PUBLIC VERSION

"**[redacted]**" Designates Confidential Information Has Been Removed.

BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

DIRECT TESTIMONY OF

CHRIS B. GILES

ON BEHALF OF KANSAS CITY POWER & LIGHT COMPANY

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

DOCKET NO. 07-KCPE-____-RTS

Q: Please state your name and business address.

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

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

A: I am employed by Kansas City Power & Light Company ("KCPL" or the "Company") as Vice President, Regulatory Affairs.

Q: What are your responsibilities?

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

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

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

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

A: I have previously testified before both the KCC and the Missouri Public Service Commission ("MPSC") in numerous dockets and on many issues regarding electric utility rates and regulation.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to provide a summary and overview of this case. I will address the progress of KCPL's Regulatory Plan ("Regulatory Plan"), which the KCC approved in Docket No. 04-KCPE-1025-GIE in August 2005, including an update on the status of the investments associated with the Regulatory Plan. I will also describe the major drivers and components of the current proposed rate increase as well as how it was determined. Finally, I will provide an overview of the energy cost recovery mechanism that KCPL is proposing in this case, and will explain how it impacts the proposed rate increase.

I. <u>REGULATORY PLAN PROGRESS</u>

Q: Please describe the results of the first rate case under the Regulatory Plan.

A: The Company filed its first rate case in Kansas in nearly 20 years on January 31, 2006. This was also the first rate case under the Regulatory Plan (the "2006 Rate Case"). In that case, Docket No. 06-KCPE-828-RTS, KCPL requested an increase of $42.3 million or 10.56 percent. The Order in that case, issued by the Commission on December 4, 2006, approved the jointly filed Stipulation and Agreement which was submitted by KCPL, KCC Staff, the Citizens' Utility Ratepayers Board ("CURB"), Midwest Utility Users' Group ("MUUG"), Wal-Mart and the International Brotherhood of Electrical Workers ("IBEW") Locals 412, 1464 and 1613. The Order granted KCPL an increase in Kansas revenues in the amount of $29 million or 7.46 percent effective January 1, 2007. The increase included an annual amount for pre-tax payment on plant of $4 million.

Q: Did KCPL reflect the impact of the Regulatory Plan in the 2006 Rate Case?

A: Yes. KCPL included in the 2006 Rate Case the investment to build 100.5 MW of wind generation, which was completed and in-service in September 2006, as well as the investments in customer affordability, energy efficiency, and demand response programs, and system reliability-focused transmission and distribution projects. These investments are consistent with, and represent continued implementation of, the Company's Comprehensive Energy Plan ("CEP") as set forth in the Regulatory Plan. While the 2006 Rate Case Stipulation and Agreement addressed rate treatment of the wind generation project and the transmission and distribution investments, it did not address ratemaking treatment for the customer programs. KCPL has continued to accumulate these costs in a regulatory asset and has included them in this 2007 Rate Case.

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

A: The Regulatory Plan contemplated as many as four rate cases; however, only two are mandatory: the 2006 Rate Case, and a case to be filed in 2009. Rate cases in the two years in between are optional. This 2007 Rate Case is the second rate case, and first optional case, contemplated under the Rate Plan described in Appendix C to the Regulatory Plan, and includes rate schedules that are expected to become effective on January 1, 2008.

The Regulatory Plan investments reflected in this 2007 Rate Case include the selective catalytic reduction ("SCR") equipment at La Cygne Unit 1. The SCR is expected to be in service in May 2007, prior to the December 31, 2007 new plant investment threshold date of this proceeding. Also included in this case are the customer affordability, energy efficiency and demand response programs, and the additions to transmission and distribution infrastructure as set out in the Regulatory Plan. The associated investment levels and requested treatment for each of these investments are discussed in the direct testimony of KCPL witness John P. Weisensee.

Q: If KCPL chooses to file a 2008 Rate Case, the second optional case, when would that happen?

A: At the time the Regulatory Plan was approved, the parties believed that, if KCPL chose to file a third rate case, it would do so on or about March 1, 2008. KCPL currently believes it may be necessary to adjust that date, as allowed under the Regulatory Plan with the agreement of the Regulatory Plan signatory parties and approval of the Commission. If KCPL chooses to file the third rate case, that 2008 Rate Case should be timed such that the environmental equipment at Iatan Unit 1 would be in-service prior to the new plant investment threshold date for that case. The threshold date given a March 1, 2008 filing date would be December 31, 2008 as noted in the Regulatory Plan. At this time, KCPL expects that the Iatan Unit 1 SCR, scrubber and baghouse will be installed in late 2008, to coincide with a planned outage of the unit, with performance assurance testing running into first quarter 2009. Given that schedule, KCPL plans to request that the filing date for the third rate case be moved to April or May of 2008 with a corresponding new plant investment threshold in March or April of 2009.

Q: When will the fourth rate case be filed?

A: The Regulatory Plan calls for KCPL to submit a 2009 rate filing on or before August 15, 2009 with rate schedules effective June 1, 2010, a test year based on the 12 months ending June 30, 2009, a final order deadline of May 10, 2010, and a new plant investment threshold date of May 31, 2010. KCPL currently expects to maintain this schedule.

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

A: KCPL completed construction of the 100.5 MW wind generation facility at a site near Spearville, Kansas, the Spearville Wind Energy Facility. The SCR at La Cygne Unit 1 generating plant is currently under construction and is scheduled to be in operation prior to the summer of 2007 as planned. These projects are discussed in more detail in the direct testimony of KCPL witness John R. Grimwade. The Iatan Unit 1 and Unit 2 projects are also underway. Control budget estimates and schedules for the Iatan Project have been established. Contracting, procurement, and construction strategies are in place along with a cost control system to track and monitor schedule and costs. Partnership agreements have been executed. Ownership shares for Iatan Unit 2, based upon a total capacity of 850 MW, are as follows: KCPL – 465 MW, Empire District Electric Company – 102 MW, Aquila – 153 MW, Missouri Joint Municipal Electric Utility Cooperative – 100 MW, and Kansas Electric Power Cooperative – 30 MW. As part of the Regulatory Plan, the Company submits a quarterly report outlining overall progress on all of the CEP projects to the signatories of the Stipulation and Agreement in the Regulatory Plan docket. Periodically, the Company meets with the parties to discuss progress.

Q: Please describe the status of the Regulatory Plan transmission and distribution infrastructure investments.

A: Nineteen projects make up the Transmission Asset Management Program, which is structured to manage KCPL's transmission and substation assets to ensure reliability to our customers as well as compliance with reliability standards and criteria at the national and regional levels. Since approval of the Regulatory Plan, significant progress has been made on the fourteen projects scheduled for start-up in 2006 including replacement of identified distribution, 69-kV and 345-kV breakers, galvanized shield wire, cross-arms, wood poles, and remote terminal units. Progress on these transmission-related programs is more fully described in the direct testimony of KCPL witness Richard A. Spring.

Under the Distribution Asset Management Program, designed to improve system reliability, KCPL completed the pilot inventory of its overhead distribution system and is conducting targeted reliability studies based upon the results. KCPL has also evaluated vendor proposals to conduct a full system inventory. And, as a result of successful testing of the Dynamic Voltage Control ("DVC") system on the Integrated Circuit of the Future project, part of the Distribution Automation Program, KCPL moved up the implementation start date of the DVC system into fourth quarter 2006. Highlights of the progress made in the distribution area on these and numerous other projects are more fully described in the direct testimony of KCPL witness William P. Herdegen.

Q: Please describe the status of the Regulatory Plan customer program implementation.

A: Of the fourteen customer programs in the portfolio of affordability, energy efficiency and demand response programs envisioned under the Regulatory Plan, KCPL has developed, submitted, received KCC approval for, and implemented eight programs in Kansas. Two more programs were submitted in January of 2007 for Commission approval, and another was submitted in February of 2007. KCPL witness Susan K. Nathan more fully describes the progress and success of the customer programs in her direct testimony.

II. CURRENT RATE INCREASE REQUEST

Q: How was the rate case test year data and resulting rate increase amount determined?

A: Pursuant to the 2006 Rate Case Stipulation and Agreement, the 2007 Rate Case test year is based on an historical test year ending December 31, 2006, using actual data for all twelve months. The data were stated to a Kansas jurisdictional basis, annualized, and normalized, as appropriate. The rate case data were then adjusted to projected month-end September 2007, with these adjustments allocated between FERC, Missouri and Kansas jurisdictions. The production allocation was made on the basis of twelve coincident monthly peaks ("12 CP"). The cost of service and revenue requirement determination is contained in Schedule JPW-1 and is supported by the direct testimony of KCPL witness John P. Weisensee.

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

A: The Company is requesting an increase of $47.1 million or 10.82 percent. The amount of rate increase is based on normalized test year revenue of approximately $435 million.

Q: Does this amount include Contribution in Aid of Construction ("CIAC") as defined in the Regulatory Plan?

A: Yes, KCPL's requested rate increase includes $12.8 million attributable to Contribution in Aid of Construction ("CIAC") as defined in the Regulatory Plan to maintain KCPL's debt at investment grade. This CIAC is in addition to the pre-tax payment on plant of $4 million received in the 2006 Rate Case in lieu of CIAC. The total amortization amount will result in an offset to rate base under the Regulatory Plan and will lower rates in future rate proceedings of KCPL beginning with the 2009 Rate Case. KCPL witness Michael W. Cline discusses this CIAC amount in further detail in his direct testimony.

Q: What is the total cumulative amount of CIAC and pre-tax payment on plant that KCPL proposes to include in rates in this case?

A: As indicated, the CIAC amount of $12.8 million requested in this case is in addition to the $4 million of pre-tax payment on plant granted in the 2006 Rate Case. This would result in a cumulative amortization level of approximately $16.8 million.

Q: What is the return on equity KCPL is requesting in this case?

A: KCPL is requesting a minimum return on equity of 11.25% based upon a 53.43% equity capital structure of KCPL's parent holding company Great Plains Energy, Inc. ("GPE").

Q: What is the basis of an 11.25% return on equity?

A: The rate of return recommendation of 11.25% accounts for the baseline cost of equity capital and recognizes investor risks associated with construction. KCPL witness Samuel C. Hadaway presents in his direct testimony his cost of capital study results and recommendations in support of an 11.25% rate of return. Dr. Hadaway has utilized the same approach as in the 2006 Rate Case, which was based on a traditional approach to estimating the underlying cost of equity capital for a group of electric utility companies. However, the utility companies used for comparison by Dr. Hadaway have, in total, significantly smaller construction activity than KCPL. Consequently, the traditional approach and sample does not fully account for KCPL's higher investment risks, as currently perceived by investors, in the cost of capital estimate. Dr. Hadaway indicates that the risk premium associated with KCPL's high level of construction increases the cost of capital to the Company by about 50 basis points.

III. ENERGY COST ADJUSTMENT ("ECA") MECHANISM

Q: Is KCPL proposing an ECA mechanism in this case?

A: Yes, in accordance with the Stipulation and Agreement in the 2006 Rate Case, KCPL is proposing an ECA mechanism in this case, including a proposed ECA tariff, to take effect January 1, 2008. An ECA mechanism provides assurance to the Company of recovery of fuel, purchased power and related costs and provides assurance to KCPL's customers that off-system sales margins will flow back to them to offset fuel expense.

Q: Does KCPL's proposed ECA mechanism comply with the requirements set out in the Regulatory Plan and in the 2006 Rate Case Stipulation and Agreement for any such proposed mechanism?

A: Yes, it does.

Q: How did you develop your proposed ECA mechanism?

A: As discussed in more detail in the direct testimony of KCPL witness Tim M. Rush, KCPL reviewed the testimony entered in the 2006 Rate Case regarding ECA mechanisms and tariffs, held several meetings with the signatory parties to the 2006 Rate Case Stipulation and Agreement to discuss the parties' specific concerns regarding an ECA mechanism, and reviewed a number of current electric utility ECA tariffs across the Midwest region. KCPL incorporated elements into the ECA mechanism to address many of the concerns raised by the parties both in their testimony in the 2006 Rate Case and in the above-mentioned meetings; however, KCPL was precluded from including some of the parties' ideas, specifically those involving incentive-based mechanisms, because of restrictions within the Regulatory Plan Stipulation and Agreement that prevent KCPL from proposing such incentives.

Q: Please describe KCPL's proposed ECA mechanism.

A: KCPL's proposed ECA mechanism envisions recovery of all fuel, purchased power and related expense, as well as credit of off-system sales margins, through a separate retail tariff (sometimes referred to as a fuel cost recovery clause) rather than through inclusion of a fixed amount of fuel, purchased power and related expenses in base rates where over- or under-recovery of the actual net amount of fuel, purchased power, and credit for off-system sales margins is addressed separately from base rates in future rate cases.

KCPL's proposed methodology is generally consistent with the methodology proposed by Staff in testimony in the 2006 Rate Case. However, a few elements of KCPL's proposal differ from Staff's proposed methodology.

The underlying premise behind KCPL's methodology is that charges for fuel costs and credit for off-system sales margins in a given year need to closely match the actual fuel costs incurred and the actual off-system sales margins realized in that same year. This is even more critical given KCPL's current significant construction program and the associated cash flow requirements. If the ECA mechanism does not provide KCPL adequate cash flow, its credit ratings could be downgraded resulting in higher costs to finance the construction program and, ultimately, higher rates for customers. With the significant volatility in the fuel and off-system sales markets, historical data is not representative of future fuel and purchased power costs or future off-system sales margins and could easily result in a mismatch of actual costs and margins compared to revenue received through the ECA tariff for a given year. Historical costs should not be used to establish the ECA factors for a future year. If historical 2007 fuel cost data were used as a proxy for KCPL fuel costs in 2008, KCPL would not recover its actual costs in 2008 and its cash flow would suffer. Both KCPL's and Staff's methodologies recognize the value of using a forward-looking process for developing the underlying fuel, purchased power and related expenses included in the ECA factors. KCPL proposes to forecast these costs on a year-ahead basis rather than on a month-ahead basis because much of our fuel cost is hedged at least a year in advance, providing greater confidence in the projected fuel costs.

Q: Why is KCPL proposing to include projected off-system sales margins rather than historical off-system sales margins?

A: Just as it is not appropriate to use historical data to project fuel costs as discussed above, neither is it appropriate to use historical data to estimate future off-system sales margins, as explained in greater detail in the direct testimony of Michael M. Schnitzer of the Northbridge Group, Inc. ("Northbridge"). The reasonable and responsible method to determine the appropriate amount of off-system sales margins to include in test year revenue or in an ECA mechanism is to project the amount of off-system sales margins expected during the year that the rates will be in effect, calculate the risk of achieving those off-system sales, and include an appropriate sharing of that risk between retail customers and the Company. In the case of KCPL's proposed ECA mechanism, the risk to the Company is that of inadequate cash flow. To offset that risk, KCPL proposes to project the off-system sales margins for the coming year and include the 25th percentile of that projection in the ECA factors. This will guard against the potential for lower than expected off-system sales margins and provide greater confidence that KCPL will achieve its needed cash flow. The customer ultimately receives credit for all of the actual off-system sales margins pursuant to the annual true-up process.

KCPL's proposed methodology also includes provision for periodic review and potential adjustment to the remaining monthly ECA factors if it appears that the projected year-end revenue from the ECA tariff will differ significantly from the projected year-end fuel, purchased power and related costs offset by the projected off-system sales margin credit. This review and adjustment may be appropriate if actual costs are higher than expected or if changes in fuel, off-system sales or purchased power markets cause estimates to need revision. This method provides the best balance of interests among customers, investors, and creditors, particularly in view of the scale of KCPL's construction program through the 2010 timeframe.

Q: Why is KCPL proposing to use the 25th percentile for off-system sales margins rather than the 50th percentile?

A: As discussed in the direct testimony of KCPL witness Michael M. Schnitzer of Northbridge, there is significant risk associated with margins in the off-system sales market. The risk of the off-system sales market consists of several components, including market price, volumetric risk associated with generation variable cost, generation unit outages, coal supply availability, weather, and uncertainty of retail sales growth. A detailed risk analysis of the off-system sales market has been prepared by Northbridge and is included in Mr. Schnitzer's testimony.

As discussed in the 2006 Rate Case, the significant construction program, which KCPL is currently implementing in compliance with the Regulatory Plan, requires that KCPL maintain sufficient cash flow to maintain its credit ratings. If, because of a change in the off-system sales market, KCPL's actual off-system sales margins for 2007 were less than what is built into the ECA tariff factors, then the Company's cash flow and credit metrics would be negatively affected resulting in higher costs for the construction program and ultimately for customers. Significant changes have occurred in the off-system sales market since the Company filed the 2006 Rate Case. These changes in the market confirm that the Company's cash flow requirements in 2007 are at risk, and highlight the risk of including the 50th percentile of projected off-system sales margins in the ECA mechanism.

Q: **Please describe the changes in the market since the 2006 Rate Case process?**

A: When KCPL filed its original 2006 application, the expected 50th percentile level of off-system sales margins was **[redacted]**. The Company included in its revenue requirement an amount equal to the 25th percentile or **[redacted]**. At that time, natural gas prices and the wholesale energy market were at a relatively high level. Natural gas prices were around $10 per mcf, considerably higher than the $2-$5 range during years prior to that case. In the 2006 Rate Case, I testified that the Commission should look forward and take into account the risk of the off-system sales market in determining the amount of off-system sales margin to include in KCPL's revenue requirement. I noted that historical data should not be used as indicative of potential future margins in this volatile market. By September 2006, natural gas prices had sharply declined. This resulted in a much lower expectation of off-system sales margins for 2007. In fact, prices declined to the extent that the expected 50th percentile point on the curve was approximately $11 million lower than originally filed in the case. The 25th percentile was approximately $7 million lower than originally included in the 2006 Rate Case.

Q: **What level of off-system sales margins did the Commission determine appropriate to include in revenue requirement in the 2006 Rate Case?**

A: The 2006 Rate Case Stipulation and Agreement contained a "black box" settlement so the level of off-system sales margin was not litigated and it was not specifically defined within the Stipulation and Agreement.

Q: What is the current expectation for off-system sales margins for 2007?

A: Prices in the market have continued to decline. The Company's current 50th percentile projection (**[redacted]** total Company) for 2007 is roughly equal to the 25th percentile projection (**[redacted]** total Company) of one year ago.

Q: Does this mean that KCPL expects the off-system sales margins to be less in 2008 than 2007?

A: Yes. The difference between the 25th percentile in the 2006 Rate Case projected for 2007 off-system sales margins and the 25th percentile in this case projected for 2008 is a decline in expected Margins of $19 million on a total Company basis. Mr. Schnitzer explains the facts contributing to this reduction in his testimony.

Q: What level of off-system sales margins is included in the Company's traditional revenue requirement in this case?

A: Based on the analysis of Mr. Schnitzer of Northbridge, the 25th percentile expectation for 2008 off-system sales margins is **[redacted]** on a total Company basis. This is the amount, on a Kansas jurisdictional basis, that KCPL included in the revenue requirement in this case and used as the off-system sales margin projection for the ECA mechanism.

Q: Please explain how you incorporated your ECA mechanism into the case?

A: We first calculated a traditional revenue requirement including fuel expense, purchased power expense and related energy costs based upon the test year with known and measurable adjustments through September 30, 2007, and projected 2008 off-system sales margins at the 25th percentile as presented in the direct testimony of KCPL witness Michael M. Schnitzer. This provided the **[redacted]** overall revenue requirement and the expected impact on retail rates. KCPL then subtracted from the revenue requirement the portion of the revenue requirement associated with fuel, purchased power and related costs (**[redacted]**), Kansas jurisdictional, as well as the off-system sales margins credit at (**[redacted]**), Kansas jurisdictional, to be recovered through the ECA, or a net **[redacted]**, and distributed this amount as a reduction across all retail energy rates. This provided the split between the portion of the revenue requirement to be collected in base retail energy rates, approximately **[redacted]** and the remainder of the revenue requirement to be collected under the proposed ECA tariff **[redacted]**. KCPL witness Tim M. Rush addresses this process in more detail in his direct testimony.

Q: How will the proposed ECA mechanism affect the requested increase in this case?

A: Because of the inclusion of an ECA mechanism, the requested increase based upon the calculated revenue requirement represents only a proxy for the actual increase for 2008 that will result from this case. The requested increase in this case is actually a combination of (a) the revenue from the proposed base retail rate schedules, (b) recovery of fuel and purchased power expense for 2008 through the ECA mechanism, and (c) credit for off-system sales margins for 2008, also through the ECA mechanism. The projected fuel, purchased power and related expenses, and the projected 2008 off-system sales margins included in the case are current estimates and will be updated near year-end 2007 for implementation of the ECA tariff.

Q: Does KCPL propose to include an emissions cost factor in its ECA mechanism?

A: Yes, it does. While sulfur dioxide ("SO_2") emission allowance sale proceeds and contract premiums for lower sulfur coal were addressed in the Appendix C-1, SO_2 Emission Allowance Management Policy, to the Regulatory Plan, and treatment for ratemaking purposes was addressed in the Stipulation and Agreement in the 2006 Rate Case, KCPL expects to begin incurring costs for nitrogen oxide ("NOx") emission allowances in 2009 and costs associated with mercury and carbon emissions are anticipated in the future as well. The ECA mechanism includes only these latter costs.

Q: Has KCPL implemented its SO_2 Plan as provided for in the SEAMP?

A: Yes. KCPL witness Wm. Edward Blunk describes in his direct testimony the 2006 SO_2 Plan and its implementation, as well as the 2007 SO_2 Plan recently submitted to the KCC Staff and CURB.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariffs to Continue the Implementation of Its Regulatory Plan	)))	Docket No. 07-KCPE-____-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 Direct Testimony on behalf of Kansas City Power & Light Company consisting of seventeen (17) pages, which has 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

Chris B. Giles

Subscribed and sworn before me this 28th day of February 2007.

Nicole A. Wehry

Notary Public

My commission expires: Feb. 4 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200