1025 S&A allowed for all plant in-service as of the day before rates became effective  
22 to be included in rate base; however, the Stipulation & Agreement jointly filed by the  
23 parties to this case on March 6, 2009 and approved by Commission Order on March 13,



1 2009, set out April 30, 2009 as the cut-off for actual costs paid or approved for payment  
2 to be included in this case. Costs for either Iatan Unit 1 AQCS or Iatan common costs  
3 incurred or approved for payment after that date will be considered in the next case. As  
4 noted above, allowance of a regulatory asset to defer the depreciation expense and  
5 carrying charges of these later costs is under consideration in this case.

6 **Q: Please provide the definition of the term “in-service” as it is used within the context**  
7 **of the 1025 S&A.**

8 A: That is a more difficult question to answer.

9 **Q: Why is that?**

10 A: The term “in-service” is used within the context of the 1025 S&A but is not specifically  
11 defined with regard to common plant and the term is not used in the Kansas statute that is  
12 most closely aligned with the term “in-service,” K.S.A. 66-128. To further complicate  
13 the matter, that statute has been significantly modified since the time the 1025 S&A was  
14 approved.

15 **Q: What definitions of “in-service” have been used in this case?**

16 A: In the 1025 S&A, the parties defined “in-service” differently for new generation and  
17 environmental control equipment. As concerns the environmental control equipment, the  
18 parties indicated they would agree to such standards at some later point in time, which  
19 they did in this docket. (See February 3, 2009 Direct Testimony of Staff witness  
20 Larry Holloway and the Additional Direct Testimony of Staff witness Kevin Scherich.)  
21 As for Iatan Unit 2, the parties agreed to use the in-service criteria as set out by the  
22 Southwest Power Pool (“SPP”). Specific criteria regarding Iatan common plant was not  
23 addressed in the 1025 S&A, making K.S.A. 66-128 the applicable standard. For

1 accounting purposes, the Company must also look to FERC.

2 **Q: How have the other parties defined “in-service” as it relates to the Iatan common**  
3 **plant?**

4 A: CURB and Staff have each set forth definitions for Iatan common plant, none of which  
5 specifically address the standards of K.S.A. 66-128 or FERC. As noted on page 7 of the  
6 Additional Direct Testimony of Staff witness Justin Grady, he defines “in-service” for  
7 Iatan common plant as “performing their full intended function of supporting Iatan  
8 Unit 1’s commercial operation.” He does not cite to the source of this definition. CURB  
9 witness Andrea Crane simply testifies that CURB has determined that not all of the  
10 common plant included in the Company’s updated claim will be in-service by July 4,  
11 2009. (Crane Additional Direct, page 19.) It is unclear what definition of “in-service”  
12 she is relying upon in making this assessment.

13 **Q: Did KCP&L discuss the in-service issue with Staff and CURB during their audit?**

14 A: Yes. As a result of those discussions, KCP&L provided Staff with a spreadsheet which,  
15 using Staff’s definition of “in-service,” identified the various percentages applicable to  
16 Iatan Unit 1 common plant. That spreadsheet was attached to Mr. Grady’s Additional  
17 Direct Testimony as JTG-R1. Staff used those percentages to arrive at its  
18 recommendation for the amount of common plant to be included in rate base in this case.

19 **Q: Does KCP&L believe Staff’s method of defining “in-service” is the only method**  
20 **available to the Commission in this proceeding for determining the amount of**  
21 **common plant to be included in this case?**

22 A: No, it is not the only method. K.S.A. 66-128 states that public utility property is *deemed*  
23 *to be completed and dedicated to commercial service if the property is an electric*

1        *generation facility or addition to an electric generation facility.* Under this statute, 100%  
2        of the Iatan common plant would be considered presently “completed and dedicated to  
3        commercial service.” However, as the parties to the 1025 S&A agreed to different  
4        standards for the environmental control equipment and new generation, and as common  
5        plant was not considered as a separate category at the time of the 1025 S&A, it is  
6        reasonable to assume that the parties intended for one of these separate standards to apply  
7        to common plant. Based upon that premise, KCP&L is willing to accept Staff’s  
8        methodology for determining the in-service status of the Iatan common plant as set forth  
9        in Mr. Grady’s Additional Direct Testimony for the limited purpose of this case.

10    **Q: Is there any other issue related to the “in-service” testimony of Staff or CURB you**  
11    **would like to address?**

12    A: Yes. Prior to the last change in the procedural schedule of this case which was agreed to  
13    as a compromise by the parties at the March 4, 2009 prehearing conference and motion  
14    hearing, the cut-off date by which plant had to be “in-service” in order to be included in  
15    rates set as a result of this case was July 4, 2009. Both CURB and Staff testify that this  
16    “in-service” date was not shifted back correspondingly when the hearing and order date  
17    were shifted back because the agreement between the parties did not indicate a change in  
18    this date. Staff also states that moving the date back would not be practical because the  
19    actual in-service dates may well slip beyond August 14<sup>th</sup>, and the Commission’s order  
20    (due August 14th) must indicate values for plant in-service and a revenue requirement.  
21    (McClanahan Additional Direct, page 7.) CURB indicates that the date should not be  
22    moved backed as a kind of punishment of KCP&L for having delays in the construction  
23    schedule. (Crane Additional Direct, page 21.)

1 **Q: Do you agree that these reasons require the Commission to leave July 4<sup>th</sup> as the cut-**  
2 **off date?**

3 A: I do not see any legitimacy to punishing the Company for construction delays, as CURB  
4 recommends. If the delays were not the result of imprudent management decisions, then  
5 it is inappropriate to punish the Company for them. Neither Ms. Crane nor any other  
6 witness has provided sufficient evidence that the delays fall into this category.

7 KCP&L understands Staff's concern about the practical implications of issuing an  
8 order on rates which include facilities in rate base that are not required to be in-service  
9 until the date the order issues. However, KCP&L reminds the Staff and the Commission  
10 that this was a situation existing as part of the 1025 S&A – it did not arise as a result of  
11 the March 4<sup>th</sup> delay in the proceeding. Under the 1025 S&A, KCP&L was permitted to  
12 put into rate base all plant scheduled to be in-service by the date the rates were to go into  
13 effect. This in-service date is *after* the Commission's order would have been issued.

14 So, although the in-service cut-off date was not included as part of the March 6<sup>th</sup>  
15 S&A, that does not mean that the intent was to leave the cut-off at July 4<sup>th</sup> when other  
16 dates in the procedural schedule were being postponed. Silence in the S&A on this point  
17 is more a reflection of the time constraints under which the agreement was forged. It also  
18 reflects that the agreement was focused on what costs would be used and on revising the  
19 procedural schedule existing at that time which did not include the in-service cut-off date.  
20 (See Revised Scheduling Order dated March 13, 2009, paragraph 4.) Thus, shifting the  
21 in-service date back correspondingly with the shift back in the date of the hearing and  
22 order would be more consistent with the 1025 S&A than leaving the date at July 4<sup>th</sup>, as  
23 Staff and CURB propose.

1 **Q: Will the practical implications that Staff expressed regarding the in-service date for**  
2 **Iatan Unit 1 continue to be an issue in KCP&L's next rate case on Iatan Unit 2?**

3 A: Yes. This case has highlighted the timing problems caused by the dates agreed to by the  
4 parties in the 1025 S&A regarding in-service dates when there was not also some  
5 agreement as to how a true-up would occur. Hopefully, KCP&L and the parties will be  
6 able to revisit the timelines established in the 1025 S&A prior to KCP&L filing its next  
7 rate case and work out an alternative or a process that will help us to avoid this problem  
8 next time around.

9 **FILING TIME FRAME**

10 **Q: Are there any other items in Ms. Crane's testimony that you want to address?**

11 A: Yes. On page 28 of her Additional Direct Testimony, Ms. Crane states that the  
12 1025 S&A required KCP&L to file this current case in March 2008 and complete it by  
13 December 2008 and that because KCP&L filed in September 2008, the Commission has  
14 not required KCP&L to meet the provisions of the 1025 S&A. As noted in Appendix C,  
15 Rate Plan, Paragraph A(6) of the 1025 S&A, the parties recognized that because of the  
16 magnitude of the investments the Company was undertaking and the length of time  
17 covered by the 1025 S&A, the timing of the proposed rate cases might need to be  
18 adjusted. In order to adjust a filing date, the 1025 S&A requires the Company receive  
19 Commission approval. As evidenced by KCP&L's February 6, 2008 filing in the 1025  
20 Docket and the resulting Commission Orders, KCP&L fully complied with the filing  
21 provisions of the 1025 S&A. As for the more recent shift in schedule, that occurred by  
22 agreement of the parties as approved by the Commission and has not been without  
23 substantial financial impact to the Company.

**GREEN POWER TARIFF**

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**Q: Has Mr. Johnstone updated his position regarding KCP&L implementation of a green power tariff?**

A: Only to the extent that he included additional details for a proposed green power tariff and noted that the national economic stimulus package and Kansas H.B. 2369 include an emphasis on renewable energy resources and have been passed recently.

**Q: Does KCP&L believe that Mr. Johnstone’s proposals for construction of a green power tariff are appropriate?**

A: KCP&L has not had sufficient time to fully review Mr. Johnstone’s proposals; however, it should be recognized that all KCP&L customers currently benefit from “green resources”. Wind energy is currently included in the Company’s cost of service consistent with normal average embedded cost rate design. The Company is willing to develop a “green tariff”; however, it should also be recognized such tariff would be designed consistent with existing tariffs, generation and delivery resources such that non-participating customers in the green tariff are not harmed by providing subsidies to “green power” participants. Mr. Johnstone’s proposed concepts are not sufficiently developed at this time to determine whether subsidies between participating and non-participating customers would occur.

**Q: In your Rebuttal Testimony and that of KCP&L witness Mr. Tim Rush, KCP&L noted that it was pursuing some green tariff options. Has KCP&L made progress regarding those options?**

A: Yes, we have. As further described in the Additional Rebuttal Testimony of Mr. Rush, KCP&L has continued its work on a tariff to make Renewable Energy Credits (“REC’s”)

1 available to its customers through the Company. These REC's are already available to  
2 our customers in the marketplace but a tariff where KCP&L coordinates the purchase  
3 process will make it less daunting and more accessible to our customers. KCP&L hopes  
4 to file this tariff later this year.

5 **Q: Mr. Johnstone reiterates other positions that MUUG held in its Direct Testimony.**  
6 **Does KCP&L have any additional response to these positions?**

7 A: I believe that KCP&L effectively presented its position on these issues in the Rebuttal  
8 Testimony of Mr. Rush as well as my own Rebuttal Testimony.

9 **RATE DESIGN**

10 **Q: Mr. Kalcic has provided supplemental testimony regarding rate structure and rate**  
11 **design. Do you agree with his new alternative proposal?**

12 A: The arguments Tim Rush and I made in Rebuttal Testimony still effectively address  
13 Mr. Kalcic's testimony, both his Direct and Additional Direct testimony.

14 **Q: Does that conclude your testimony?**

15 A: Yes, it does.





BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

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JUN 22 2009

*Susan [unclear]* Docket  
Room

TESTIMONY IN SUPPORT OF JOINT STIPULATION AND AGREEMENT

CHRIS B. GILES

ON BEHALF OF  
KANSAS CITY POWER & LIGHT COMPANY

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

DOCKET NO. 09-KCPE-246-RTS

- 1 Q: Please state your name and business address.
- 2 A: My name is Chris B. Giles. My business address is 1201 Walnut, Kansas City, Missouri
- 3 64106-2124.
- 4 Q: By whom and in what capacity are you employed?
- 5 A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") as
- 6 Vice President, Regulatory Affairs.
- 7 Q: Are you the same Chris B. Giles who pre-filed Direct Testimony, Rebuttal
- 8 Testimony, Responsive Testimony to the Supplemental/Surrebuttal Testimony of
- 9 the Kansas Corporation Commission ("Commission" or "KCC") Staff ("Staff"),
- 10 Additional Direct Testimony and Additional Rebuttal Testimony in this case on
- 11 behalf of KCP&L?
- 12 A: Yes, I am.

1 **Q: What is the purpose of your Testimony in Support of Joint Stipulation and**  
2 **Agreement?**

3 A: The purpose of my testimony is to provide support on behalf of KCP&L of the Joint  
4 Stipulation and Agreement submitted for approval to the Commission on June 18, 2009  
5 in this docket (“Joint Stipulation”). I will do so by:

- 6 • describing the background leading up to the Stipulation and Agreement  
7 concerning KCP&L’s Regulatory Plan, which the Commission approved in  
8 Docket No. 04-KCPE-1025-GIE (“Regulatory Plan” or “1025 Stipulation”);
- 9 • identifying planned investments under the Regulatory Plan;
- 10 • providing a description of rate cases associated with implementation of and  
11 completion of the investments set out in the Regulatory Plan;
- 12 • describing the current rate case, including the rate increase, key issues and why  
13 KCP&L believes the Joint Stipulation resulting in a \$59 million increase in rates  
14 in this docket is just, reasonable and in the public interest, balancing the interests  
15 of customers, creditors and investors;
- 16 • addressing the five factors and transparency issues from the Atmos case;
- 17 • clarifying KCP&L’s current position regarding its original request for an  
18 Economic Relief Pilot Program (ERPP) tariff; and
- 19 • explaining the application of certain provisions of the Regulatory Plan to  
20 KCP&L’s fourth rate case under the Plan.

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1 **I. REGULATORY PLAN BACKGROUND**

2 **Q: Please provide background leading up to the Regulatory Plan?**

3 A: On May 18, 2004, KCP&L filed in the 1025 Docket its Application To Establish  
4 Investigatory Docket And Informal Panel Discussion Process (“Application”). In its  
5 Application, the Company requested that the Commission open an investigatory docket  
6 regarding the future supply and pricing of electric service provided by KCP&L, and  
7 establish a forum in which to discuss constructive regulatory responses to emerging  
8 issues that affect the supply, delivery and pricing of electric service provided by KCP&L.

9 **Q: Did the Company file a similar application in Missouri?**

10 A: Yes, KCP&L filed a similar application in Missouri on May 6, 2004. The Missouri  
11 Public Service Commission (“MPSC”) conducted workshops in that case concurrent with  
12 the investigation occurring in the Kansas docket. In order to avoid as much duplication  
13 of effort and resources as possible, the KCC staff and other Kansas parties were invited to  
14 attend and participate in the Missouri workshops. The Staffs of both Commissions were  
15 helpful in working with KCP&L to coordinate the proceedings.

16 **Q: Did other parties file applications for intervention in the Kansas docket?**

17 A: Yes. The Citizens’ Utility Ratepayer Board (“CURB”), Sprint, the Kansas Hospital  
18 Association, Aquila, Inc., and The Empire District Electric Company filed to intervene at  
19 the inception of the docket. Subsequently, the Kansas Sierra Club also filed for and was  
20 granted intervention in the docket.

21 **Q: How did the investigation proceed?**

22 A: In conjunction with the Missouri docket, a series of presentations and workshops were  
23 held on fourteen (14) separate dates between June and October 2004. During this period

1 KCP&L conducted numerous informal meetings with interested groups and individuals to  
2 discuss the many issues raised by this proceeding.

3 **Q: Why was this collaborative workshop process necessary?**

4 A: The issues presented by KCP&L in this proceeding included the following:

- 5 1. The future need for additional generating capacity in the Company's service  
6 territory;
- 7 2. The mix of new generation that would result in reliable and cost efficient service  
8 for Kansas customers;
- 9 3. The desirability of proactively addressing environmental concerns relating to new  
10 generation and existing generating facilities;
- 11 4. Investment in highly reliable transmission and distribution infrastructure;
- 12 5. Establishment of customer efficiency and affordability programs and development  
13 of new technologies and applications for demand response programs; and
- 14 6. Adoption of a regulatory plan that would adequately address the comprehensive  
15 undertakings being considered by KCP&L, including the timeliness of the  
16 recovery of the costs and the financial considerations of such significant  
17 investments.

18 The Company believed that the panel discussion process utilized by the KCC in the past  
19 would be well-suited to the consideration of the wide range of issues necessary for the  
20 development of KCP&L's Regulatory Plan. KCP&L also believed that the process of  
21 continuing these discussions in the context of informal KCC and MPSC workshops  
22 would enable all stakeholders to identify and seek agreement on a regulatory plan that

1 addressed these dynamic issues on a prospective basis for the Company. That plan would  
2 then be presented to the KCC for its consideration and approval.

3 **Q: How did this collaborative approach compare to the traditional process used by**  
4 **utilities to undertake major initiatives?**

5 A: Traditionally, utilities conduct their planning and project work in a “near vacuum.” The  
6 utility conducts its studies, determines the best alternative, secures financing, seeks  
7 approvals for financing and certificates as needed, and at the end of the project seeks  
8 approval to adjust rates as necessary to recognize major investments.

9 **Q: Why did KCP&L choose not to use the traditional model?**

10 A: The traditional model often focuses upon historic information rather than looking forward  
11 five to ten years--something a utility must do to plan and develop a strategy to continue to  
12 provide reliable, reasonably priced service for its customers. In addition, the traditional  
13 model does not facilitate a convenient method of informally discussing different  
14 perspectives on public utility issues, and as a result, does not take advantage of the  
15 “collective wisdom” of other parties. KCP&L believed that the traditional model was  
16 therefore not the best approach for developing and implementing a regulatory plan when  
17 a more collaborative, informal approach was available.

18 **Q: Please explain.**

19 A: In the traditional model, the utility does not spend much, if any, effort to gain acceptance  
20 from the interested parties for its plan. While this can save time at the beginning of the  
21 process, it can lead to contentious and time-consuming disputes concerning the prudence  
22 of its decisions after the investments are made. The public utility must defend its actions  
23 and runs the risk that it will not be awarded full recovery of its investments.

1 **Q: Why were these issues of particular concern to KCP&L?**

2 A: The Company recognized that during the planning horizon it would require additional  
3 generation to meet the needs of its customers. KCP&L also believed that the  
4 construction of a base load coal plant was necessary. At the same time, environmental  
5 concerns needed to be addressed, along with distribution investments to maintain  
6 reliability and customer programs for managing electricity use. In order to meet these  
7 needs, the Company needed a plan that would facilitate attracting capital at a low cost.  
8 Investors needed some assurance that KCP&L would be allowed to recover its  
9 investment, and continue to be an attractive component of the investors' portfolio. The  
10 Company needed a plan that the parties could agree to in order to reduce risk and move  
11 ahead with implementation of the collaboratively developed strategy. For these reasons,  
12 KCP&L chose to pursue this collaborative approach.

13 **II. PLANNED INVESTMENTS**

14 **Q: Please describe the key investments set out in the Regulatory Plan.**

15 A: The Company committed to investing over one billion dollars over the course of the  
16 Regulatory Plan. This investment includes the completion or substantial progress on the  
17 following projects:

- 18 • 100 MWs of new wind generation facilities in 2006. An additional 100 MWs of  
19 new wind generation facilities is currently being evaluated for installation in the  
20 2009/2010 timeframe.
- 21 • Environmental investments related to Iatan Unit 1 (located near Weston,  
22 Missouri) and La Cygne Unit 1 (located at La Cygne, Kansas) for accelerated  
23 compliance with environmental regulations. The Iatan Unit 1 and La Cygne

1 Unit 1 environmental equipment will provide significant reductions in site  
2 emissions of sulfur dioxide (“SO<sub>2</sub>”), nitrous oxides (“NO<sub>x</sub>”), particulate matter  
3 and mercury, and will position the units to meet compliance requirements set  
4 forth in the Clean Air Interstate Rule, which was promulgated by the U.S.  
5 Environmental Protection Agency (“EPA”). Compliance on Iatan Unit 1 will  
6 ensure that total Iatan site emissions after completion of Iatan Unit 2 will be less  
7 than the site emissions from Iatan Unit 1 prior to the addition of the Unit 1  
8 environmental equipment and will help address the environmental concerns of  
9 citizens living in the area around the Iatan plant site.

10 In addition, the early installation of a selective catalytic reduction (“SCR”)  
11 facility at La Cygne Unit 1 was designed to help maintain attainment of the  
12 8-Hour Ozone standard within the metropolitan Kansas City region. Installation  
13 of this SCR before the 2007 Ozone season was considered a significant  
14 component of the region’s proposed Ozone mitigation plan by the Mid-America  
15 Regional Council, regional EPA officials, Kansas Department of Health &  
16 Environment and the Missouri Department of Natural Resources. With respect to  
17 the expenditures anticipated for environmental compliance, KCP&L continues to  
18 assess the environmental laws to ensure that its expenditures will comply with  
19 existing or expected environmental regulations.

- 20 • 1850 megawatts (“MWs”) of new coal-fired generation capacity, Iatan Unit 2, to  
21 be regulated capacity (excepting that interest that may be owned by a municipality  
22 or joint municipal utility commission), located at the Iatan site near Weston,  
23 Missouri, of which KCP&L will own 465 MWs.

- 1 • Implementation of a number of customer programs including demand response,  
2 efficiency and affordability programs following Commission review and  
3 approval.
- 4 • Investments in KCP&L's transmission and distribution infrastructure to ensure a  
5 highly reliable transmission and distribution system.

### 6 **III. RATE CASE PLAN**

7 **Q: Please describe the rate cases contemplated to be filed in the Regulatory Plan.**

8 A: The Regulatory Plan provided for four rate cases as described in Appendix C to the Plan.  
9 Each planned rate case was related to completion of a major component of plant included  
10 in the Regulatory Plan. The first rate case included 100 MWs of wind generation  
11 completed in September 2006. KCP&L filed rate schedules on February 1, 2006 with an  
12 effective date of January 1, 2007. That case, Kansas Docket No. 06-KCPE-828-RTS  
13 ("828 Docket"), was decided by the Commission on December 4, 2006. The second  
14 case, Kansas Docket No. 07-KCPE-905-RTS, was associated with the completion of the  
15 SCR at the La Cygne 1 generating unit and was decided by the Commission on  
16 November 20, 2007. The third case (the "current case") is associated with completion of  
17 a baghouse, scrubber, and SCR at the Iatan 1 generating unit. The fourth case included in  
18 the Regulatory Plan is associated with the completion of Iatan Unit 2. The Regulatory  
19 Plan also contemplated inclusion of additional environmental upgrades to La Cygne  
20 Unit 1 in the fourth case; however, that investment has been delayed beyond the original  
21 anticipated time frame of the Regulatory Plan due to equipment availability, changes in  
22 federal environmental laws, significantly increased costs for environmental equipment,



1 and the potential of combining the investment with environmental upgrades to La Cygne  
2 Unit 2. As a result, the status of this particular project is uncertain at this time.

3 **Q: When will KCP&L file the fourth rate case associated with the Regulatory Plan?**

4 A: The Regulatory Plan contemplated that rate schedules with an effective date of June 1,  
5 2010, would be filed with the Commission on or before August 15, 2009, approximately  
6 nine to ten months prior to the commercial in-service operation date of Iatan Unit 2.  
7 Because of the complexities in process and timing encountered in the current case, and as  
8 originally contemplated in paragraph A(6) of Appendix C of the 1025 Stipulation, the  
9 Signatory Parties to the Joint Stipulation recognize that the filing date set forth in the  
10 1025 Stipulation is no longer appropriate for the next rate case. As was done in the  
11 current case, KCP&L will file a request with the Commission to move the August 15,  
12 2009 filing date for the fourth case to some date further in the future. Additionally, the  
13 Signatory Parties agree to collaborate in advance of the filing of KCP&L's next rate case  
14 in order to establish a procedure for the next rate case that addresses the in-service,  
15 process and timing problems realized with this current proceeding.

16 **IV. CURRENT RATE CASE**

17 **Q: How was the test year data and resultant rate increase amount requested by the**  
18 **Company determined?**

19 A: Pursuant to the Regulatory Plan, the base test year period is the 2007 calendar year. The  
20 data were restated to a Kansas jurisdictional basis, annualized, and normalized, as  
21 appropriate. Known and measurable adjustments were then applied. The rate case data  
22 were then allocated between Kansas, Missouri and Federal Energy Regulatory

1 Commission jurisdictions. The production and transmission jurisdictional allocations  
2 were made on the basis of twelve coincident monthly peaks (12 CP).

3 **Q: What was the amount of rate increase requested in this case?**

4 A: KCP&L requested a 17.5% rate increase, or \$71.6 million, which included \$11.2 million  
5 of additional Contribution in Aid of Construction.

6 **Q: What were the key issues of this case?**

7 A: There were the normal issues in this case, including various expenses, revenues, rate base  
8 and rate of return. However, the key issue in this case related to Iatan Unit 1  
9 environmental upgrade and Iatan common plant costs.

10 **Q: Please explain further.**

11 A: As I explained earlier in this testimony, KCP&L, in accordance with the Regulatory Plan,  
12 has undertaken a comprehensive five-year investment program. Throughout the program,  
13 it is critical that the Company be allowed to begin recovery of its investment dollars as  
14 soon as possible after the associated plant is placed in service. While timely inclusion of  
15 major investments has always been critical, the importance is magnified given the current  
16 economic conditions. The parties had differing views as to the amount of Iatan costs to  
17 include in rate base in this case. The Revised Scheduling Order Granting Parties' Joint  
18 Motion Filed March 6, 2009, issued on March 13, 2009, required that rate base in this  
19 case include Iatan environmental and Iatan common costs paid or approved for payment  
20 as of April 30, 2009. An issue arose as to how to address costs paid after that date.  
21 Another issue arose as to how much of the costs that are common between Iatan Units 1  
22 and 2 should be included in rate base in this case. Both of those issues were resolved in  
23 the Joint Stipulation.

1 **V. THE TERMS OF THE STIPULATION**

2 **Q: Would you please provide an overview of the Joint Stipulation and explain the**  
3 **essential terms?**

4 A: The Signatory Parties have agreed that KCP&L should be granted an overall annual  
5 revenue increase of \$59,000,000, consisting of \$41,000,000 traditional revenue  
6 requirement and \$18,000,000 pre-tax payment on plant on behalf of customers. The  
7 Signatory Parties also agreed that KCP&L may create and utilize a regulatory asset for  
8 depreciation expense and carrying costs of Iatan Unit 1 air quality control system  
9 (“AQCS”) and Iatan common costs included in plant-in-service but not included in rate  
10 base in this case, consistent with that set forth on pp. 8-10 of the May 29, 2009  
11 Additional Direct testimony of Staff witness Jeff McClanahan. The regulatory asset will  
12 include depreciation expense and carrying costs for the Iatan Unit 1 AQCS and Iatan  
13 common plant not included in the current case. The regulatory asset will be accounted  
14 for as specified in the Joint Stipulation.

15 **Q: Why is a regulatory asset appropriate when KCP&L did not include one in its**  
16 **initial application?**

17 A: Under the 1025 Stipulation, KCP&L was allowed to include budgeted numbers in its  
18 application for all plant expected to be in-service by the time rates from the case were to  
19 go into effect. As such, no plant in-service as of the date the rates became effective  
20 would have been excluded from those rates and, therefore, no regulatory asset for that  
21 investment was needed.

22 As the Commission is aware from the Motion Hearing held last March, the use of  
23 budgeted costs and the use of an in-service date occurring after an Order would have

1        been issued in this docket, caused problems among the parties. To resolve those  
2        problems, it was agreed that KCP&L would only include in rate base costs for Iatan  
3        Unit 1 AQCS and common costs that were actually “paid or approved for payment” as of  
4        April 30, 2009. In addition, only plant expected to be in-service as of July 4, 2009 was  
5        considered. By paring back what could be included in rates in this case, the Company  
6        believes it triggered the need for a regulatory asset to account for the additional amount  
7        excluded from this case and deferred to the next case for inclusion in rate base.

8        **Q: Please continue with your discussion of the Joint Stipulation.**

9        A: The Signatory Parties agree that the Joint Stipulation resolves all issues in this case  
10       concerning disallowances related to costs for Iatan Unit 1 AQCS and Iatan common costs  
11       that are included in rate base. There will be no write-off of costs included in rate base in  
12       this case for plant-in-service as of July 4, 2009.

13                The disallowance review related to Iatan Unit 1 AQCS and Iatan common costs  
14       paid or approved for payment as of April 30, 2009 and in-service as of July 4, 2009, is  
15       deferred to the next rate case and capped at \$4.7 million (Kansas jurisdictional, including  
16       Allowance for Funds Used During Construction (“AFUDC”)), as set forth in the  
17       testimony of Staff witness Walter Drabinski.

18                It is important to note that KCP&L is not agreeing to any disallowance, but the  
19       Signatory Parties are limited to recommending this amount as it relates to these Iatan  
20       Unit 1 AQCS and Iatan common costs in KCP&L’s next rate case. In the next rate case  
21       there will be no additional testimony by any Signatory Party and no modifications to the  
22       existing testimony related to the Iatan Unit 1 AQCS and Iatan common costs included in

1 rate base in this case (\$178,017,515 Kansas jurisdictional), or concerning the \$4.7 million  
2 disallowance recommended by Staff in this case.

3 The remaining \$56 million (Kansas jurisdictional, excluding AFUDC) of potential  
4 costs for Iatan Unit 1 AQCS and Iatan common not paid or approved for payment as of  
5 April 30, 2009 and not included in rate base in this case, will be subject to a prudence  
6 review and the Signatory Parties may recommend an associated disallowance of no more  
7 than \$2.8 million (Kansas jurisdictional) in the next case. Additionally, any costs in this  
8 category in excess of the noted \$56 million will not be capped as to the level of  
9 disallowance that may be recommended by Staff.

10 **Q: Why is it reasonable to include a cap of potential recommended disallowance in this**  
11 **case?**

12 A: Investors and creditors react negatively to uncertainty. It is always better from the  
13 Company's perspective to resolve uncertainty within a settlement or as a result of hearing  
14 and order of the Commission. However, in this case, the Company did not believe a  
15 disallowance was justified and the Staff could not accept the Company's position. When  
16 issues cannot be resolved and must be heard by the Commission at a later date (the next  
17 rate case), it is best to summarize and cap exposure to the Company of any potential  
18 disallowance so that any risk to investors and creditors related to the postponed issues are  
19 known. In this case, the Staff's proposed disallowance for the plant included in rate base  
20 in this case is known -- \$4.7 million -- on a Kansas jurisdictional basis. Any potential  
21 disallowance related to the \$56 million (Kansas jurisdictional) in potential invoices not  
22 paid or approved for payment as of April 30, 2009 is related to verification of invoices,  
23 not necessarily prudence, and any additional dollars spent against the Risk & Opportunity

1 Packages (“R/Os”) previously identified by Staff witness Drabinski. The Company and  
2 the other parties agreed that a cap of \$2.8 million, Kansas jurisdictional basis was  
3 adequate to cover any potential disallowance proposed by Staff in the next case related to  
4 these additional invoices.

5 **Q: Since some of the parties have already filed testimony on the issue of prudence**  
6 **regarding Iatan Unit 1 AQCS and Iatan common plant investment, why did the**  
7 **parties choose to defer this issue to the next case?**

8 A: There are two primary reasons. First, if a settlement could be reached in this case, it was  
9 the Company’s intent to settle the total revenue increase. An important component of  
10 this settlement is for rates to become effective on August 1, 2009. Although the parties  
11 could have conceivably agreed to carve out the proposed disallowance of \$4.7 million  
12 and gone to hearing on that issue alone, it would have resulted in rates going into effect  
13 later than August 1. In addition, the Company would have gone to hearing on all issues  
14 before it would have gone to hearing on just the Staff’s proposed disallowance, thus no  
15 settlement would have been possible. By the terms of the agreement, the parties are not  
16 allowed to revise or otherwise supplement their testimony on the Iatan Unit 1 and  
17 common costs of Iatan unit 1 and 2 related to the proposed \$4.7 million disallowance.  
18 That issue will be presented to the Commission based only upon the testimony already in  
19 the record in this case, just as if there had been no settlement and the matter had been  
20 taken before the Commission at the hearing scheduled to begin June 22, 2009. In other  
21 words, in the next case, the parties are not allowed a “second bite at the apple” as regards  
22 prudence on Iatan Unit 1 AQCS and Iatan common costs paid or approved for payment

1 as of April 30, 2009. The intent is to take a “snapshot” of the record on this plant  
2 investment review in this case and impose it into the record of the next case.

3 Second, the dollars associated with invoices not paid or approved for payment as  
4 of April 30, 2009 and/or not in service as of July 4<sup>th</sup> 2009 -- \$56 million -- could not have  
5 been audited in this case because some of these invoices may not be paid until the end of  
6 the year. Thus, since a portion of the Iatan Unit 1 AQCS and Iatan common costs must  
7 be reviewed in the next case, the Company believed it would be more efficient to defer  
8 both the current proposed disallowance along with any other potential disallowance  
9 proposals to the next case so that all proposed disallowances associated with Iatan Unit 1  
10 AQCS and Iatan common costs may be heard at one time.

11 **Q: Was any agreement reached with respect to the timing and process for KCP&L’s**  
12 **next rate case?**

13 A: Yes. The Signatory Parties recognize that the filing date set forth in the 1025 Stipulation  
14 for KCP&L’s next rate case is no longer appropriate. KCP&L plans to file for an  
15 extension of time to file consistent with Paragraph A(6) of Appendix C of the Regulatory  
16 Plan just as it did for the current case. Additionally, the Signatory Parties agree to  
17 collaborate in advance of the filing of KCP&L’s next rate case in order to establish a  
18 procedure for the next rate case that addresses the in-service, process and timing  
19 problems realized with this current proceeding. If the Signatory Parties are unable to  
20 agree on the timing and procedures in advance of the next rate filing, the matter will be  
21 taken to the Commission for determination prior to the filing of KCP&L’s next rate case.  
22 If the Commission has not ruled on the matter by October 1, 2009, all Signatory Parties  
23 agree that KCP&L may proceed with the filing of its next rate case.

1 **Q: Was any agreement reached with respect to the submission of a class cost of service**  
2 **study in KCP&L's next rate case?**

3 A: Yes. KCP&L has agreed to perform and submit in its next rate case, a class cost of  
4 service study that includes: (1) a breakout of each residential water heating and space  
5 heating subclass from the aggregate Residential Service class; and (2) a breakout of  
6 KCP&L's total allocated cost of service, by rate class, into separate summer- and winter-  
7 related revenue requirement components. KCP&L has also agreed to work with Staff,  
8 CURB, and any other Party to this case as it prepares its class cost of service study to  
9 ensure that the agreed-upon cost-of-service modifications are properly modeled. KCP&L  
10 further agreed to accommodate any reasonable request by a party for alternative scenario  
11 runs under its model.

12 **Q: Are there any timing considerations with respect to the effective date for new rates**  
13 **that the Signatory Parties have discussed and agreed upon?**

14 A: Yes. The Signatory Parties agree that the intent is for rates resulting from this case to go  
15 into effect on August 1, 2009. As I stated earlier, this was significant in the Company's  
16 decision to settle this case. The Signatory Parties have requested that the Commission  
17 issue an Order approving the Joint Stipulation on or before July 24, 2009 in order to  
18 facilitate the requested effective date of rates by August 1, 2009.

19 **Q: Please summarize your thoughts regarding the Joint Stipulation.**

20 A: Given the complexity of the issues and the disparate interests of the various parties in this  
21 case, KCP&L was hopeful that a settlement could be reached that balanced the risks to  
22 the Company and the interests of the other parties. I believe this Joint Stipulation does  
23 so. The combination of the increase in rates that generates cash earnings (\$41 million)



1 and the increase in rates that generates cash but no earnings (\$18 million) will provide  
2 KCP&L with a reasonable opportunity to 1) achieve cash flow to maintain its current  
3 investment grade credit rating; and 2) achieve sufficient earnings to support Great Plains  
4 Energy Incorporated's stock price during 2009-2010, the timeframe that the increased  
5 rates resulting from this case will be in effect. On behalf of KCP&L, I am appreciative of  
6 the thoroughness and objective evaluation of this case by the Commission's Staff, CURB,  
7 and the other signatory parties, without which we would not have been able to settle this  
8 case.

9 **VI. COMMISSION STANDARDS FOR REVIEW OF SETTLEMENT AGREEMENTS**

10 **Q: Are you familiar with the factors the Commission considers when reviewing a**  
11 **proposed settlement agreement?**

12 **A:** Yes, I am. It is my understanding that the five factors the Commission will review and  
13 has requested the parties to address are as follows: (1) whether there was an opportunity  
14 for the opposing party to be heard on their reasons for opposition to the stipulation and  
15 agreement [contested settlements only]; (2) whether the stipulation and agreement is  
16 supported by substantial competent evidence; (3) whether the stipulation and agreement  
17 conforms with applicable law; (4) whether the stipulation and agreement results in just  
18 and reasonable rates; and (5) whether the results of the stipulation and agreement are in  
19 the public interest, including the interest of the customers represented by the party not  
20 consenting to the agreement [contested settlement only].<sup>1</sup>

21  
22  

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<sup>1</sup> Order issued May 12, 2008, at para. 11, Docket No. 08-ATMG-280-RTS.

1 **FACTOR (1) - THERE WAS AN OPPORTUNITY FOR OPPOSING PARTIES TO BE HEARD ON THEIR**  
2 **REASONS FOR OPPOSITION TO THE STIPULATION AND AGREEMENT [CONTESTED SETTLEMENTS**  
3 **ONLY].**  
4

5 **Q: Who are the parties to this docket?**

6 A: In addition to the Commission Staff, CURB, and KCP&L, the parties are: the  
7 International Brotherhood of Electrical Workers, Local Unions No. 412, 1464, and 1613  
8 (“IBEW”); Danisco USA, Inc. (“Danisco”), Amcor Pet Packaging USA, Inc., (“Amcor”),  
9 Shawnee Mission School District No. 512 (“USD 512”), the City of Mission, Kansas  
10 (“Mission”), and Wal-Mart Stores, Inc. (“Wal-Mart”) (collectively, the Midwest Utilities  
11 Users Group (“MUUG”)); Children's Mercy South, Menorah Medical Center, Overland  
12 Park Regional Medical Center/HCA Midwest Health System, Shawnee Mission Medical  
13 Center, and St. Luke’s South Hospital/St. Luke's Health System (collectively, the  
14 “Hospital Interveners”); The Empire District Electric Company (“Empire”); Kansas  
15 Electric Power Cooperative, Inc. (“KEPCo”); Kansas Gas Service (“KGS”); and the City  
16 of Overland Park, Kansas (“Overland Park”). The City of Mission Hills petitioned for  
17 intervention on June 12, 2009 and was granted intervening status on the record at the  
18 Prehearing Conference on June 18, 2009. There are no other parties to this proceeding.

19 **Q: Given that not all parties to the docket signed the Joint Stipulation, is the Joint**  
20 **Stipulation unanimous?**

21 A: Yes, it is. Under K.A.R. 82-1-230a, this is classified as a “Unanimous Settlement  
22 Agreement” because all parties who did not sign have stated on the record that they do  
23 not oppose the Joint Stipulation. As such, the Commission should consider the  
24 unopposed Joint Stipulation under the same standards as it would a unanimous  
25 agreement.

1 **Q: Who participated in the settlement negotiations in this docket?**

2 A: Representatives of all parties to the proceeding were provided notice of settlement  
3 discussions and each participated in varying degrees in settlement negotiations in this  
4 docket. The parties met at the Commission on June 11, 2009 to collectively discuss the  
5 issues in this case and the possibility for settlement of some or all of the issues.  
6 Subsequent to that date, the parties had additional discussions by telephone and e-mail, as  
7 well as in person on June 17, 2009. Ultimately a settlement of all issues was reached,  
8 culminating in the Joint Stipulation filed with the Commission on June 18, 2009.  
9 KCP&L submits that all interested parties were afforded an adequate opportunity to  
10 participate in settlement discussions and had a full and fair opportunity to be heard.

11 **FACTOR (2) - THE STIPULATION AND AGREEMENT IS SUPPORTED BY SUBSTANTIAL**  
12 **COMPETENT EVIDENCE.**

13  
14 **Q: Is there substantial competent evidence in the record of this docket to support the**  
15 **compromise agreement reached by the parties?**

16 A: Most assuredly. Nineteen (19) KCP&L witnesses have filed Direct Testimony, Rebuttal,  
17 Testimony in Response to Surrebuttal/Supplemental Testimony, Additional Direct,  
18 Additional Rebuttal and/or now this Testimony in Support of the Joint Stipulation and  
19 Agreement. Staff and interveners have filed the testimony of eighteen (18) witnesses,  
20 comprising Direct, Cross-Answering, Surrebuttal/Supplemental, Additional Direct and  
21 Testimony in Support of the Joint Stipulation and Agreement.

22 **Q: Are the terms of the Joint Stipulation consistent with the testimony filed in the**  
23 **docket?**

24 A: Yes. Of course, it reflects a compromise of the positions taken by the various parties in  
25 their prefiled testimony.

1 **FACTOR (3) - THE STIPULATION AND AGREEMENT CONFORMS WITH APPLICABLE KANSAS**  
2 **LAW.**

3  
4 **Q: Does the Joint Stipulation conform to applicable Kansas law?**

5 A: Yes. I am not an attorney, but the Joint Stipulation was fully and fairly negotiated,  
6 represents a reasonable compromise based on all parties' prefiled positions, is based upon  
7 substantial competent evidence, and will result in just and reasonable rates for KCP&L's  
8 customers. Kansas law recognizes a strong policy favoring and encouraging settlements.<sup>2</sup>  
9 It appears that this Commission has acknowledged that the settlement standards set forth  
10 in the *Farmland Industries*<sup>3</sup> and *CURB*<sup>4</sup> cases regarding non-unanimous settlements  
11 apply equally to every other settlement agreement placed before it for consideration.  
12 This Commission has recently stated, "no settlement proposal, unanimous or contested;  
13 black-box or transparent, relieves the three-member Commission of its responsibility to  
14 make an independent judgment as to whether the settlement constitutes a reasonable  
15 remedy or resolution of the issues."<sup>5</sup> As such, it appears that the applicable legal  
16 standard for reviewing the reasonableness of settlement agreements requires the  
17 Commission to make a finding, supported by substantial competent evidence from a  
18 review of the record as a whole, that the settlement will establish just and reasonable  
19 rates. I believe that standard will be met.

20  
21  
22  

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<sup>2</sup> *Bright v. LSI Corp.*, 254 Kan. 853, 858, 869 P.2d 686. (1994).

<sup>3</sup> *Farmland Industries, Inc. v. Kansas Corporation Comm'n*, 24 Kan.App.2d 172, 186-88, 943 P.2d 470 (1997).

<sup>4</sup> *Citizens' Utility Ratepayer Bd. v. State Corp. Comm'n of the State of Kansas*, 28 Kan.App.2d 313, 316-317, 16 P.3d 319 (Kan.App.2000); *Farmland Industries*, 24 Kan.App.2d at 186-87.

<sup>5</sup> Order issued May 12, 2008, at para. 11, Docket No. 08-ATMG-280-RTS.

1 **FACTOR (4) - THE STIPULATION AND AGREEMENT RESULTS IN JUST AND REASONABLE RATES.**

2  
3 **Q: Does the Joint Stipulation result in just and reasonable rates for KCP&L's**  
4 **customers?**

5 A: Yes. In accordance with K.S.A. 66-101b, every electric public utility is required to  
6 furnish reasonably efficient and sufficient service at just and reasonable rates. Case law  
7 indicates that the “just and reasonable” standard coincides with the “zone of  
8 reasonableness” test as adopted by Kansas courts. The “just and reasonable” standard  
9 was first outlined by the United States Supreme Court.<sup>6</sup> The Court emphasized that when  
10 evaluating whether rates are just and reasonable, the focus of inquiry is properly on the  
11 end result or “total effect” of the rate order, rather than on the specific rate-setting method  
12 employed. In addition, the *Hope* case was followed by another Supreme Court case<sup>7</sup>,  
13 which found that the Natural Gas Act’s articulated “just and reasonable” standard  
14 coincides with the applicable constitutional standards and that any rate selected by a  
15 regulatory commission within the “broad zone of reasonableness” cannot properly be  
16 attacked as confiscatory.

17 Applying these standards to the Joint Stipulation, the agreed-upon revenue  
18 increase of \$59 million, consisting of \$41 million traditional revenue requirement and  
19 \$18 million pre-tax payment on plant on behalf of customers falls within the range of  
20 increases proposed by Staff, KCP&L and CURB. Although this by itself is not  
21 conclusive evidence of the reasonableness of the stipulated revenue increase, Kansas law  
22 does indicate that the Commission’s goal in a ratemaking case should be to determine a  
23 rate that falls within a “zone of reasonableness” after applying a balancing test in which

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<sup>6</sup> *Power Comm'n v. Hope Gas Co.*, 320 U.S. 591, 64 S.Ct.281, 88 L.Ed 333 (1944).

1 the interests of all concerned parties are concerned.<sup>8</sup> In addition, the Kansas Supreme  
2 Court has discussed the “zone of reasonableness” as it applies to the Commission’s  
3 ratemaking function as follow:

4 There is an elusive range of reasonableness in calculating a fair rate of  
5 return. A court can only concern itself with the question as to whether a  
6 rate is so unreasonably low or so unreasonably high as to be unlawful.  
7 The in-between point, where the rate is most fair to the utility and its  
8 customers, is a matter for the State Corporation Commission’s  
9 determination.<sup>9</sup>  
10

11 The schedules filed with KCP&L’s Application established a gross revenue deficiency of  
12 approximately \$71.6 million, based upon normalized operating results for the 12 months  
13 ending December 31, 2007, adjusted for known and measurable changes in revenues,  
14 operating and maintenance expenses, cost of capital and taxes, and other adjustments.  
15 Pursuant to the Contribution In Aid of Construction (“CIAC”) mechanism established in  
16 the 1025 Stipulation, KCP&L included in this \$71.6 million deficiency an additional  
17 \$11.2 million of CIAC. Staff recommended a \$53.9 million increase for KCP&L  
18 customers that included \$11.2 million of CIAC. CURB recommended a rate increase of  
19 \$46.8 million that included \$23.9 million of pre-tax payment on plant on behalf of  
20 customers.

21 Accordingly, the stipulated revenue increase amount of \$59 million appears to fall  
22 with the zone of reasonableness when one considers that the stipulated revenue increase  
23 does take into account the interests of all parties involved, because the stipulated amount  
24 is well within the original positions of the parties. The stipulated amount also satisfies

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<sup>7</sup> *Permian Basin Area Rate Cases*, 390 U.S. 747, 770, 88 S. Ct. 1344, 20 L.Ed 2d 312, *reh. denied* 392 U.S. 917, 88 S.Ct 2050 (1968).

<sup>8</sup> *Kansas Gas and Elec. Co., v. State Corp. Com'n*, 239 Kan 483, 488-92, 720 P.2d 1063 (Kan.1986).

<sup>9</sup> *Southwestern Bell Tel. Co. v. State Corporation Commission*, 192 Kan. 39, 41, 386 P.2d 515 (1963).

1 the balancing test aspect of the zone of reasonableness evaluation because the stipulated  
2 amount necessarily represents the parties' recognition of the litigation risk that a party  
3 will not prevail on every element of its pre-filed case.

4 **Q: Apart from the stipulated revenue increase, do the effects of the other aspects of the**  
5 **Joint Stipulation result in just and reasonable rates?**

6 A: Yes. As with the dollar amount of the stipulated overall revenue increase, the other  
7 specific provisions of the Joint Stipulation were fully and fairly negotiated by the parties  
8 in conjunction with the acknowledgement that it is unlikely the Commission would  
9 accept wholesale any party's pre-filed position. KCP&L carefully considered the issues  
10 before the Commission and used its best judgment and knowledge of Commission  
11 precedent to determine where it might be successful and where compromise was  
12 warranted and appropriate. For example, KCP&L worked closely with Staff and CURB  
13 to jointly negotiate and develop the Joint Stipulation, using elements of each parties'  
14 original positions. In addition, where appropriate, both Staff and KCP&L acknowledged  
15 that certain corrections to a party's testimony or pre-filed position needed to be made.

16 KCP&L therefore submits that evidence in the record in this docket clearly demonstrates  
17 that the provisions of the Joint Stipulation will establish just and reasonable rates.

18 **FACTOR (5) - THE RESULTS OF THE STIPULATION AND AGREEMENT ARE IN THE PUBLIC**  
19 **INTEREST, INCLUDING THE INTEREST OF THE CUSTOMERS REPRESENTED BY ANY PARTY**  
20 **NOT CONSENTING TO THE AGREEMENT [CONTESTED SETTLEMENT ONLY].**

21  
22 **Q: Is the Joint Stipulation in the public interest?**

23 A: Yes. Each party to this proceeding has a duty to protect the interests of the party it  
24 represents. KCP&L has a duty to both its customers and its shareholders. CURB  
25 represents the interests of residential and small commercial customers. The Staff and the

1 Commission are in the unique position of being required to weigh and balance the  
2 interests of the Company, the ratepayers, and any other party to a proceeding. It can be  
3 argued, consistent with the Court's statements in *Kansas Gas & Electric*, as discussed  
4 above, that "the focus of the inquiry (in setting "just and reasonable rates") is properly on  
5 the end result or "total effect" of the rate order, rather than upon the rate-setting method  
6 employed.<sup>10</sup> It is KCP&L's position that the "total effect" of the terms of the Joint  
7 Stipulation will result in just and reasonable rates and that it represents an equitable  
8 balancing of the interests of all parties. Thus, the Joint Stipulation is in the public  
9 interest, and should be adopted by the Commission in its entirety.

10 **Q: Does the Joint Stipulation allow KCP&L the opportunity to meet its obligations to**  
11 **its shareholders and creditors?**

12 **A:** Management can never guarantee how actions such as this will impact investors and the  
13 market. However, I believe the settlement is positive in this regard in a number of ways.  
14 For one thing, shareholders and creditors place a value on certainty, and settlement  
15 provides far more certainty than proceeding to litigation.

16 Another very important aspect of the agreement from KCP&L's perspective is  
17 that it moves the effective date of the new rates forward from sometime after August 14,  
18 2009 to August 1, 2009. There are real dollars associated with this term of the stipulation  
19 which allowed KCP&L to agree to other concessions important to the other parties.

20 Finally, the Joint Stipulation increases KCP&L's earnings at a level that  
21 management believes should be reasonably acceptable to shareholders and it grants  
22 KCP&L additional cash flow through the pre-tax payment on plant mechanism that  
23 should provide some reassurance to KCP&L's creditors.

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<sup>10</sup> *Kansas Gas & Electric*, 239 Kan at 489.



1 **Q: Are there other provisions of the Joint Stipulation that you wish to address?**

2 A: The Joint Stipulation provides for a number of accounting agreements that will provide a  
3 means to accomplish either 1) continuation or clarification of existing accounting  
4 authority; or 2) new accounting authority to implement certain provisions of Staff's  
5 recommendations regarding treatment of expenses in this case. Additionally, provisions  
6 are included for the Company to 1) perform and submit a class cost of service study in its  
7 next rate case, including alternative scenarios recommended by other parties; and 2) work  
8 with the Signatory Parties prior to filing KCP&L's next rate case to assess whether the  
9 development of a Green Tariff is appropriate. KCP&L supports each of the items  
10 contained in the Joint Stipulation and I will be glad to answer any questions pertaining to  
11 these topics.

12 **VII. ECONOMIC RELIEF PILOT PROGRAM**

13 **Q: Is KCP&L still requesting approval of its proposed Economic Relief Pilot Program**  
14 **(ERPP) tariff?**

15 A: No. KCP&L withdraws its request for this program. KCP&L is continuing to pursue  
16 implementation of this program outside of the rate case in Missouri. If KCP&L  
17 determines to re-engage this pursuit in Kansas, we will work collaboratively with Staff  
18 and CURB to find an appropriate program format and then file separately for  
19 Commission approval.

20 **VIII. EXPLANATION OF PRE-TAX PAYMENT ON PLANT PROVISION**

21 **Q: You stated that you would explain the application of certain provisions of the**  
22 **Regulatory Plan to KCP&L's fourth rate case under the Plan. What provisions are**  
23 **you referring to?**

1 A: The parties to this case discussed at length how the pre-tax payments on plant on behalf  
2 of customers would affect KCP&L's next rate case. As part of that discussion, KCP&L  
3 was asked to prepare an explanation of how the Regulatory Plan provisions regarding this  
4 process would work. The parties requested that KCP&L include this explanation in my  
5 testimony.

6 **Q: Have you prepared such an explanation?**

7 A: Yes. It is attached to my testimony as Schedule CBG-2.

8 **Q: Do the other parties to this case concur with your explanation of how the pre-tax**  
9 **payments on plant on behalf of customers would affect KCP&L's next rate case?**

10 A: I cannot speak for the other parties; however, we did confer with Staff and get Staff's  
11 input on the explanation in Schedule CBG-2. My understanding is that Staff concurs  
12 with the explanation.

13 **Q: Does that conclude your testimony?**

14 A: Yes, it does. Thank you.

**Explanation and Example of Application of Pre-Tax Payment on Plant Amounts  
in the Context of KCP&L's Next Rate Case**

The parties to this case, Kansas Docket No. 09-KCPE-246-RTS, requested a description of how KCP&L believes the pre-tax payment on plant on behalf of customers which has been identified in each of the first three cases under the Stipulation & Agreement in Docket No. 04-KCPE-1025-GIE ("1025 Stipulation") will affect rate base and overall revenue requirements within the context of KCP&L's fourth rate case under the 1025 Stipulation. This process was also explained in the 1025 Docket. Following is a general narrative and example of KCP&L's understanding of how the 1025 Stipulation envisioned this process to work.

First, the pre-tax payments authorized in the first three rate cases under the 1025 Stipulation are as follows:

- 06-KCPE-828-RTS                      \$ 4 million
- 07-KCPE-905-RTS                      \$11 million
- 09-KCPE-246-RTS                      \$18 million (pending Commission approval)

Total    \$33 million in annual revenue requirement

Cumulative impact for this example will be as follows:

- January 1, 2007 – December 31, 2007                      \$ 4 million
- January 1, 2008 – December 31, 2008                      \$15 million<sup>1</sup>
- January 1, 2009 – July 31, 2009                                \$ 8 million<sup>2</sup>
- August 1, 2009 – December 31, 2010                      \$47 million<sup>3</sup>

Cumulative impact up to January 1, 2011                      \$74 million

Pursuant to the 5<sup>th</sup> paragraph of Section II(A)(5), Contributions in Aid of Construction to Maintain Financial Ratios, on page 7 of the 1025 Stipulation, "The accumulated CIAC amounts will be treated as increases to the depreciation reserve and be deducted from rate base in any future KCPL rate proceedings, beginning with the 2009 rate case (Iatan 2 case)." In the estimated example above, the total cumulative amount of pre-tax payment on plant on behalf of customers of \$74 million would be added to the accumulated depreciation reserve as of the date rates resulting from the fourth rate case under the Regulatory Plan are effective (January 1, 2011 in this example). The effect of this would be to lower rate base as if customers had already paid for this

<sup>1</sup> Equal to \$4 million plus \$11 million.

<sup>2</sup> Estimation of the annual amount of \$15 million affecting the first 7 months of the year – approximately half of the \$15 million annually in rates for this period.

<sup>3</sup> Equal to \$4 million plus \$11 million plus \$18 million, or \$33 million annually (\$2.75 million/month); assumed 1/1/2011 effective date for new rates for purposes of this example; calculated as 17 months X \$2.75 million per month).

amount of plant investment, and therefore no return on this \$74 million would be forthcoming to the Company as part of rates going forward. In addition, there would be no depreciation expense related to this customer-paid plant amount (\$74 million in this example) included in KCP&L's future revenue requirements. This is a permanent addition to the depreciation reserve and so will have the impact of never allowing the Company to earn a return on or a return of (depreciation expense) a portion of its rate base equivalent to the amount of accumulated pre-tax payment on plant on behalf of customers.

In addition to this rate base effect, revenue requirements in the next rate case will be reduced by the removal of the annual level of pre-tax payment built into rates as of August 1, 2009, or \$33 million.

I hope this example and discussion clarifies how KCP&L interprets the applicable provisions of the 1025 Stipulation. It is our understanding that this interpretation is shared by KCC Staff.

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

In the Matter of the Application of Kansas City )  
Power & Light Company to Modify Its Tariffs to ) Docket No. 09-KCPE-246-RTS  
Continue the Implementation of Its Regulatory Plan. )

**AFFIDAVIT OF CHRIS B. GILES**

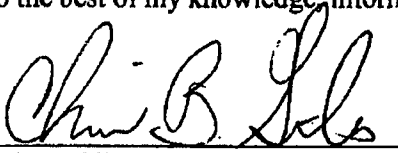
STATE OF MISSOURI )  
 ) ss  
COUNTY OF JACKSON )

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

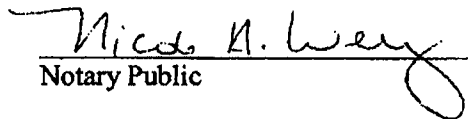
1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Testimony in Support of Joint Stipulation and Agreement on behalf of Kansas City Power & Light Company consisting of <sup>Twenty six</sup> 26 pages and Schedule CBG-2, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

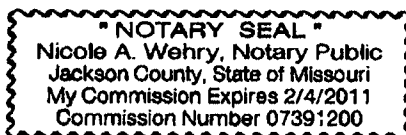
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

  
Chris B. Giles

Subscribed and sworn before me this 22nd day of June 2009.

  
Notary Public

My commission expires: Feb. 4, 2011



**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and correct copy of the above and foregoing testimony has been e-mailed, faxed, hand-delivered and/or mailed, First Class, postage prepaid, this 22<sup>nd</sup> day of June, 2009, to:

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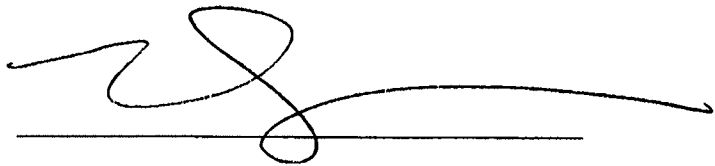
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A handwritten signature in black ink, consisting of a stylized, cursive 'J' followed by a long horizontal stroke that ends in a small loop. The signature is positioned above a solid horizontal line.



**SCHEDULE CBG2010-7**  
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