BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION	]	
OF KANSAS CITY POWER & LIGHT	]	KCC Docket No. 06-KCPE-828-RTS
COMPANY TO MODIFY ITS TARIFFS	]	
TO BEGIN THE IMPLEMENTATION OF	]	
ITS REGULATORY PLAN	]	

DIRECT TESTIMONY OF

ANDREA C. CRANE

RE: REVENUE REQUIREMENTS
AND COST OF CAPITAL

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

August 17, 2006

REDACTED VERSION

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is One North Main Street, PO Box 810, Georgetown, Connecticut 06829.

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

A. I am Vice President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989.

Q. Please summarize your professional experience in the utility industry.

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

Q. Have you previously testified in regulatory proceedings?

A. Yes, since joining The Columbia Group, Inc., I have testified in approximately 225 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, West Virginia and the District of Columbia. These proceedings involved gas, electric, water, wastewater, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony is included in Appendix A.

Q. What is your educational background?

A. I received a Masters degree in Business Administration, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. On or about January 31, 2006, Kansas City Power & Light Company ("KCPL" or "Company") filed an Application with the Kansas Corporation Commission ("KCC" or "Commission") seeking a rate increase of $42.27 million. The Company's request would result in an increase of approximately 10.56% over retail sales revenue at present rates.

The Columbia Group, Inc. was engaged by The State of Kansas, Citizens' Utility Ratepayer Board ("CURB") to review the Company's Application and to provide recommendations to the KCC regarding the Company's cost of capital and revenue requirement claims.

Q. What are the most significant issues in this rate proceeding?

A. The most significant issues in the Company's filing are a) its projected utility plant-in-service increases, including increases associated with wind generation; b) the normalization of bulk power sales; c) pension costs and associated regulatory assets; d) proposed increases in salaries and wages; and e) the Company's request for an 11.5% return on equity. In addition, the Company's filing should be evaluated in light of the Regulatory Plan that was agreed upon by the Company and the KCC Staff in Docket No. 04-KCPE-1025-GIE. In evaluating the merits of the Company's revenue requirement request, the KCC should carefully consider the extent to which the Company complied with, or failed to comply with, the provisions of the Regulatory Plan in developing its revenue requirement claim.

III. SUMMARY OF CONCLUSIONS

Q. What are your conclusions concerning the Company's revenue requirement and its need for rate relief?

A. Based on my analysis of the Company's filing and other documentation in this case, my conclusions are as follows:

1. The twelve months ending December 31, 2005 is a reasonable test year to use in this case to evaluate the reasonableness of the Company's claim.

2. The Company has a cost of equity of 9.48% and an overall cost of capital of 7.82% (see Schedule ACC-2).[1]
3. KCPL has pro forma test year rate base of $992,237,868 (see Schedule ACC-8).
4. The Company has pro forma operating income at present rates of $78,490,969 (see Schedule ACC-17).
5. KCPL has a pro forma, revenue requirement surplus of $1,487,055 (see Schedule ACC-1). This is in contrast to the Company's claimed deficiency of $42,270,000.

IV. <u>BACKGROUND OF THE REGULATORY PLAN</u>

Q. Can you briefly describe the Regulatory Plan[2] that was approved by the KCC for KCPL?

A. Approximately two years ago, KCPL requested that the KCC open a docket to address the Company's future electric supply requirements and related pricing issues. The KCC, at the request of the Company, established a workshop forum to address various issues, including Integrated Resource Planning and related financial issues. I assisted CURB in this process.

1 Schedules ACC-1, ACC-42, ACC-43, and ACC-44 are summary schedules, ACC-2 to ACC-7 are cost of capital schedules, ACC-8 to ACC-16 are rate base schedules, and ACC-17 to ACC-41 are operating income schedules.

2 Throughout this testimony, I will use the term "Regulatory Plan" to describe the provisions of the Stipulation and Agreement in Docket No. 04-KCPE-1025-GIE, as well as the provisions outlined in the associated appendices.

This workshop addressed KCPL's claim that additional generating capacity would be required in the KCPL territory over the next decade. KCPL proposed adding a new coal-fired generating facility and also proposed adding 100 MW of new wind generation. In addition, the Company proposed various projects and programs relating to reliability, environmental improvements, and Demand Response, Efficiency, and Affordability issues.

During this workshop process, KCPL expressed its concerns about being able to retain its investment grade bond rating during the period when these capital projects were being constructed and financed. The Company argued that the existing regulatory mechanism was insufficient to address projects of this size, particularly the multi-year construction of the new coal-fired generating facility. KCPL argued that these projects demand a new regulatory perspective. As a consequence, the Company entered into a Regulatory Plan that addressed certain financial and policy issues during the period of construction. The Regulatory Plan was agreed to by the Company, Staff, Sprint, and the Kansas Hospital Association. CURB was not a signatory to the Settlement Agreement for the Regulatory Plan.

Q. Please briefly outline the provisions of the Regulatory Plan.

A. Pursuant to the Regulatory Plan, KCPL agreed to undertake a series of capital investments, including the addition of 800-900 MW of new coal-fired generation and 100 MW of new wind generation. The Company also agreed to make certain investments with regard to transmission and distribution facilities and environmental upgrades, and to introduce several programs to address Demand Response, Efficiency, and Affordability issues.

The Regulatory Plan provided for KCPL to file a base rate case on or before May 1, 2006. It also requires the Company to file a base rate case on or before August 15, 2009. The Company may file additional base rate cases in 2007 and 2008.

The Regulatory Plan anticipated that KCPL would file for an Energy Cost Adjustment ("ECA"). Appendix C to the Stipulation in Docket No. 04-KCPE-1025-GIE states that "[t]he details and mechanics of the ECA will be determined in the 2006 rate case proceeding." The Regulatory Plan also provided that all off-system sales would be included above the line in the regulatory process. Pursuant to the Regulatory Plan, the Company agreed, "not to propose any adjustment or modification that would remove any portion of its off-system sales costs and revenues from being passed through the ECA mechanism."[3]

The Regulatory Plan also addressed how the sale of SO_2 emission allowances and pension costs would be handled for ratemaking purposes. Finally, the Regulatory Plan recognized that it was important for KCPL to maintain an investment grade rating during the construction process. In order to assist KCPL to maintain this rating, the Regulatory Plan contained a provision for "an amortization accounting to be referred to as a Contribution in Aid of Construction ("CIAC")."[4] Pursuant to the Regulatory Plan, the CIAC was an amount that would be treated as an additional amortization expense and added to KCPL's cost of service for ratemaking purposes if required in order to meet the cash flow requirements of the rating agencies. The Regulatory Plan provides that the accumulated CIAC will be treated as an increase to the depreciation reserve and deducted from rate base in future KCPL proceedings beginning in 2009. In essence, the CIAC provision equates to a prepayment of the new generating facilities by ratepayers if required to meet cash flow objectives.

Q. Did the Company comply with the provisions of the Regulatory Plan when it filed its base rate case?

A. No, in many ways, the Company's filing deviates from the spirit, if not the letter, of the Regulatory Plan. For example, the Company did not include an ECA in its filing. While the Regulatory Plan states that KCPL "should be allowed to implement" an ECA, I believe that the intent of the Regulatory Plan was that KCPL would file for an ECA. I believe that the intent of the Regulatory Plan was also to flow through the ECA all margins relating to off-system sales. However, in its filing, the Company has included a certain amount of off-system sales margins in base rates, and is not proposing any true-up mechanism for deviations from amounts included in base rates. The Company did not include any CIAC in its filing, stating that it believed that cash flow would be sufficient to meet the rating agency criteria without the need for CIAC.

Q. What are the credit ratios that are addressed in the Regulatory Plan?

A. The Regulatory Plan addresses three credit ratios that should be considered by the signatory parties: total debt to total capitalization, funds from operations interest coverage, and funds

3 Stipulation and Agreement, Docket No. 04-KCPE-1025-GIE, Appendix C.

from operation as a percentage of average total debt. The Regulatory Plan states that KCPL will address the first ratio through its issuance of securities. Thus, the Regulatory Plan states that the CIAC mechanism will be used, if necessary, to achieve the objectives for the other two ratios, funds from operations interest coverage and funds from operation as a percentage of average total debt.

Q. Since CURB was not a signatory to the Regulatory Plan, have you attempted to comply with the provisions of the Regulatory Plan in determining the Company's need for rate relief?

A. In spite of the fact that CURB was not a signatory to the Regulatory Plan, and in fact opposed certain provisions of the Regulatory Plan, I have attempted to comply with the Regulatory Plan to the extent that the Company itself complied with provisions of the plan. For example, while I generally oppose the inclusion of post-test year plant in rate base, the Regulatory Plan specifically permits the Company to include certain post-test year plant additions in its rate base claim. Accordingly, in this case, I have accepted the inclusion of this plant in rate base. I have also accepted the provisions regarding the ratemaking treatment for pension costs during the construction process. While I believe that the true-up methodology reflected in the Regulatory Plan represents poor regulatory policy, it was accepted by the KCC for use during this period of high construction activity. Moreover, I recognize that the proscribed pension treatment will significantly reduce the Company's risk

4 Stipulation and Agreement, Docket No. 04-KCPE-1025-GIE, page 6.

relating to pension costs. Given the magnitude of the construction activities over the next five years, I am willing to accept the pension methodology outlined in the Regulatory Plan during the construction process. However, I would urge the KCC to reevaluate this policy once construction is complete and the Company's cash flow requirements are reduced.

To the extent that the Company ignored certain aspects of the Regulatory Plan, such as the establishment of an ECA and the crediting of off-system sales margins through the ECA, I believe it is appropriate for CURB to deviate from the plan as well, if appropriate. Therefore, I have accepted the Company's proposals to include both fuel costs and off-system sales margins in base rates, although I take issue with the Company's quantification of off-system sales margins, as discussed later in this testimony.

V. <u>COST OF CAPITAL AND CAPITAL STRUCTURE</u>

Q. What is the cost of capital and capital structure that the Company is requesting in this case?

A. The Company utilized the following capital structure and cost of capital in its filing:

	Percent	Cost Rate	Weighted Cost
Common Equity	53.81%	11.50%	6.19%
Preferred Stock	1.52%	4.29%	0.07%
Long Term Debt	44.67%	6.16%	2.75%
Total	100.00%		9.01%

A. <u>Capital Structure</u>

Q. Are you recommending any adjustments to this capital structure or cost of capital?

A. Yes, I am recommending adjustments to the Company's capital structure, its cost of debt, and its cost of equity claims.

Q. How did the Company determine its capital structure claim in this case?

A. KCPL's claim is based on the projected capital structure of its parent company, Great Plains Energy ("GPE") at September 30, 2006. As discussed in the testimony of KCPL witness Samuel C. Hadaway at page 8, the Company's pro forma capital structure contains two significant changes from the actual capital structure at December 31, 2005. First, KCPL reflected an equity offering of $100 million made in 2006. Second, the Company projected an increase of 30 basis points in its cost of long-term debt, due to the replacement of debt "in auction-rate mode" during 2006.

Q. Has the Company provided further information about its actual capital structure?

A. Yes, it has. In response to KCC-232, the Company provided its updated actual capital structure at March 31, 2006, as well as a pro forma capital structure reflecting the additional equity offering in May 2006 as well as retirement of KLT affordable housing notes that matured in May 2006. The details of this response are confidential. However, I have reflected this updated capital structure at Schedule ACC-2. This adjustment reflects a known and measurable change to the test year and should be recognized for ratemaking purposes.

B. <u>Cost of Debt</u>

Q. What cost of debt have you included in your overall cost of capital recommendation?

A. I have used the Company's pro forma cost for long-term debt as updated in the response to KCC-232. This response includes the actual GPE cost of debt at March 31, 2006, adjusted to reflect the retirement of the affordable housing notes in May 2006.

C. <u>Cost of Equity</u>

Q. How did you develop your recommended cost of equity?

A. The KCC has traditionally relied upon the Discounted Cash flow Model ("DCF") as the primary mechanism to determine cost of equity for a regulated utility. Therefore, in determining an appropriate return on equity for KCPL, I have relied primarily upon the DCF.

The DCF method is based on the following formula:

$$\text{Return on Equity} = \frac{D_1}{P_0} + g$$

where "D_1" is the expected dividend, "P_0" is the current stock price, and "g" is the expected growth in dividends.

The DCF methodology is generally applied to a comparable group of investments, usually to a group of companies that provide the same utility service as the utility service for which rates are being set. In order to determine a comparable group of companies, I utilized the same comparable group as that selected by the Company. To determine an appropriate dividend yield for comparable companies, i.e. the expected dividend divided by the current price, I calculated the dividend yield of each of the comparable companies under two scenarios. First, I calculated the dividend yield using the average of the stock prices for each company over the past three months. The use of a dividend yield using a three-month average price mitigates the effect of stock price volatility for any given day. The three-month average is also consistent with the methodology used by KCPL witness Hadaway. Based on the average stock prices over the past three months, and the current dividend for each company, I determined an average dividend yield for the comparable group of 4.66%, as shown in Schedule ACC-5. I also calculated a current dividend yield at July 26, 2006, which showed an average dividend yield for the comparable group of 4.41%. This calculation is also shown in Schedule ACC-5. Based on these determinations, I recommend that a dividend yield of 4.66% be used in the DCF calculation. This recommended dividend yield is consistent with Dr. Hadaway's findings of a 4.62% average dividend and a 4.67% median dividend for the comparable group. My recommended dividend yield will be increased by ½ of my recommended growth rate, as determined below, to reflect the fact that the DCF model is prospective and dividend yields may grow over the next year. Increasing the dividend yield by ½ of the prospective growth rate is commonly referred to as the "half year convention."

Q. How did you determine an appropriate growth rate?

A. The actual growth rate used in the DCF analysis is the dividend growth rate. In spite of the fact that the model is based on dividend growth, it is not uncommon for analysts to examine several growth factors, including growth in earnings, dividends, and book value.

Various growth rates for the companies within my comparable group are shown in Schedule ACC-6 and summarized below:

Past 5 Years - Earnings	(0.6%)
Past 5 Years - Dividends	(1.8%)
Past 5 Years - Book Value	1.3%
Past 10 Years - Earnings	(0.1%)
Past 10 Years - Dividends	(0.7%)
Past 10 Years - Book Value	1.8%

Estimated Next 5 Years - Earnings	4.9%
Estimated Next 5 Years - Dividends	3.7%
Estimated Next 5 Years - Book Value	3.7%

Q. Why do you believe that it is reasonable to examine historic growth rates as well as projected growth rates when evaluating a utility's cost of equity?

A. I believe that historic growth rates should be considered because security analysts have been notoriously optimistic in forecasting future growth in earnings. At least part of this problem in the past has been the fact that firms that traditionally sell securities are the same firms that provide investors with research on these securities, including forecasts of earnings growth. This results in a direct conflict of interest since it has traditionally been in the best interest of securities firms to provide optimistic earnings forecasts in the hope of selling more stock. As a result of this practice, the Wall Street investment firms agreed to a $1.4 billion settlement with securities regulators. Pursuant to that settlement, ten major Wall Street law firms agreed to pay $1.4 billion to investigating state regulators and the United States Securities and Exchange Commission ("SEC"). Approximately $900 million of this amount constituted fines. The remainder was earmarked for various education and independent research activities. In addition, firms were required to sever the links between their stock research activities and their investment banking activities. Therefore, earnings growth forecasts should be analyzed cautiously by state regulatory commissions.

Q. Based upon your review, what growth rate do you recommend be utilized in the DCF calculation?

A. Based on my review of this data, I believe that a growth rate of no greater than 4.9 % should be utilized. This recommended growth rate is equal to the projected five-year growth rate in earnings per Value Line. Moreover, my recommended growth rate is higher than the actual average growth rates over the past five or ten years in earnings, dividends or book value. It is also higher than the projected five-year growth rates for dividends or book value.

Q. What cost of equity is produced by the DCF methodology?

A. My analysis indicates a cost of equity using the DCF methodology of 9.67%, as shown below:

Dividend Yield	4.66%
Growth in Dividend Yield (1/2 X 6.0% X 3.45%)	0.11%
Expected Growth	4.90%
Total	9.67%

Q. Did you also calculate a cost of equity based on the CAPM methodology?

A. Yes, I did.

Q. Please provide a brief description of the CAPM methodology.

A. The CAPM methodology is based on the following formula:

$$\text{Cost of Equity} = \text{Risk Free Rate} + \text{Beta (Risk Premium)}$$

or

$$\text{Cost of Equity} = R_f + B(R_m - R_f)$$

The CAPM methodology assumes that the cost of equity is equal to a risk-free rate plus some market-adjusted risk premium. The risk premium is adjusted by Beta, which is a measure of the extent to which an investor can diversify his market risk. The ability to diversify market risk is a measure of the extent to which a particular stock's price changes relative to changes in the overall stock market. Thus, a Beta of 1.00 means that changes in the price of a particular stock can be fully explained by changes in the overall market. A stock with a Beta of 0.60 will exhibit price changes that are only 60% as great as the price changes experienced by the overall market. Utility stocks have traditionally been less volatile than the overall market, i.e., their stock prices do not fluctuate as significantly as the market as a whole, and therefore their Betas have generally been less than 1.0.

Q. How did you calculate the cost of equity using the CAPM?

A. My CAPM analysis is shown in Schedule ACC-7. First, I used a risk-free rate of 5.11% for the yield on long-term U.S. Government bonds, which was the rate at July 27, 2006 per the Statistical Release by the Federal Reserve Board. Over the past year, this rate has ranged from 4.51% to 5.25%. In addition, I used the average Beta for the proxy group. This resulted in an average Beta of 0.77. Finally, since I am using a long-term U.S. Government bond rate as the risk-free rate, the risk premium that should be used is the historic risk premium of stocks over the rates for long-term government bonds. According to the 2006 Ibbotson Associates' publication, *2006 Yearbook: Stocks, Bonds, Bills, and Inflation*, the risk premium of using geometric mean returns is 4.9%.

Q. What is the difference between a geometric and an arithmetic mean return?

A. An arithmetic mean is a simple average of each year's percentage return. A geometric mean takes compounding into effect. As a result, the arithmetic mean overstates the historic return to investors. For example, suppose an investor starts with $100. In year 1, he makes 100% or $100. He now has $200. In year 2, he loses 50%, or $100. He is now back to $100.

The arithmetic mean of these transactions is 100% - 50% or 50%/ 2 = 25% per year. The geometric mean of these transactions is 0%. In this simple example, it is clear that the geometric mean more appropriately reflects the real return to the investor, who started with $100 and who still has $100 two years later. The use of the arithmetic mean would suggest that the investor should have $156.25 after two years ($100 X 1.25 X 1.25), when in fact the investor actually has considerably less. Therefore, a geometric mean return is a more appropriate measure of the real return to an investor, if it is used as I am using it here, i.e., to develop an historic relationship between long-term risk free rates and market risk premiums. Some utilities have criticized me in the past for using a geometric, rather than an arithmetic mean return, arguing that the arithmetic mean should be used when estimating future returns. However, in my case, I am not using the mean to develop an expected outcome, I am simply using the mean returns to develop an historic relationship. Therefore, the geometric mean is the appropriate measure, as illustrated in the above example.

Q. Did Dr. Hadaway also utilize a geometric mean in his risk premium analysis?

A. Yes, he did. In at least one of his risk premium analyses, Dr. Hadaway relied upon the geometric mean returns as reported by Value Line.

Q. What is the Company's cost of equity using a CAPM approach?

A. Given a long-term risk-free rate of 5.11%, a Beta of 0.77, and a risk premium of 4.9%, the CAPM methodology produces a cost of equity of 8.88%, as shown on Schedule ACC-7.

Risk Free Rate + Beta (Risk Premium) = Cost of Equity

5.11% + (0.77 X 4.9%) = 8.88%

Q. Based on your analysis of the DCF and CAPM results, what cost of equity are you recommending in this case?

A. The DCF methodology and the CAPM methodology suggest that a return on equity of 8.88 %

to 9.67% would be appropriate. Since I recognize that the Commission has generally relied primarily upon the DCF, I have weighted my results with a 75% weighting for the DCF methodology and a 25% weighting for the CAPM methodology. This results in a cost of equity of 9.48%, as shown below:

DCF Result	9.67% X 75% =	7.26%
CAPM	8.88% X 25% =	2.22%
Total		9.48%

Q. Why is your recommendation substantially lower than the cost of equity recommended by Dr. Hadaway?

A. My recommendation is substantially lower than Dr. Hadaway's primarily because he used unrealistic growth projections to achieve his results and he discarded his primary DCF result on the basis that the result was too low, ignoring completely his own analysis of the constant state DCF model. Dr. Hadaway calculated three DCF results: one using the traditional constant state model, one using the long-term Gross Domestic Product ("GDP") as the growth rate, and one using a two-stage growth model consisting of the Value Line three-to-five year earnings projections followed by the long-term GDP rate. It is interesting to note that Dr. Hadaway's traditional constant state model yielded a cost of equity of 9.3% to 9.4%, below my DCF result of 9.67%. This is the result Dr. Hadaway summarily discards. It was only by using unrealistic long-term GDP growth rates in the other two versions of the DCF model that Dr. Hadaway was able to increase the Company's cost of equity claim. Dr. Hadaway claims that the long-term GDP "is the most general measure of economic growth in the U.S. economy."[5] While it may be true that GDP is the most general measure of economic growth in the U.S. economy, it does not follow that GDP is an appropriate rate to utilize for utility dividends in a DCF model. Moreover, Dr. Hadaway used the average of the GDP growth over 10, 20, 30, 40, 50, and 57 years. However, as shown on Schedule SCH-6 to Dr. Hadaway's testimony, the ten year average of 5.2% and the twenty year average of 5.6% are both well below the growth rates of over 7.0% that occurred in the remaining periods reviewed. Thus, his long-term result relied heavily upon GDP in the decade from 1971 to 1984, a period of significant growth. Given that the Company's Regulatory Plan anticipates another base rate case filing in each of the next two years, and requires another filing in 2009, I believe that a growth rate based primarily on growth from 1971 to 1984 is misplaced. There is no evidence that GDP growth is the appropriate growth rate to use for utility dividends and this is especially true of GDP growth from thirty years ago.

With regard to his risk premium models, Dr. Hadaway used a forecasted triple-B utility bond rate. While GPE is currently rated triple-B, that rating is significantly impacted by GPE's more risky, unregulated operations. Thus, it is more appropriate to utilize the long-term government bond rate in the risk premium analysis, as I have done, along with the appropriate risk premiums based on the geometric mean returns.

5 Testimony of Dr. Hadaway, page 30.

Finally, it should be noted that, in spite of all the flaws in Dr. Hadaway's analysis, his recommended comparable group cost of equity recommendation is only 11.0%. An additional 50 basis points have been added to the cost of equity recommendation. KCPL claims that it deserves this cost of equity bonus in order to compensate the Company for its "high level of construction" and its "high level of utility performance."[6] However, I soundly reject both of these claims. Any additional risk accruing to the Company as a result of its construction program was addressed through the Regulatory Plan approved by the KCC last year. The fact that the Company chose to ignore certain provisions of that plan is no reason to award KCPL a cost of equity bonus over its legitimate and demonstrated cost of capital. In addition, the KCC does not provide bonuses for utilities based on performance measures, i.e., the "substantial value to customers" that results from KCPL's service. Regulated utilities have the responsibility to provide safe and adequate utility service in return for their right to hold a franchise and provide monopoly service. All utilities should be offering services of "substantial value" to customers. Thus, the Company's claim for a performance bonus award should be rejected.

According to the testimony of KCPL witness Terry D. Bassham at page 3, "the risk premium associated with the construction component of KCPL's Regulatory Plan increases KCPL's cost of capital by approximately 50 basis points." However, the parties negotiated a Regulatory Plan in order to address the risk associated with the long-term construction projects proposed by KCPL. The parties worked for one year to develop a Regulatory Plan

6 Testimony of Mr. Giles, page 19.

that was ultimately approved by the KCC. To mitigate the financial risk during project construction the plan included a CIAC regulatory mechanism to maintain the Company's cash flow at investment grade levels. The regulatory plan specifically does not include a return on equity bonus. One has to ask how many times the Company plans to use its construction projects as an excuse to further bend the regulatory process? The fact that KCPL choose to ignore certain aspects of the Regulatory Plan, including the availability of CIAC, does not mean that the KCC should now reward the Company with a return on equity bonus. Any cash flow shortfalls resulting from the use of an appropriate return on equity were supposed to be made up through the use of the CIAC mechanism. Therefore, the Company's request for a return on equity bonus associated with construction risk should be denied.

D. Overall Cost of Capital

Q. What is the overall cost of capital that you are recommending for KCPL?

A. As shown on Schedule ACC-2, I am recommending an overall cost of capital for KCPL of 7.82 %.

VI. RATE BASE ISSUES

Q. What test year did the Company utilize to develop its rate base claim in this proceeding?

A. The Company selected the test year ending December 31, 2005. In addition, the Company made various post-test year adjustments through September 30, 2006.

Q. What financial data did the Company use to develop its filing?

A. KCPL filed its rate case based on a test year ending December 31, 2005, adjusted for certain changes through September 30, 2006. The Company's filing was based on nine months of actual results for 2005 and three months of projections ("9 + 3").

Q. Did the Company formally update its filing to reflect a full year of actual results?

A. No, it did not. The Company did provide updated information on rate base and operating income in response to a data request, but to my knowledge the Company has not formally updated its claim.

Q. Did you reflect updated financial results in your revenue requirement calculation?

A. For the most part, I relied upon the Company's original filing and did not attempt to update each component of the Company's rate base and operating income claims to reflect actual results. There are two reasons why I relied primarily upon the Company's original filing. First, the actual results for the twelve months ending December 31, 2005 were not significantly different than projected in the Company's filing. KCPL did not revise its revenue increase request as a result of these updates. In fact, the Company indicated in the response KCC-140 that "[a]djustments originally calculated based on the 9 + 3 system amounts...have been modified only where necessary to result in appropriate adjusted totals when applied to the 12-month actual amounts. No other updates to the filed amounts have been made that this time." Second, the Company did not update its workpapers to reflect 12 months of actual data. Therefore, the underlying support for the Company's claim continues to be based upon its "9 + 3" filing. Since I relied heavily upon those workpapers to develop my adjustments, for the most part I continued to rely upon the Company's original filing when developing my recommended revenue requirement.[7]

A. Utility Plant In Service

Q. Are you recommending any adjustment to the Company's claim for utility plant in service?

A. Yes, I am recommending one adjustment to the Company's claim. Specifically, I am recommending an adjustment relating to the Company's wind generation.

Q. Please describe the Company's claim for wind generation.

A. The Company has included a post-test year adjustment of $166 million (excluding AFUDC) related to the addition of a 100 MW wind generation facility. The Company projects that this

7 As discussed later in this testimony, I did utilize the actual test year expense for the Company's injuries and

facility will be completed in September 2006. This project was included in the Regulatory Plan at a projected cost of $130.8 million.

The Company claims that the significant cost increase in the project is primarily the result of increased demand for wind turbines due to the extension of certain tax credits for projects completed by December 31, 2007. In spite of this increase, KCPL claims that the net present value revenue requirement of the project over its life will be less than originally anticipated, due to an increase in the capacity factor assumed for the project.

Q. Do you have any concerns about the Company's claim?

A. Yes, I do. While renewable energy is an admirable goal, I am concerned that the Company did not fully explore its options with regard to wind generation. KCPL failed to issue a Request for Proposals for a long-term purchased power agreement associated with wind facilities. Thus, at this point, the KCC has no way of knowing if less expensive options were available to KCPL. Therefore, it is impossible to conclude that KCPL's decision to own the wind generation was the best option for the Company and its ratepayers, particularly given the other major construction projects being undertaken by KCPL.

In addition, the new projected capacity factor is high relative to many other wind projects.[8] Therefore, given the significant increase in capital costs, the wind project may not be nearly as favorable as projected by the Company over its life. Ultimately, there will be no way of knowing for sure how the wind project compares with other sources of generation

damages expense.

until the project is up and running. If the actual capacity factor is lower than estimated, then the project could be much more expensive than projected.

Q. Do utilities have an incentive to own their own facilities rather than acquiring generation through purchased power agreements?

A. Yes, they do. There are only two ways that shareholders can increase their authorized operating income returns in a regulated environment. The first is to increase the return on equity awarded by a regulatory agency. The second is to increase the rate base upon which that return is earned. Therefore, utilities have a financial incentive to own their own facilities rather than purchasing power through long-term agreements.

Q. What do you recommend?

A. Given the significant increase in capital costs and the questionable capacity factor now being used by the Company to support its decision to build wind generation, I recommend that the KCC limit the Company's capital costs to the costs approved in the Regulatory Plan, i.e., $130.8 million (excluding AFUDC). It was the Company's decision not to evaluate the potential for a purchased power agreement, which could have been less costly than building the wind facility on its own. The Company's shareholders should absorb any additional costs resulting from that decision. My adjustment is shown in Schedule ACC-9.

8 The specific factor is confidential but can be found on page 5 of Mr. Grimwade's testimony.

B. Accumulated Depreciation

Q. How did the Company develop its claim for accumulated depreciation?

A. The Company's claim for accumulated depreciation is based on its balance at December 31, 2005, adjusted to reflect additions to the depreciation reserve through September 30, 2006. The Company developed its post-test year adjustment by including nine months of the September 2005 provision for depreciation.

Q. Do you believe that the Company's methodology is reasonable?

A. No, I do not. KCPL has included significant post-test year capital additions in its rate base claim. While the Company has included depreciation expense associated with these additions in its depreciation expense claim, its depreciation reserve adjustment does not include any depreciation on these post-test year additions, since none of these additions were in-service in September 2005. Therefore, the Company's claim for post-test year adjustments to its reserve for depreciation is understated.

Q. What do you recommend?

A. I recommend an adjustment to reflect additions to the depreciation reserve that include depreciation on post-test year plant additions. In developing my adjustment, I have not included depreciation on the wind generation, since that project is not expected to be in-service until September 2006. However, I have assumed that the remaining post-test year additions of $70.6 million will be added throughout the nine-month period between January

1, 2006 and September 30, 2006. Assuming total additions over this period of $70.6 million, the average incremental plant would be ½ of this amount, or $30.3 million, of which approximately $16.0 million would be the Kansas jurisdictional share. I then calculated nine months of additional depreciation expense on this average plant balance, using a composite depreciation rate. My adjustment is shown in Schedule ACC-10.

C. <u>Fossil Fuel Inventory</u>

Q. How did the Company develop its claim for fossil fuel inventory?

A. As described on page 33 of Mr. Blunk's testimony, inventory values for oil, lime and limestone were calculated using the average inventory quantities for the 13-month period ending September 2005, multiplied by the September 2005 per unit value. Coal inventory was determined based on a Utility Fuel Inventory Model ("UFIM") that attempts to identify the level of inventory resulting in the lowest expected overall cost.

Q. Are you recommending any adjustment to the Company's claim?

A. Yes, I am. I am recommending an adjustment to the quantity of coal inventory. As discussed in the Company's testimony, the coal supplies have been impacted by rail disruptions, speculative traders, and clean air regulations. Moreover, some sources claim that these disruptions are likely to continue during 2006. Accordingly, the Company's inventory claim for coal inventory, which is based on modeling rather than on actual results, appears to be overstated. The Company's projected inventory levels are very high relative to actual inventory levels over the past sixty months and high relative to actual levels in 2006 to date.[9]

Q. What do you recommend?

A. I recommend that the coal inventory level be based on the average balance for the thirteen months ending September 2005. This methodology is consistent with the methodology used by KCPL for other types of fuel inventory. Moreover, it appears reasonable in light of actual inventory levels since the end of the test year. My adjustment is shown in Schedule ACC-11.

Q. Are you recommending any adjustment to the unit price for coal included in the Company's inventory claim?

A. No, I am not. According to page 17 of Mr. Grimwade's testimony, the Company has contractual commitments for all of its expected coal requirements for 2006 and 2007. Therefore, I have not made any adjustment to the per unit cost included in the Company's claim.

9 The monthly data can be found in the responses to CURB-21, KCC-98, and MPSC-155R, all of which are confidential.

D. Pension Assets

Q. Please describe the regulatory assets included in rate base related to the Company's pension expense.

A. There are two regulatory assets included in rate base that relate to pensions, the "Prior Net Prepaid Pension Asset", which I will refer to as the Prepaid Pension Asset, and the Pension Regulatory Asset. As noted above, the Regulatory Plan outlined the ratemaking treatment that would be used to account for the Company's pension expense during the construction period covered by the plan. Pursuant to the Regulatory Plan, the signatory parties agreed that the Company had a Prepaid Pension Asset of $28,963,526 on a Kansas jurisdictional basis. According to Appendix C of the Stipulation and Agreement in Docket No. 04-KCPE-1025-GIE, the Prepaid Pension Asset represents "the recognition of a negative Statement of Financial Accounting Standards No. 87 (FAS 87) result used in setting rates in prior years." The Regulatory Plan included a provision whereby the Prepaid Pension Asset would be adjusted by the difference between the annual FAS 87 pension expense, as calculated for regulatory purposes, and the annual contributions made by the Company to the pension fund. In its filing, KCPL has included in rate base a Prepaid Pension Asset of $10,920,909 ($24,654,855 on a total company basis) at September 30, 2006.

In addition, the Regulatory Plan permitted KCPL to establish a Pension Regulatory Asset for the difference between the FAS 87 expense as determined for ratemaking purposes and the amount of pension expense collected from ratepayers. The Regulatory Plan further stated that the current amount being collected in rates was $22,000,000, on a total company basis. The Regulatory Plan stated that the Pension Regulatory Asset would be amortized over a five-year period beginning in the next base rate case. KCPL included a Pension Regulatory Asset of $15,099,675 ($33,213,943 total company) in rate base at September 30, 2006, representing the difference between its FAS 87 pension expense and the amount collected in rates.

Q. Are you recommending any adjustments to the Company's claim for the Prepaid Pension Asset?

A. Yes, I am recommending two adjustments, resulting from updating 2006 estimated FAS 87 costs and 2005 actual pension contributions. In response to CURB-117, the Company provided information about its current estimated FAS 87 costs for ratemaking purposes. The Company had originally estimated a regulatory FAS 87 expense of $45,537,886 (total company) for 2006. However, in response to CURB-117, KCP&L indicated that its projected FAS 87 regulatory pension expense, based on the most recent estimate, was only $42,402,864. Therefore, I have made an adjustment to increase the Company's Prepaid Pension Asset to reflect this revised estimate. Regulatory pension expense decreases the Prepaid Pension Asset while contributions to the pension fund increase the Prepaid Pension Asset. Since the FAS 87 regulatory expense for 2006 is less than projected, the decrease to the Prepaid Pension Asset is smaller than originally claimed by KCP&L. My adjustment is shown in Schedule ACC-12.

Moreover, in response to CURB-64, the Company indicated that it made total pension contributions of $13,849,096 in 2005. KCP&L's filing included 2005 pension contributions of $13,962,555. Therefore, I have also updated the Prepaid Pension Asset to reflect the actual 2005 contributions to the plan. This adjustment is also shown in Schedule ACC-12.

Q. Are you recommending any adjustments to the Company's claim for the Pension Regulatory Asset?

A. Yes, I am recommending a similar adjustment to reflect the updated 2006 estimated FAS 87 costs. Regulatory pension expense increases the Pension Regulatory Asset, while amounts collected in rates decrease the Pension Regulatory Asset. Since the FAS 87 regulatory expense for 2006 is less than projected, the increase to the Pension Regulatory Asset is smaller than originally claimed by KCP&L. My adjustment is shown in Schedule ACC-13.

Q. Since you are not recommending any adjustment to the pension methodology reflected in the Company's filing, does that mean that you agree with the methodology contained in the regulatory plan?

A. No, it does not. The Prepaid Pension Asset is an accounting convention that should not be included in rate base. Pursuant to FAS 87, a pension expense can be either positive or negative. If it is positive, then the pension plan is under-funded from an actuarial perspective and ratepayers are required to provide additional funding for the plan. If the pension expense is negative under FAS 87, then the plan is over-funded and ratepayers receive a credit in cost of service due to the fact that the pension expense was higher than necessary in prior years.

The actual cash funding of the plan, i.e., the amount of contributions to the plan actually made by KCPL, is governed by ERISA requirements and IRS regulations.

A negative pension expense means that the Company actually collected its pension expense early from ratepayers, i.e., it collected more from ratepayers in prior years than was necessary. This does not mean that the Company did anything wrong or illegal. The negative pension expense, which is what gives rise to the Prepaid Pension Asset, occurs because pension expense is based on estimates of several variables, including future market returns. Since estimates are involved in this process, the FAS 87 mechanism has a built-in rolling true-up in that each year's pension expense is based on what actually happened in the past relative to prior projections, as well as on projections for the future. A negative pension expense means that the Company's estimates in the past resulted in higher pension expense than would have been necessary, based on the actual market returns, actual demographics of employees, actual pension benefits, etc.

The Company is essentially giving back to ratepayers this over-collection through the pension credit. These are amounts that have already been charged to pension expense and now are essentially being refunded. Therefore, ratepayers have prepaid these amounts. If there is any cash working capital implication, these amounts should be deducted from rate base, not added to rate base, since these credits represent a prepayment of pension expense.

Moreover, it is clear that KCPL's Prepaid Pension Asset is not tied to the amount collected by KCPL from ratepayers relating to pension costs. In response to CURB-65, KCPL admitted that over the past ten years the amount of pension costs collected from ratepayers was not addressed in the rate settlements entered into during that period. Therefore, it is just as likely that the Company over-collected, rather than under-collected, its pension expenses from ratepayers during the time that the Prepaid Pension Asset was being booked.

The booking of a Prepaid Pension Asset results from accounting requirements that have no relationship to the ratemaking treatment afforded these costs. Therefore, there is no regulatory rationale for including a Prepaid Pension Asset in rate base.

Q. Do you have similar concerns with regard to the Pension Regulatory Asset?

A. I also oppose the inclusion of the Pension Regulatory Asset in rate base, but for different reasons. The Pension Regulatory Asset results from the true-up of amounts collected in rates and actual FAS 87 costs. While such a true-up may have intuitive appeal, I believe that such true-ups distort the regulatory process. Utilities have the opportunity to earn their authorized rate of return by managing their business appropriately. Regulation was designed as a substitute for competition, not as a reimbursement system. If operating costs are subject to true-up, then regulators may as well go home and just have the utility submit an audited income statement each year. In addition, providing for such true-ups provides a disincentive for the utility to efficiently manage its costs. With regard to FAS 87 costs specifically, the use of a true-up mechanism may provide an incentive for a utility to utilize overly conservative estimates of market returns and other variables, since it knows that all annual costs are essentially being guaranteed by ratepayers. As a general policy matter, I believe that true-up mechanisms are bad for regulation and bad for ratepayers.

Q. Given your opinion about the Prepaid Pension Asset and the Pension Regulatory Asset, why have you included both of these assets in rate base?

A. As stated earlier, I have attempted to comply with the provisions of the Regulatory Plan to the extent that those provisions have been complied with by KCPL. Since the KCC did approve the ratemaking treatment for pension expense contained in the Regulatory Plan, I have utilized that methodology in developing my revenue requirement. Moreover, I do recognize that the Company is entering into a significant construction period and that the KCC has agreed to abandon many of the traditional regulatory principles in setting rates for KCPL during this period. Therefore, I have included both the Prepaid Pension Asset and the Pension Regulatory Asset in my rate base calculation. It should be noted, however, that the Regulatory Plan permits the parties to propose a different methodology for pension costs in the first KCPL rate case proceeding after 2010. Therefore, I view the pension methodology outlined in the Regulatory Plan as a temporary measure, to provide the Company with further cash flow during the construction cycle. My use of this methodology should not be interpreted as agreement with this methodology, but only the temporary acceptance of a poor regulatory practice during extraordinary times.[10]

10 My concerns about reimbursement ratemaking also extend to other aspects of the Company's claim, such as DSM costs, but I will not repeat my argument in other areas of my testimony.

E. Demand Side Management ("DSM") Regulatory Asset

Q. Please explain the Company's claim associated with the DSM Regulatory Asset.

A. The Regulatory Plan addresses a number of Demand Response, Efficiency and Affordability programs to be undertaken by the Company over the next several years. Pursuant to the Regulatory Plan, "KCPL will accumulate costs for these programs in regulatory asset accounts as the costs are incurred through the next base rate case. The amortization of these costs and return will be determined in the next rate case."[11]

In its filing, the Company included a DSM Regulatory Asset of $3,454,599. It proposed to amortize this asset over a period of ten years.

Q. What has been the actual spending to date for these programs?

A. The actual spending to date has been well below the amount estimated by KCPL. As shown in the response to KCC-258, the deferred balance at June 30, 2006 was only $879,969. Moreover, of that amount, $139,268 represented internal KCPL costs.

Q. Are you recommending any adjustment to the Company's claim for the DSM Regulatory Asset?

A. Yes, I am recommending two adjustments. First, I am recommending that the KCC utilize the actual deferred balance at June 30, 2006. This is the most recent information that I have on the actual deferred balance. It is clear that the pace of spending has been much slower

11 Stipulation and Agreement, Docket No. 04-KCPE-1025-GIE, paragraph 4.

than anticipated by KCPL. Accordingly, it is reasonable to limit these deferred balances to amounts actually incurred through June 2006.

Second, I am recommending that costs for internal labor be rejected. The Company's operating expense claim already includes a full complement of employees, based on budgeted employees at December 31, 2005. Permitting the Company to recover internal costs relating to DSM, as well as employee payroll costs, would result in a double recovery of these costs. Unless the Company can demonstrate that there are incremental employees who will be solely dedicated to the DSM function, internal costs should be excluded from the Company's DSM balance.

At Schedule ACC-14, I have made adjustments to reflect the actual June 30, 2006 deferred balance of DSM costs, net of internal costs, in my rate base calculation. The amortization of these costs will be discussed in Section VII. (H) of my testimony.

F. <u>Regulatory Asset - Rate Case Costs</u>

Q. How did the Company develop its claim for rate case costs in this case?

A. The Company's claim includes total rate case costs of $3.02 million for the Kansas and Missouri proceedings. The Company split these projected costs 50/50 between the Kansas and Missouri jurisdictions. KCPL then included a regulatory asset at September 30, 2006 of $1.51 million in the Kansas jurisdictional rate base. In addition, KCPL included operating expense of $755,000 annually in its operating and maintenance expense claim, representing recovery of these costs over two years.

Q. Do you have any comments about the Company's claim?

A. Yes, I do. The Company has obviously spared no expense in these filings. The number of witnesses in this case is staggering. KCPL has presented the testimony of 22 witnesses, in spite of the fact that there is a Regulatory Plan that was supposed to address the ratemaking treatment for certain issues and simplify this process. To put the Company's claim in perspective, KCPL's rate case claim is several times higher than CURB's entire consultants' budget for 2006. Not only has KCPL hired several outside experts to assist on specific issues, but in many cases the testimony of KCPL witnesses is repetitive. CURB is presenting one witness in this case. While I am not recommending any specific expense adjustment to the Company's claim, I do not believe that KCPL should also be permitted to earn a return on this entire balance, especially when at the same time the Company is recovering $755,000 annually in rates related to rate case costs. Accordingly, I recommend that the Company's claim for inclusion of the deferred balance in rate base be denied. My adjustment is shown in Schedule ACC-15.

Q. How do you believe that costs such as rate case costs, which occur periodically but not annually, should be treated for ratemaking purposes?

A. These types of costs should be normalized, rather than amortized, to avoid violating the prohibition against retroactive ratemaking. Normalization attempts to include a normalized, prospective level of costs in future rates, while amortization provides for the recovery of previously incurred costs.

If a utility incurs a cost periodically, but not necessarily annually, regulators should include an annual amount in rates that is likely to permit the utility to recover these periodic costs. This is a different regulatory philosophy than providing for guaranteed dollar-for-dollar recovery of a previously incurred cost through prospective rates. If costs are normalized, then by definition there is no unamortized balance to include in rate base, providing further support for my adjustment shown in Schedule ACC-15.

G. Accumulated Deferred Taxes

Q. What are accumulated deferred taxes?

A. Deferred income taxes reflect the tax impact of timing differences between when an expense is reported for income tax purposes taxes and when it is reported for book or ratemaking purposes. The accumulated deferred tax reserve reflects amounts that have been collected from ratepayers for income taxes, which have not yet been paid to the Internal Revenue Service. The majority of deferred income taxes relate to timing differences in the depreciation rates used for tax and book purposes. In this case, deferred taxes also arise as a result of timing differences related to other expenses, such as deferred DSM costs, deferred homeland security costs, and regulatory costs.

Q. Are you recommending any adjustments to the Company's accumulated deferred tax reserve?

A. Yes, I am recommending one adjustment. KCPL has included an adjustment to the accumulated deferred tax reserve related to the tax impact of deferred DSM costs. Since I am recommending an adjustment to the amount of deferred DSM costs included in the Company's claim, it is necessary to make a corresponding adjustment to reduce the Company's deferred income tax reserve. My adjustment is shown in Schedule ACC-16.

H. <u>Summary of Rate Base Issues</u>

Q. What is the impact of all of your rate base adjustments?

A. My recommended adjustments reduce the Company's rate base claim from $1,014,794,214, as reflected in its filing, to $992,237,868, as summarized on Schedule ACC-8.

VII. <u>OPERATING INCOME ISSUES</u>

A. <u>Pro Forma Revenues</u>

Q. Are you recommending any adjustments to the Company's pro forma revenue claim?

A. Yes, I am recommending an adjustment to the Company's pro forma revenue claim relating to off-system sales.

Q. Was the treatment of off-system sales margins addressed in the Regulatory Plan?

A. Yes, it was. Appendix C, Section C of the Regulatory Plan states as follows:

> The parties also agree that profits from off-system sales should continue to be included above-the-line in the regulatory process during the term of the Five-Year Regulatory Plan. KCPL specifically agrees not to propose any adjustment or modification that would remove any portion of its off-system sales costs and revenues from being passed through the ECA mechanism. The specific details of the ECA mechanism will be determined in the 2006 rate proceeding.

KCPL did not propose an ECA mechanism in its filing. Instead, the Company is proposing that fuel and purchased power costs, as well as off-system sales revenues, be included in base rates.

Q. Wasn't the Company obligated to file for an ECA mechanism in this case pursuant to the Regulatory Plan?

A. I am not an attorney and I cannot offer a legal opinion about the Company's obligations. However, as a participant in the workshop process, it was certainly my impression that KCPL agreed to file for an ECA, and to credit the ECA with all off-system sales margins. The Regulatory Plan itself, however, appears to be permissive, stating that "...KCPL should be allowed to implement an Energy Cost Adjustment...." However, the section of the Regulatory Plan that addresses off-system sales margins clearly anticipated that an ECA would be included in the Company's filing, although it left the specific details of the ECA to be worked out in this proceeding.

Q. How did the Company determine the amount of off-system sales margins to include in base rates?

A. In order to determine the most probable amount of off-system sales revenue that would be received by the Company, KCPL engaged Northbridge Group, Inc. ("Northbridge") to conduct a detailed risk analysis of the off-system sales market. As discussed by Mr. Giles on page 21 of his testimony, this analysis considered factors such as market price, volumetric risk associated with generation variable cost, generation unit outages, coal supply availability, weather, and uncertainty of retail sales growth. Northridge developed a most-likely level of retail sales, the details of which are confidential.

In preparing the revenue requirement in this case, KCPL included off-system sales margins at the 75% probability level. Based on the model, there is a 75% chance that actual off-system sales margins will exceed this amount, and a 25% chance that the actual off-system sales margins will fall short of this amount.

Q. Are you recommending any adjustment to the Company's claim?

A. Yes, I am recommending that the Company's claim be adjusted to include the amount of off-system sales revenues that <u>are most likely</u> to occur. This would equate to the best estimate of KCPL and Northbridge, based on the detailed analysis conducted by Northbridge. Regulatory commissions establish utility rates based on pro forma financial information, which includes normalized sales based on expected operating conditions. The same is true of expenses to the extent that regulatory commissions permit pro forma expense adjustments, i.e., regulatory commissions include pro forma adjustments that represent the most-likely or expected scenario. Regulatory commissions do not set revenues artificially low or expenses artificially high so that the Company will be guaranteed to earn its authorized return.

In this case, KCPL has a 75% chance of earning off-system sales margins that are higher than those reflected in utility rates. Accordingly, shareholders have a 75% chance of benefiting from these additional margins. This lop-sided proposal should be rejected by the KCC in favor of a more balanced approach that reflects the most-likely outcome for off-system sales revenues.

Q. Didn't the Company state that it would propose some mechanism to address the potential upside for off-system sales margins and to provide some benefit to ratepayers for these additional margins?

A. Yes, Mr. Giles states that a proposal may be made closer to the effective date of new rates. He discusses some options such as return on equity sharing mechanisms, earmarking of additional earnings for future CIAC, adjustments to the risk sharing formula of off-system sales, and potential refunds. However, to my knowledge, KCPL has not formally made any such proposals in this case. Moreover, the KCC has already approved an alternative mechanism to handle off-system sales, i.e., the ECA, which has been rejected by KCPL.

KCPL had the opportunity to shift to ratepayers all risks with regard to off-system, as well as all risks with regard to fuel and purchased power costs, by filing for an ECA. If the

Company's shareholders do not want to assume a reasonable level of risk, then KCPL should have included an ECA mechanism in its filing, and credited all off-system sales to the ECA. This would have relieved shareholders of all risk, and transferred that risk entirely to ratepayers. This is the mechanism that was clearly envisioned in the Regulatory Plan. Instead, the Company obviously decided that it was more important to provide shareholders with a potential windfall benefit, resulting in the lop-sided proposal included in the filing. The Company's proposal is not balanced, in that there is a 75% chance that off-system sales margins will provide additional earnings to shareholders, and a 25% chance that shareholders will need to absorb additional costs. However, the Company's proposal also means that there is a 75% chance that ratepayers will not receive all of the benefits due to them pursuant to the Regulatory Plan.

If the Company was not willing to take on a reasonable amount of risk, it should have filed for an ECA. It did not do so. Accordingly, risk related to off-system sales margins should be shared equally between ratepayers and shareholders. This equal risk sharing approach requires the inclusion of the most-likely level of off-system sales margins in rates. At Schedule ACC-18, I have made an adjustment to include the most likely level of off-system sales margins, as determined by Northbridge, in the Company's revenue requirement.

B. Payroll Expense

Q. How did the Company develop its payroll claim in this case?

A. KCPL's claim is based on the number of budgeted employees for KCPL and GPE[12] in 2006. In developing its claim, the Company annualized payroll increases expected to occur by September 30, 2006. This included union increases ranging from 3.00% to 3.75% and management increases of 4.0%. With regard to Wolf Creek payroll costs, the Company assumed payroll increases of 3.75% for management employees and of 3.0% for union employees. In addition to payroll costs, the Company also made adjustments to include overtime costs, severance costs, and incentive payments in its claim.

Q. Are you recommending any adjustments to the Company's claim?

A. Yes, I am recommending adjustments relating to payroll increases, employee vacancies, overtime costs, and severance costs.

Q. Please describe your first payroll adjustment.

A. As noted, KCPL included estimated 2006 payroll increases in its claim. Subsequent to the filing, the Company provided information about actual 2006 increases. At Schedule ACC-19, I have made an adjustment to reflect the actual payroll increases for KCPL union (1464) employees, KCPL and GPE management employees, and Wolf Creek management employees. With regard to KCPL union 1464 employees, the actual payroll increase was

12 Approximately 62.7% of GPE's costs are allocated to KCPL.

3.5%, instead of the 3.75% included in the Company's claim. KCPL and GPE management employees received an average increase of 3.8%, instead of the 4.0% included in the Company's claim. Wolf Creek management employees received a 3.86% increase, instead of the 3.75% included in the Company's claim. I have updated the Company's pro forma payroll expense to reflect these actual payroll increases. According to the response to KCC-81, the actual payroll increases for KCPL's other union employees were identical to those included in the filing so no adjustment was required.

Q. Are there any actual 2006 payroll increases that you did not reflect in your filing?

A. Yes. In response to KCC-82, the Company indicated that executive employees at Wolf Creek received an average actual increase of 7.93%. This is more than double the increase of 3.75% included in the Company's filing and is also more than double the increase awarded to other Wolf Creek management employees. The increase of 7.93% is also well above the typical payroll increases being granted by other utilities. Therefore, I have not included this 7.93% increase in my pro forma payroll expense. Instead, I have reflected the 3.75% increase originally projected by KCPL.

Q. What is your second payroll adjustment?

A The Company's claim assumes a full complement of budgeted employees. However, as shown in the Company's Manpower Reports, KCPL/GPE have consistently had a large number of vacant positions. According to the reports provided in response to KCC-38, there were 76.8 vacant positions at the end of the test year.

It is normal and customary for companies to have unfilled positions at any given time as a result of terminations, transfers, and retirements. If utility rates are set based on a full complement of employees, and if these employee positions remain vacant, then ratepayers will have paid rates that are higher than necessary, to the benefit of shareholders. Therefore, when setting rates, I recommend that the Commission consider the fact that, at any given time, positions are likely to be vacant.

Q. How did you quantify your adjustment?

A. My adjustment is based on the average percentage of vacant positions for each month during 2005, the test year in this case. Based on the reports provided in response to KCC-38, I calculated that, on average, 2.77% of the Company's positions were vacant during 2005. Therefore, I reduced the Company's payroll expense claim by 2.77% to eliminate payroll costs associated with vacant positions. It should be noted that before applying my 2.77% recommended adjustment, I first reduced the Company's claim by the amount of my payroll increase adjustment discussed above, to avoid double-counting the impact of that payroll increase adjustment.

I then reduced my recommended adjustment to eliminate the portion of payroll costs that is billed to Joint Partners, as well as the portion of payroll costs that is capitalized. Finally, I applied the Kansas-jurisdictional allocator to determine the amount of the adjustment allocated to Kansas. My adjustment is shown in Schedule ACC-20.

Q. Please describe how the Company developed its claim for overtime costs.

A. According to KCPL's workpapers, a reorganization that occurred in August 2005 resulted in numerous personnel being moved from GPE to KCPL. Therefore, KCPL examined historic overtime, on a combined basis for both KCPL and GPE, in order to develop its overtime cost claim. Specifically, KCPL first adjusted KCPL and GPE overtime costs for the period January 1, 2003 through September 30, 2005, to reflect all costs in equivalent 2005 dollars. The Company assumed 3% annual payroll increases for the purpose of determining equivalent 2005 dollars. It then averaged monthly KCPL costs for this period, together with GPE costs from January 1, 2003 through July 31, 2005, to develop an average, annualized overtime cost for KCPL. To develop pro forma overtime costs for GPE, the Company annualized the actual overtime costs incurred in August and September 2005, subsequent to the reorganization. The Company then adjusted the resulting costs to reflect an average post-test year increase of 3.98% for overtime costs.

Q. Are you recommending any adjustments to the Company's overtime costs?

A. Yes, I am recommending two adjustments. First, instead of averaging overtime costs over a multi-year period, I believe that it is more appropriate to average the overtime hours incurred. The purpose of using a multi-year period is to smooth out fluctuations in the level of overtime activity, which can vary greatly from year-to-year. Thus, it is more appropriate to develop a normalized level of overtime, and then to price out those hours at existing payroll rates.

Therefore, I have generally followed the methodology used by the Company in its filing, but instead of averaging costs (in equivalent 2005 dollars), I averaged the hours of overtime experienced by KCPL from January 1, 2003 through September 30, 2005, together with the hours of overtime at GPE from January 1, 2003 through July 31, 2005. This resulted in annual overtime of 311,752 hours, as shown in Schedule ACC-21. I then priced these hours at the average overtime rate of $53.09 per hour, which was based on actual 2005 data. This resulted in the annualized pro forma overtime costs at September 30, 2005. I then increased these costs by the 3.98% post-test year overtime rate increase assumed in the Company's filing. Additional adjustments were made to eliminate amounts billed to Joint Partners and capitalized costs. Finally, I determined the Kansas-jurisdictional share. My adjustment is shown in Schedule ACC-21.

Q. What is the second adjustment you made to overtime costs?

A. In its filing, the Company assumed that all GPE overtime costs are allocated to KCPL. However, only approximately 62.7% of GPE costs are allocated to KCPL. In response to KCC-167, the Company acknowledged that an adjustment was necessary in order to reflect only the 62.7% of GPE overtime costs allocated to KCPL. In developing my pro forma overtime adjustment, I have included only 62.7% of GPE's historic overtime hours.

Q. Please discuss the Company's claim for severance costs.

A. In its filing, KCPL included average annualized GPE severance payments, based on actual payments over a 30-month period ending September 30, 2005. The Company based its claim for KCPL severance payments on a 45-month period, from January 1, 2002 through September 30, 2005. KCPL included total severance costs of $1,717,020 in its claim. Of this amount, $1,232,291 is attributable to GPE.

Q. Are you recommending any adjustment to the Company's claim for severance costs?

A. Yes, I have made an adjustment to eliminate three, very large severance payments made by GPE from the calculation of GPE's normalized severance costs. According to the response to CURB-51, three officers were paid a total of $3,613,316 in severance costs during the 2003-2005 time period. It is unreasonable to expect ratepayers to fund severance payments of this magnitude. These three payments constitute approximately 73.5% of all of the GPE severance costs over the 30-month period used in the Company's analysis. While I have no particular objection to the Company paying severance costs of this magnitude, these costs should not be borne by regulated ratepayers. These costs are clearly not the on-going, normalized, recurring type of severance costs that regulatory commissions often permit in rates. Instead, these costs should be considered extraordinary and non-recurring, and excluded from regulated utility rates. To the extent that management decides to pay severance costs of this magnitude, they should be funded by Company shareholders. My adjustment to eliminate these costs from the Company's calculation of its severance costs is shown in Schedule ACC-22.

Q. Finally, have you also made an adjustment to the Company's payroll tax expense claim?

A. Yes, I have made an adjustment to eliminate the payroll taxes associated with my payroll adjustments relating to 2006 payroll increases, vacant positions, overtime costs, and severance costs. To quantify these adjustments, I utilized the statutory Social Security and Medicare tax rate of 7.65%. These payroll tax adjustments are shown in Schedule ACC-23.

C. Pension Expenses

Q. How did the Company determine its pension expense claim in this case?

A. KCPL's pension expense claim has two components. First, the Company has made an adjustment to reflect its projected 2006 FAS 87 pension costs in base rates. Second, KCPL has made an adjustment to amortize the Pension Regulatory Asset over a period of five years. As discussed in the Rate Base section of this testimony, the Pension Regulatory Asset is the difference between the amount of pension costs as calculated pursuant to FAS 87 and the amount reflected in regulated rates, which was defined as $22 million per the Regulatory Plan.

Q. Are you recommending any adjustment to the Company's claim?

A. Yes, I am recommending two adjustments. First, since the Company filed its case, it has reduced its projection for 2006 FAS 87 pension costs by approximately \$3.1 million. Therefore, at Schedule ACC-24, I have updated the Company's claim to reflect the reduction in 2006 projected costs.

Second, since the Company is permitted to defer the difference between its FAS 87 costs and the amount collected in rates, the revision of the projection for 2006 FAS 87 costs also impacts on the calculation of the deferred balance for the Pension Regulatory Asset. That adjustment is shown in Schedule ACC-13 and was discussed in the Rate Base section of my testimony. The Regulatory Plan permits this balance to be amortized over a five-year period. Since the projected deferred balance amount at September 30, 2006 has changed, the annual amortization expense associated with the deferred balance must also be adjusted. Therefore, at Schedule ACC-25, I have made an adjustment to pension amortization expense to reflect a five-year amortization of the revised Pension Regulatory Asset.

D. Employee Benefits

Q. Has the Company revised its claim for other-post employment benefit costs, or FAS 106 costs, since its filing was submitted?

A. Yes, it has. KCPL's filing includes \$5,487,538 for FAS 106 costs. According to the response to CURB-65, KCPL is now projecting 2006 FAS 106 costs of \$5,430,456. I have reflected this adjustment at Schedule ACC-26 of my testimony.

Q. Are you also recommending an adjustment to the Company's claim for costs associated with its 401K contributions?

A. Yes, I am. In its filing, KCPL included 401K costs, based on annualized payroll costs at KCPL and GPE. The Company used a contribution rate of 2.369% for KCPL payroll and of $1.926% for GPE payroll. This equates to a composite contribution rate of approximately 2.36%.

Since I am recommending adjustments to the Company's payroll cost claim, it is necessary to make corresponding adjustments to its claim for related 401K costs. Therefore, I have reduced the Company's 401K cost claim to eliminate contributions related to the payroll costs that I have disallowed. In developing my adjustment, I considered only my payroll adjustments relating to 2006 payroll increases and to vacant positions, since 401K contributions are generally calculated on base pay. I applied the composite 401K contribution rate of 2.36% to my recommended adjustments related to 2006 payroll increases and vacant positions in order to quantify the related 401K adjustment, as shown on Schedule ACC-27.

E. Maintenance Expense Adjustment

Q. How did the Company develop its claim for maintenance costs in this case?

A. KCPL began by calculating a six-year average (2000-2005) of its maintenance costs. The Company then made a series of adjustments to that six-year average. Specifically, the Company made additional adjustments to: 1) remove costs associated with Grand Avenue;

2) utilize a three-year average for Hawthorn Unit 5, since 2001 and 2002 were considered unusual maintenance years; 3) include maintenance costs for five new turbines added in 2005; 4) reflect future turbine overhauls for Hawthorn Unit 5 and LaCygne Unit 2; and 5) eliminate certain costs incurred related to Generator Start-Up ("GSU") Transformer failures on Hawthorn Unit 5 and Montrose Unit 3.

Q. Are you recommending any adjustments to the Company's claim?

A. Yes, I am recommending one adjustment relating to the turbine overhaul for Hawthorn Unit 5. As described in the testimony of KCPL witness Crawford, KCPL's maintenance plans include "sectionalized turbine overhauls" for Hawthorn Unit 5, with one of the three turbine sections being overhauled every two years. The Company has developed its annual cost claim for the Hawthorn Unit 5 turbine overhaul based on the average annual budgeted costs for 2006 to 2010. During this period, the Company is projecting two years when overhauls will occur and two years where no overhaul will take place. The Company expects to incur *****BEGIN CONFIDENTIAL** [redacted] **END CONFIDENTIAL***** Thus, it has included average annual costs over this period of*****BEGIN CONFIDENTIAL** [redacted] **END CONFIDENTIAL***** in its claim.

The use of a four-year average is unnecessary in this case and serves to distort the amount included in rates. Since a turbine overhaul will occur, on average, every two years, then it is more reasonable to include a two-year average, rather than a four-year average, in the Company's revenue requirement. This is especially true in this case, since the Regulatory Plan anticipates that KCPL will be filing frequent rate cases over the next four years. In fact, the Company may be filing another rate case as early as 2007. In any event, the use of cost data that is three or more years into the future, and that is based on budgeted data that is subject to change, is too speculative and too far past the end of the test year to be used in the ratemaking process. For all these reasons, I recommend that the turbine overhaul costs for Hawthorn Unit 5 be based on the two-year overhaul cycle, and that the amount included in the Company's revenue requirement be based on the average of the overhaul costs expected to be incurred in 2006 and 2007. My adjustment is shown in Schedule ACC-28. The Company will have the opportunity to update its prospective Hawthorn Unit 5 turbine overhaul costs when it files its next base rate case as part of the Regulatory Plan.

F. <u>Legal Costs - Surface Transportation Board ("STB") Complaint</u>

Q. Please describe the Company's claim for costs related to the complaint filed by KCPL with the Surface Transportation Board.

A. KCPL has included an expense adjustment to reflect anticipated costs relating to a complaint that the Company filed with the STB. As discussed on page 23 of Mr. Blunk's testimony, in that complaint KCPL charged that Union Pacific Railroad ("UP")'s rates for the movement of coal from the Power River Basin in Wyoming to KCPL's Montrose Generating Station were unreasonable. The Company's pro forma expense claim relating to this complaint was based on KCPL's expectation that the parties would file opening evidence in the second quarter of 2006 and that the STB would issue an order by the fourth quarter 2007. The Company's filing included an adjustment to reflect additional costs related to this complaint that it expected to incur between January 1, 2006 and September 30, 2006.

Q. What is the current status of that proceeding?

A. On February 27, 2006, the STB instituted a rulemaking proceeding "...to address major issues regarding the proper allocation of the stand-alone cost (SAC) test in rail rate cases and the proper calculation of the floor for any rail rate relief."[13] In its Order establishing that rulemaking, the STB noted "The changes we adopt here will be applied in future SAC rate cases, as well as to the STB Docket No. 42095 (the KCP&L case), a pending SAC case in which the record has not yet begun to be developed. Accordingly, the procedural schedule for discovery and the submission of evidence in the KCP&L case is suspended." The STB established a schedule for the rulemaking that includes the filing of rebuttal comments on June 30, 2006, and noted that it intended to make a final decision within 120 days after all comments have been received. Thus, it is unlikely that any action will be taken by the STB prior to September 30, 2006.

Q. What do you recommend?

A. Given the fact that the STB is unlikely to issue any rules prior to September 30, 2006, and given the uncertainty with regard to the rules that are ultimately issued by the STB, I

13 STB Ex Parte No. 657 (Sub-No. 1).

recommend that the Company's proposed adjustment relating to the STB complaint be excluded at this time from its revenue requirement claim. My adjustment is shown in Schedule ACC-29.

G. Credit Card Costs

Q. Please describe the Company's claim for credit card processing costs.

A. As discussed in the testimony of Ms. Nathan, KCPL is proposing to permit customers to pay their bills using credit and debit cards. In its filing, the Company included both set-up charges and on-going transaction fees associated with this program.

With regard to transaction costs, KCPL will be charged both a fixed cost per transaction as well as a variable cost per transaction. The variable cost per transaction is based on the average amount of the payment. These incremental costs will be offset by certain cost savings to the Company, such as savings in lockbox payment fees and check clearing fees. The Company has utilized a 10% usage rate in its calculation, i.e., KCPL assumes that 10% of payments will be made by credit / debit cards. KCPL is proposing to offer the program only to residential customers.

Q. Are you recommending any adjustment to the Company's claim?

A. Yes, I am recommending two adjustments in the assumptions used by KCPL. First, the average residential bill for KCPL is significantly less than $150, and will remain significantly less even in the unlikely event that the full amount of the Company's rate increase request is granted. Based on information provided in Section 17 to the Company's filing, the current average residential bill is $77.73. The average bill increases to $86.02 if the entire amount of the Company's request is granted. Thus, the use of an average bill of $150 overstates the variable costs of the credit/ debit card program.

At Schedule ACC-30, I have made an adjustment to calculate the pro forma credit/ debit card transactional costs, assuming an average bill of $86.02. My adjustment is very conservative, since I am actually recommending an overall rate decrease for KCPL. Therefore, the Company's variable costs may be well below the amount that I have included in my revenue requirement calculation.

Q. What is your second recommended adjustment?

A. My second adjustment reduces the customer usage rate from 10% to 5%. In response to KCC-212, the Company provided documentation showing that KCPL's program was based on the assumption of adoption rates of 4.9% in the first year of the program and of 9.9% in the second year of the program. Moreover, this documentation showed that the telecom industry, which has been using credit cards for many years, has a usage rate of only 12%, and that VISA has estimated usage of 7-10% overall. Since the Company has not yet introduced the program, the customer usage rate of 10% included in the Company's cost claim is overly optimistic. Accordingly, I am recommending that a customer usage rate of 5% be used to determine the Company's pro forma costs. This usage rate can be reevaluated, based on actual results, when the Company files its next base rate case. My adjustment is shown in

Schedule ACC-30.

H. DSM Amortization Costs

Q. Please describe your adjustment relating to the amortization of deferred DSM costs.

A. As discussed in the Rate Base section of this testimony, the Company has included in its rate base claim estimated deferred costs relating to a number of Demand Response, Efficiency and Affordability programs. KCPL is proposing to amortize these costs over a period of 10 years.

Since I have made an adjustment to reduce the Company's deferred balance at September 30, 2006, due to the fact that the Company has spent considerably less than it originally projected, it is necessary to make a corresponding adjustment to the amortization expense associated with this deferred balance. Therefore, at Schedule ACC-31, I have made an adjustment to reflect a ten-year amortization, based on my recommended deferred balance.

I. Injuries and Damages Expense

Q. Are you recommending any adjustments to the Company's claim for injuries and damages expenses?

A. Yes, I am. While KCPL did not propose any adjustment to its actual test year costs for injuries and damages expense, the Company's test year claim was based on estimated data for the last quarter of 2005. Moreover, a review of the Company's injuries and damages expense over the past several years, demonstrates that the projected test year amount was very high relative to historic levels. In its filing, KCPL included injuries and damages expense of $10,017,239, significantly higher than the actual costs incurred in any of the prior four years, as shown below:

Year	Injuries and Damages Expense
2001	$2,233,639
2002	$5,509,139
2003	$7,040,355
2004	$6,622,190
Company Filing	$10,017,239

I am recommending that the Company's claim be revised to reflect the actual 2005 injuries and damages expense. This amount was provided in the Company's test year update filed in response to KCC-140. In that response, KCPL indicated that its actual test year injuries and damages expense was $9,038,759. While this amount is still well above the costs incurred in any of the prior four years, it is more reasonable than the estimated test year cost included in the Company's claim. My recommended adjustment is shown in Schedule ACC-32.

J. Corporate Image Advertising

Q. Are you recommending any adjustment to the Company's claim for advertising costs?

A. Yes, I am recommending that corporate image advertising costs of $640,750 be disallowed. Corporate image advertising should not be included in a regulated utility's revenue requirement. The purpose of such advertising is to promote the institution, in this case KCPL and GPE, and its shareholders. Such advertising is designed to favorably influence customer opinion. These ads constitute "soft-lobbying" of ratepayers on behalf of the Company. This advertising is also used to enhance the attractiveness of offerings made by unregulated affiliates of the utility. Such advertising is not necessary for the provision of regulated utility service and should not be paid for by ratepayers. At Schedule ACC-33, I have made an adjustment to eliminate corporate image advertising costs from rates.

Q. How did you identify the amount of corporate image advertising included in the Company's claim?

A. To quantify the amount of corporate image advertising costs included in the Company's claim, I relied upon KCPL's response to KCC-122. This response specified the amount of "Image Advertising" included by the Company in regulated accounts during the test year.

K. Lobbying Expenses

Q. Are you recommending any adjustment to the Company's claim for lobbying expenses?

A. Yes, I am recommending that lobbying costs be disallowed. According to the Company's response to CURB-79, KCPL's filing includes lobbying costs of $306,281. I am recommending that these costs be disallowed. My adjustment is shown in Schedule ACC-34.

Q. Are lobbying costs an appropriate expense to include in a regulated utility's cost of service?

A. No, they are not. Lobbying costs are not necessary for the provision of safe and adequate utility service. Moreover, the lobbying activities of a regulated utility may be focused on policies and positions that enhance shareholders but may not benefit, and may even harm, ratepayers. Regulatory agencies generally disallow costs involved with lobbying, since most of these efforts are directed toward promoting the interests of the utilities' shareholders rather than its ratepayers. Ratepayers have the ability to lobby on their own through the legislative process. Moreover, lobbying activities have no functional relationship to the provision of safe and adequate electric service. If the Company were to immediately cease contributing to these types of efforts, utility service would in no way be disrupted. Clearly, these costs should not be borne by ratepayers. For all these reasons, I recommend that lobbying activities be disallowed as shown in Schedule ACC-34.

L. <u>Other Miscellaneous Expense Adjustments</u>

Q. Are there other costs included in the Company's revenue requirement claim that should not be borne by ratepayers?

A. Yes, there are. According to the response to KCC-64, KCPL has included $96,846 of costs associated with the Kansas City Royals in its claim. This includes season tickets as well as costs for Customer Appreciation Day. These costs do not directly relate to the provision of safe and adequate regulated utility service and they should not be borne by regulated ratepayers. Moreover, ratepayers do not receive any benefit from these expenditures, except for the lucky few that get the opportunity to attend Kansas City Royals games along with Company personnel. It is unreasonable to expect all utility customers to subsidize baseball tickets for the lucky few. Accordingly, at Schedule ACC-35, I have made an adjustment to eliminate these costs from my recommended revenue requirement.

In addition, the Company included in its claim $75,363 related to two Directors and Officers retreats attended by various officers and their spouses. In response to KCC-254, the Company quantified these costs and agreed to remove them from its regulated cost of service. The adjustment to eliminate these officer retreat costs is shown in Schedule ACC-36.

M. Property Tax Expense

Q. How did the Company develop its property tax expense claim in this case?

A. The Company's claim was based on its 2006 budgeted property tax costs, adjusted to reflect an additional 2006 property tax levy of 1.18% and further adjusted to reflect utility plant balances at September 30, 2006. This resulted in a total property tax claim of $58,487,187. The Company then made an additional adjustment to reflect estimated payments in lieu of taxes ("PILOT") of $300,000 relating to the new wind generation facility.

Q. Are you recommending any adjustments to the Company's property tax claim?

A. Yes, I am recommending that the additional 2006 property tax levy of 1.18% be disallowed. KCPL indicated it its workpapers that this amount was based on the three-year average of system wide increases. However, the 2006 budgeted property tax expense, used as the basis for the Company's claim, already contains an increase over the actual 2005 composite property tax rate. Therefore, no further adjustment should be necessary. My adjustment is shown in Schedule ACC-37.

In addition, while I am not recommending any disallowance to KCPL's property tax adjustment relating to September 30, 2006 plant balances, it should be noted that in most cases property taxes are assessed based on prior year valuations. Therefore, KCPL may not be charged property taxes on 2006 plant additions until 2007 or 2008, depending upon the practices of the specific taxing authority.

Q. Did you also make an adjustment to the amount of PILOT related to the wind generation that was included in the Company's claim?

A. Yes, I did. In its filing, KCPL included estimated PILOT of $300,000, but it stated that agreements with the School District and County were not yet finalized. In response to KCC-106S, the Company provided updated information. KCPL has now entered into agreements with Ford County and School District #381 that provide for 30 annual payments beginning in

2007. Total payments in 2007 will be $330,000. Therefore, at Schedule ACC-37, I have also made an adjustment to reflect PILOT of $330,000, instead of the $300,000 included in the Company's claim.

N. Depreciation Expense

Q. Are you recommending any adjustment to the Company's depreciation expense claim?

A. Yes, I am recommending one adjustment. As discussed previously, I am recommending certain adjustments relating to the wind generation that the Company included in its rate base claim. Therefore, at Schedule ACC-38, I have made an adjustment to exclude annual depreciation expense associated with my recommended plant disallowance. To quantify my adjustment, I used the 5% depreciation rate for wind generation facilities included in the Company's filing.

O. Interest Synchronization and Taxes

Q. Have you adjusted the pro forma interest expense for income tax purposes?

A. Yes, I have made this adjustment at Schedule ACC-39. It is consistent (synchronized) with my recommended rate base, capital structure, and cost of capital recommendations. I am recommending a lower rate base, a higher debt ratio, and a lower cost of debt than the rate base, debt ratio, and cost of debt included in the Company's filing. My recommendations result in a lower pro forma interest expense for the Company. This lower interest expense, which is an income tax deduction for state and federal tax purposes, will result in an increase to the Company's income tax liability under my recommendations. Therefore, my recommendations result in an interest synchronization adjustment that reflects a higher income tax burden for the Company, and a decrease to pro forma income at present rates.

Q. What income tax factors have you used to quantify your adjustments?

A. As shown on Schedule ACC-40, I have used a composite income tax factor of 39.78%, which includes a state income tax rate of 7.35% and a federal income tax rate of 35%. These are the state and federal income tax rates contained in the Company's filing. My revenue multiplier, which is shown in Schedule ACC-41, reflects these same income tax factors. In addition, the revenue multiplier includes uncollectible costs at the 0.43% rate proposed by KCPL.

VIII. REVENUE REQUIREMENT SUMMARY

Q. What is the result of the recommendations contained in this testimony?

A. My adjustments show that KCPL has a revenue surplus at present rates of $1,487,085, as summarized on Schedule ACC-1. My recommendations result in revenue requirement adjustments of $43,757,085 to the Company's requested revenue requirement increase of $42,270,000.

Q. Have you quantified the revenue requirement impact of each of your recommendations?

A. Yes, at Schedule ACC-42, I have quantified the revenue requirement impact of the rate of return, rate base, revenue and expense recommendations contained in this testimony.

Q. Have you developed a pro forma income statement?

A. Yes, Schedule ACC-43 contains a pro forma income statement, showing utility operating income under several scenarios, including the Company's claimed operating income at present rates, my recommended operating income at present rates, and operating income under my proposed rate decrease. My recommendations will result in an overall return on rate base of 7.82%.

Q. Will your recommended rate decrease require additional cash flow through the CIAC mechanism in order for the Company to meet its coverage ratios?

A. I am not sure. There were two coverage ratios included in the Regulatory Plan that can be addressed through the CIAC mechanism, funds from operations as a percentage of interest coverage and funds from operations as a percentage of total debt. (The third ratio, total debt to total capital, is being addressed by KCPL through its issuance of securities.) Since KCPL did not include the CIAC mechanism in its claim, it did not provide all of the parameters necessary for me to evaluate the need for CIAC under my recommended rate decrease. In the Attachment to MWC-2, the Company did provide the calculation of the two relevant ratios using data from the 2004 Surveillance Report. However, the Company did not provide a calculation of the ratios based on its claim in this case nor did it update certain variables to reflect its current capital structure and interest expense.

I have attempted to examine the resulting coverage ratios based on the information available to me from the Company's filing. These calculations are shown in Schedule ACC-44. The calculation of funds from operations utilizes the operating income and depreciation and amortization reflected in my revenue requirement calculation. Deferred income taxes are based on the amount included in the Company's filing. I have calculated total debt based on the Kansas-jurisdictional share of total debt reflected in my capital structure. I have calculated pro forma interest expense on this debt, based on the composite debt cost used in my cost of capital calculation.

For the remaining variables, capitalized lease obligations, off-balance sheet adjustments, interest on short-term debt, and off-balance sheet interest expense, I have reflected the amounts provided in the Attachment to Schedule MWC-2. However, I have not made an independent review of these amounts, to determine if they should be included in the coverage ratio calculation. I simply present them on Schedule ACC-44, to provide the KCC with a preliminary indication of whether a CIAC adjustment is necessary.

Q. What are the coverage ratios resulting from your calculation?

A. As shown on ACC-44, I calculate a funds from operations / interest coverage ratio of 4.19. This is well above the target ratio of 3.8 referenced in the Regulatory Plan. Clearly, no CIAC is required in order for the Company to meet this ratio.

With regard to funds from operations / total debt, my preliminary calculation shows a ratio of 19.96%, below the 25% target specified in the Regulatory Plan. However, the 19.96% is still in the range for BBB debt, as shown in Appendix E to the Regulatory Plan. Moreover, the denominator of this ratio contains $75.8 million in off-balance sheet adjustments and capitalized lease obligations, which may not be appropriate to include in the calculation or may have been overstated by KCPL. In fact, the Regulatory Plan acknowledged that it may be improper to include these obligations, stating that, "[t]he prudence of the 'Capitalized Lease Obligations' and 'Off-Balance Sheet Obligations' will be determined in the first general rate case that affords the Commission the opportunity to review the matter." Therefore, at this time, I do not have sufficient information to definitively conclude whether or not a CIAC adjustment is needed to meet this second ratio and maintain an investment grade rating for KCPL.

Q. If the KCC finds that a CIAC adjustment is necessary, how should such an adjustment be viewed for ratemaking purposes?

A. Any CIAC approved by the KCC should be considered a prepayment on the coal plant. As stated in the Regulatory Plan, these amounts should be deducted from rate base beginning with the rate case in 2009.

Q. Does the KCC have other options regarding the use of the CIAC mechanism in this case?

A. Yes, they do. Given the fact that the KCC has already departed from traditional ratemaking principles in approving the Regulatory Plan, the KCC could set the return on equity at a lower rate than the return recommended herein, and instead include CIAC sufficient for the Company to meet its cash flow coverage ratios. Since the Company's primary concern during the construction period is cash flow, as recognized in the Regulatory Plan, the KCC could set rates based exclusively on the need for the Company to meet those coverage ratios. While the overall level of rates may not be reduced, the advantages of this methodology to ratepayers is that all CIAC serves to reduce the amount of rate base attributable to the new coal-fired generating facility. Thus, instead of providing shareholders with the opportunity to earn all of the profits to which they might be due in a traditional rate case, the CIAC would be used as a prepayment on the plant.

All parties acknowledge that the ambitious construction cycle over the next few years will require sacrifice from ratepayers. It is entirely appropriate for the KCC to expect shareholders to also sacrifice during this period of intense construction through lower income levels. Thus, regardless of the need for CIAC resulting from my revenue requirement recommendations, it would be entirely appropriate for the KCC to replace operating income with CIAC during the construction period.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF CONNECTICUT)

COUNTY OF FAIRFIELD) ss:

Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing testimony, and that the statements made herein are true to the best of her knowledge, information and belief.

Andrea C. Crane

Andrea C. Crane

Subscribed and sworn before me this 11th day of August, 2006.

Notary Public Marjorie M. Herin

My Commission Expires: December 31, 2008

Original verification is filed with the confidential version

APPENDIX A

List of Prior Testimonies

The Columbia Group, Inc., Testimonies of Andrea C. Crane

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Midwest Energy, Inc.	G	Kansas	06-MDWG-1027-RTS	7/06	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Cablevision Systems Corporation	C	New Jersey	CR05110924, et al.	5/06	Cable Rates - Forms 1205 and 1240	Division of the Ratepayer Advocate
Montague Sewer Company	WW	New Jersey	WR05121056	5/06	Revenue Requirements	Division of the Ratepayer Advocate
Comcast of South Jersey	C	New Jersey	CR05119035, et al.	5/06	Cable Rates - Form 1240	Division of the Ratepayer Advocate
Comcast of New Jersey	C	New Jersey	CR05090826-827	4/06	Cable Rates - Form 1240	Division of the Ratepayer Advocate
Parkway Water Company	W	New Jersey	WR05070634	3/06	Revenue Requirements Cost of Capital	Division of the Ratepayer Advocate
Aqua Pennsylvania, Inc.	W	Pennsylvania	R-00051030	2/06	Revenue Requirements	Office of Consumer Advocate
Delmarva Power and Light Company	G	Delaware	05-312F	2/06	Gas Cost Rates	Division of the Public Advocate
Delmarva Power and Light Company	E	Delaware	05-304	12/05	Revenue Requirements Cost of Capital	Division of the Public Advocate
Utility Systems, Inc.	WW	Delaware	335-05	9/05	Regulatory Policy	Division of the Ratepayer Advocate
Westar Energy, Inc.	E	Kansas	05-WSEE-981-RTS	9/05	Revenue Requirements	Citizens' Utility Ratepayer Board
Empire Electric District Company	E	Kansas	05-EPDE-980-RTS	8/05	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Comcast Cable	C	New Jersey	CR05030186	8/05	Form 1205	Division of the Ratepayer Advocate
Pawtucket Water Supply Board	W	Rhode Island	3674	7/05	Revenue Requirements	Division of Public Utilities and Carriers
Delmarva Power and Light Company	E	Delaware	04-391	7/05	Standard Offer Service	Division of the Public Advocate
Patriot Media & Communications CNJ, LLC	C	New Jersey	CR04111453-455	6/05	Cable Rates	Division of the Ratepayer Advocate
Cablevision	C	New Jersey	CR04111379, et al.	6/05	Cable Rates	Division of the Ratepayer Advocate
Comcast of Mercer County, LLC	C	New Jersey	CR04111458	6/05	Cable Rates	Division of the Ratepayer Advocate
Comcast of South Jersey, LLC, et al.	C	New Jersey	CR04101356, et al.	5/05	Cable Rates	Division of the Ratepayer Advocate
Comcast of Central New Jersey LLC, et al.	C	New Jersey	CR04101077, et al.	4/05	Cable Rates	Division of the Ratepayer Advocate
Kent County Water Authority	W	Rhode Island	3660	4/05	Revenue Requirements	Division of Public Utilities and Carriers
Aquila, Inc.	G	Kansas	05-AQLG-367-RTS	3/05	Revenue Requirements Cost of Capital Tariff Issues	Citizens' Utility Ratepayer Board

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Chesapeake Utilities Corporation	G	Delaware	04-334-F	3/05	Gas Service Rates	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	04-301F	3/05	Gas Cost Rates	Division of the Public Advocate
Delaware Electric Cooperative, Inc.	E	Delaware	04-288	12/04	Revenue Requirements Cost of Capital	Division of the Public Advocate
Public Service Company of New Mexico	E	New Mexico	04-00311-UT	11/04	Renewable Energy Plans	Office of the New Mexico Attorney General
Woonsocket Water Division	W	Rhode Island	3626	10/04	Revenue Requirements	Division of Public Utilities and Carriers
Aquila, Inc.	E	Kansas	04-AQLE-1065-RTS	10/04	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	04-121	8/04	Conservation Rates (Affidavit)	Division of the Public Advocate
Atlantic City Electric Company	E	New Jersey	ER03020110 PUC 06061-2003S	8/04	Deferred Balance Phase II	Division of the Ratepayer Advocate
Kentucky American Water Company	W	Kentucky	2004-00103	8/04	Revenue Requirements	Office of Rate Inter-vention of the Attorney General
Shorelands Water Company	W	New Jersey	WR04040295	8/04	Revenue Requirements Cost of Capital	Division of the Ratepayer Advocate
Artesian Water Company	W	Delaware	04-42	8/04	Revenue Requirements Cost of Capital	Division of the Public Advocate
Long Neck Water Company	W	Delaware	04-31	7/04	Cost of Equity	Division of the Public Advocate
Tidewater Utilities, Inc.	W	Delaware	04-152	7/04	Cost of Capital	Division of the Public Advocate
Cablevision	C	New Jersey	CR03100850, et al.	6/04	Cable Rates	Division of the Ratepayer Advocate
Montague Water and Sewer Companies	W/WW	New Jersey	WR03121034 (W) WR03121035 (S)	5/04	Revenue Requirements	Division of the Ratepayer Advocate
Comcast of South Jersey, Inc.	C	New Jersey	CR03100876,77,79,80	5/04	Form 1240 Cable Rates	Division of the Ratepayer Advocate
Comcast of Central New Jersey, et al.	C	New Jersey	CR03100749-750 CR03100759-762	4/04	Cable Rates	Division of the Ratepayer Advocate
Time Warner	C	New Jersey	CR03100763-764	4/04	Cable Rates	Division of the Ratepayer Advocate
Interstate Navigation Company	N	Rhode Island	3573	3/04	Revenue Requirements	Division of Public Utilities and Carriers
Aqua Pennsylvania, Inc.	W	Pennsylvania	R-00038805	2/04	Revenue Requirements	Pennsylvania Office of Consumer Advocate
Comcast of Jersey City, et al.	C	New Jersey	CR03080598-601	2/04	Cable Rates	Division of the Ratepayer Advocate
Delmarva Power and Light Company	G	Delaware	03-378F	2/04	Fuel Clause	Division of the Public Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Atmos Energy Corp.	G	Kansas	03-ATMG-1036-RTS	11/03	Revenue Requirements	Citizens' Utility Ratepayer Board
Aquila, Inc. (UCU)	G	Kansas	02-UTCG-701-GIG	10/03	Using utility assets as collateral	Citizens' Utility Ratepayer Board
CenturyTel of Northwest Arkansas, LLC	T	Arkansas	03-041-U	10/03	Affiliated Interests	The Arkansas Public Service Commission General Staff
Borough of Butler Electric Utility	E	New Jersey	CR03010049/63	9/03	Revenue Requirements	Division of the Ratepayer Advocate
Comcast Cablevision of Avalon Comcast Cable Communications	C	New Jersey	CR03020131-132	9/03	Cable Rates	Division of the Ratepayer Advocate
Delmarva Power and Light Company d/b/a Conectiv Power Delivery	E	Delaware	03-127	8/03	Revenue Requirements	Division of the Public Advocate
Kansas Gas Service	G	Kansas	03-KGSG-602-RTS	7/03	Revenue Requirements	Citizens' Utility Ratepayer Board
Washington Gas Light Company	G	Maryland	8959	6/03	Cost of Capital Incentive Rate Plan	U.S. DOD/FEA
Pawtucket Water Supply Board	W	Rhode Island	3497	6/03	Revenue Requirements	Division of Public Utilities and Carriers
Atlantic City Electric Company	E	New Jersey	EO03020091	5/03	Stranded Costs	Division of the Ratepayer Advocate
Public Service Company of New Mexico	G	New Mexico	03-000-17 UT	5/03	Cost of Capital Cost Allocations	Office of the New Mexico Attorney General
Comcast - Hopewell, et al.	C	New Jersey	CR02110818 CR02110823-825	5/03	Cable Rates	Division of the Ratepayer Advocate
Cablevision Systems Corporation	C	New Jersey	CR02110838, 43-50	4/03	Cable Rates	Division of the Ratepayer Advocate
Comcast-Garden State / Northwest	C	New Jersey	CR02100715 CR02100719	4/03	Cable Rates	Division of the Ratepayer Advocate
Midwest Energy, Inc. and Westar Energy, Inc.	E	Kansas	03-MDWE-421-ACQ	4/03	Acquisition	Citizens' Utility Ratepayer Board
Time Warner Cable	C	New Jersey	CR02100722 CR02100723	4/03	Cable Rates	Division of the Ratepayer Advocate
Westar Energy, Inc.	E	Kansas	01-WSRE-949-GIE	3/03	Restructuring Plan	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	ER02080604 PUC 7983-02	1/03	Deferred Balance	Division of the Ratepayer Advocate
Atlantic City Electric Company d/b/a Conectiv Power Delivery	E	New Jersey	ER02080510 PUC 6917-02S	1/03	Deferred Balance	Division of the Ratepayer Advocate
Wallkill Sewer Company	WW	New Jersey	WR02030193 WR02030194	12/02	Revenue Requirements Purchased Sewage Treatment Adj. (PSTAC)	Division of the Ratepayer Advocate
Midwest Energy, Inc.	E	Kansas	03-MDWE-001-RTS	12/02	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast-LBI Crestwood	C	New Jersey	CR02050272 CR02050270	11/02	Cable Rates	Division of the Ratepayer Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Reliant Energy Arkla	G	Oklahoma	PUD200200166	10/02	Affiliated Interest Transactions	Oklahoma Corporation Commission, Public Utility Division Staff
Midwest Energy, Inc.	G	Kansas	02-MDWG-922-RTS	10/02	Gas Rates	Citizens' Utility Ratepayer Board
Comcast Cablevision of Avalon	C	New Jersey	CR02030134 CR02030137	7/02	Cable Rates	Division of the Ratepayer Advocate
RCN Telecom Services, Inc., and Home Link Communications	C	New Jersey	CR02010044, CR02010047	7/02	Cable Rates	Division of the Ratepayer Advocate
Washington Gas Light Company	G	Maryland	8920	7/02	Rate of Return Rate Design (Rebuttal)	General Services Administration (GSA)
Chesapeake Utilities Corporation	G	Delaware	01-307, Phase II	7/02	Rate Design Tariff Issues	Division of the Public Advocate
Washington Gas Light Company	G	Maryland	8920	6/02	Rate of Return Rate Design	General Services Administration (GSA)
Tidewater Utilities, Inc.	W	Delaware	02-28	6/02	Revenue Requirements	Division of the Public Advocate
Western Resources, Inc.	E	Kansas	01-WSRE-949-GIE	5/02	Financial Plan	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	02-EPDE-488-RTS	5/02	Revenue Requirements	Citizens' Utility Ratepayer Board
Southwestern Public Service Company	E	New Mexico	3709	4/02	Fuel Costs	Office of the New Mexico Attorney General
Cablevision Systems	C	New Jersey	CR01110706, et al	4/02	Cable Rates	Division of the Ratepayer Advocate
Potomac Electric Power Company	E	District of Columbia	945, Phase II	4/02	Divestiture Procedures	General Services Administration (GSA)
Vermont Yankee Nuclear Power Corp.	E	Vermont	6545	3/02	Sale of VY to Entergy Corp. (Supplemental)	Department of Public Service
Delmarva Power and Light Company	G	Delaware	01-348F	1/02	Gas Cost Adjustment	Division of the Public Advocate
Vermont Yankee Nuclear Power Corp.	E	Vermont	6545	1/02	Sale of VY to Entergy Corp.	Department of Public Service
Pawtucket Water Supply Company	W	Rhode Island	3378	12/01	Revenue Requirements	Division of Public Utilities and Carriers
Chesapeake Utilities Corporation	G	Delaware	01-307, Phase I	12/01	Revenue Requirements	Division of the Public Advocate
Potomac Electric Power Company	E	Maryland	8796	12/01	Divestiture Procedures	General Services Administration (GSA)
Kansas Electric Power Cooperative	E	Kansas	01-KEPE-1106-RTS	11/01	Depreciation Methodology (Cross Answering)	Citizens' Utility Ratepayer Board
Wellsboro Electric Company	E	Pennsylvania	R-00016356	11/01	Revenue Requirements	Office of Consumer Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Kent County Water Authority	W	Rhode Island	3311	10/01	Revenue Requirements (Surrebuttal)	Division of Public Utilities and Carriers
Pepco and New RC, Inc.	E	District of Columbia	1002	10/01	Merger Issues and Performance Standards	General Services Administration (GSA)
Potomac Electric Power Co. & Delmarva Power	E	Delaware	01-194	10/01	Merger Issues and Performance Standards	Division of the Public Advocate
Yankee Gas Company	G	Connecticut	01-05-19PH01	9/01	Affiliated Transactions	Office of Consumer Counsel
Hope Gas, Inc., d/b/a Dominion Hope	G	West Virginia	01-0330-G-42T 01-0331-G-30C 01-1842-GT-T 01-0685-G-PC	9/01	Revenue Requirements (Rebuttal)	The Consumer Advocate Division of the PSC
Pennsylvania-American Water Company	W	Pennsylvania	R-00016339	9/01	Revenue Requirements (Surrebuttal)	Office of Consumer Advocate
Potomac Electric Power Co. & Delmarva Power	E	Maryland	8890	9/01	Merger Issues and Performance Standards	General Services Administration (GSA)
Comcast Cablevision of Long Beach Island, et al	C	New Jersey	CR01030149-50 CR01050285	9/01	Cable Rates	Division of the Ratepayer Advocate
Kent County Water Authority	W	Rhode Island	3311	8/01	Revenue Requirements	Division of Public Utilities and Carriers
Pennsylvania-American Water Company	W	Pennsylvania	R-00016339	8/01	Revenue Requirements	Office of Consumer Advocate
Roxiticus Water Company	W	New Jersey	WR01030194	8/01	Revenue Requirements Cost of Capital Rate Design	Division of the Ratepayer Advocate
Hope Gas, Inc., d/b/a Dominion Hope	G	West Virginia	01-0330-G-42T 01-0331-G-30C 01-1842-GT-T 01-0685-G-PC	8/01	Revenue Requirements	Consumer Advocate Division of the PSC
Western Resources, Inc.	E	Kansas	01-WSRE-949-GIE	6/01	Restructuring Financial Integrity (Rebuttal)	Citizens' Utility Ratepayer Board
Western Resources, Inc.	E	Kansas	01-WSRE-949-GIE	6/01	Restructuring Financial Integrity	Citizens' Utility Ratepayer Board
Cablevision of Allamuchy, et al	C	New Jersey	CR00100824, etc.	4/01	Cable Rates	Division of the Ratepayer Advocate
Public Service Company of New Mexico	E	New Mexico	3137, Holding Co.	4/01	Holding Company	Office of the Attorney General
Keauhou Community Services, Inc.	W	Hawaii	00-0094	4/01	Rate Design	Division of Consumer Advocacy
Western Resources, Inc.	E	Kansas	01-WSRE-436-RTS	4/01	Revenue Requirements Affiliated Interests (Motion for Suppl. Changes)	Citizens' Utility Ratepayer Board
Western Resources, Inc.	E	Kansas	01-WSRE-436-RTS	4/01	Revenue Requirements Affiliated Interests	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	3137, Part III	4/01	Standard Offer Service (Additional Direct)	Office of the Attorney General
Chem-Nuclear Systems, LLC	SW	South Carolina	2000-366-A	3/01	Allowable Costs	Department of Consumer Affairs

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Southern Connecticut Gas Company	G	Connecticut	00-12-08	3/01	Affiliated Interest Transactions	Office of Consumer Counsel
Atlantic City Sewerage Corporation	WW	New Jersey	WR00080575	3/01	Revenue Requirements Cost of Capital Rate Design	Division of the Ratepayer Advocate
Delmarva Power and Light Company d/b/a Conectiv Power Delivery	G	Delaware	00-314	3/01	Margin Sharing	Division of the Public Advocate
Senate Bill 190 Re: Performance Based Ratemaking	G	Kansas	Senate Bill 190	2/01	Performance-Based Ratemaking Mechanisms	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	00-463-F	2/01	Gas Cost Rates	Division of the Public Advocate
Waitsfield Fayston Telephone Company	T	Vermont	6417	12/00	Revenue Requirements	Department of Public Service
Delaware Electric Cooperative	E	Delaware	00-365	11/00	Code of Conduct Cost Allocation Manual	Division of the Public Advocate
Commission Inquiry into Performance-Based Ratemaking	G	Kansas	00-GIMG-425-GIG	10/00	Performance-Based Ratemaking Mechanisms	Citizens' Utility Ratepayer Board
Pawtucket Water Supply Board	W	Rhode Island	3164 Separation Plan	10/00	Revenue Requirements	Division of Public Utilities and Carriers
Comcast Cablevision of Philadelphia, L.P.	C	Pennsylvania	3756	10/00	Late Payment Fees (Affidavit)	Kaufman, Lankelis, et al.
Public Service Company of New Mexico	E	New Mexico	3137, Part III	9/00	Standard Offer Service	Office of the Attorney General
Laie Water Company	W	Hawaii	00-0017 Separation Plan	8/00	Rate Design	Division of Consumer Advocacy
El Paso Electric Company	E	New Mexico	3170, Part II, Ph. 1	7/00	Electric Restructuring	Office of the Attorney General
Public Service Company of New Mexico	E	New Mexico	3137 - Part II Separation Plan	7/00	Electric Restructuring	Office of the Attorney General
PG Energy	G	Pennsylvania	R-00005119	6/00	Revenue Requirements	Office of Consumer Advocate
Consolidated Edison, Inc. and Northeast Utilities	E/G	Connecticut	00-01-11	4/00	Merger Issues (Additional Supplemental)	Office of Consumer Counsel
Sussex Shores Water Company	W	Delaware	99-576	4/00	Revenue Requirements	Division of the Public Advocate
Utilicorp United, Inc.	G	Kansas	00-UTCG-336-RTS	4/00	Revenue Requirements	Citizens' Utility Ratepayer Board
TCI Cablevision	C	Missouri	9972-9146	4/00	Late Fees (Affidavit)	Honora Eppert, et al
Oklahoma Natural Gas Company	G	Oklahoma	PUD 990000166 PUD 980000683 PUD 990000570	3/00	Pro Forma Revenue Affiliated Transactions (Rebuttal)	Oklahoma Corporation Commission, Public Utility Division Staff
Tidewater Utilities, Inc. Public Water Supply Co.	W	Delaware	99-466	3/00	Revenue Requirements	Division of the Public Advocate
Delmarva Power and Light Company	G/E	Delaware	99-582	3/00	Cost Accounting Manual Code of Conduct	Division of the Public Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Philadelphia Suburban Water Company	W	Pennsylvania	R-00994868 R-00994877 R-00994878 R-00994879	3/00	Revenue Requirements (Surrebuttal)	Office of Consumer Advocate
Philadelphia Suburban Water Company	W	Pennsylvania	R-00994868 R-00994877 R-00994878 R-00994879	2/00	Revenue Requirements	Office of Consumer Advocate
Consolidated Edison, Inc. and Northeast Utilities	E/G	Connecticut	00-01-11	2/00	Merger Issues	Office of Consumer Counsel
Oklahoma Natural Gas Company	G	Oklahoma	PUD 990000166 PUD 980000683 PUD 990000570	1/00	Pro Forma Revenue Affiliated Transactions	Oklahoma Corporation Commission, Public Utility Division Staff
Connecticut Natural Gas Company	G	Connecticut	99-09-03	1/00	Affiliated Transactions	Office of Consumer Counsel
Time Warner Entertainment Company, L.P.	C	Indiana	48D06-9803-CP-423	1999	Late Fees (Affidavit)	Kelly J. Whiteman, et al
TCI Communications, Inc., et al	C	Indiana	55D01-9709-CP-00415	1999	Late Fees (Affidavit)	Franklin E. Littell, et al
Southwestern Public Service Company	E	New Mexico	3116	12/99	Merger Approval	Office of the Attorney General
New England Electric System Eastern Utility Associates	E	Rhode Island	2930	11/99	Merger Policy	Department of Attorney General
Delaware Electric Cooperative	E	Delaware	99-457	11/99	Electric Restructuring	Division of the Public Advocate
Jones Intercable, Inc.	C	Maryland	CAL98-00283	10/99	Cable Rates (Affidavit)	Cynthia Maisonette and Ola Renee Chatman, et al
Texas-New Mexico Power Company	E	New Mexico	3103	10/99	Acquisition Issues	Office of Attorney General
Southern Connecticut Gas Company	G	Connecticut	99-04-18	9/99	Affiliated Interest	Office of Consumer Counsel
TCI Cable Company	C	New Jersey	CR99020079 et al	9/99	Cable Rates Forms 1240/1205	Division of the Ratepayer Advocate
All Regulated Companies	E/G/W	Delaware	Reg. No. 4	8/99	Filing Requirements (Position Statement)	Division of the Public Advocate
Mile High Cable Partners	C	Colorado	95-CV-5195	7/99	Cable Rates (Affidavit)	Brett Marshall, an individual, et al
Electric Restructuring Comments	E	Delaware	Reg. 49	7/99	Regulatory Policy (Supplemental)	Division of the Public Advocate
Long Neck Water Company	W	Delaware	99-31	6/99	Revenue Requirements	Division of the Public Advocate
Delmarva Power and Light Company	E	Delaware	99-163	6/99	Electric Restructuring	Division of the Public Advocate
Potomac Electric Power Company	E	District of Columbia	945	6/99	Divestiture of Generation Assets	U.S. GSA - Public Utilities
Comcast	C	Indiana	49C01-9802-CP-000386	6/99	Late Fees (Affidavit)	Ken Hecht, et al

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Petitions of BA-NJ and NJPA re: Payphone Ops	T	New Jersey	TO97100792 PUCOT 11269-97N	6/99	Economic Subsidy Issues (Surrebuttal)	Division of the Ratepayer Advocate
Montague Water and Sewer Companies	W/WW	New Jersey	WR98101161 WR98101162 PUCRS 11514-98N	5/99	Revenue Requirements Rate Design (Supplemental)	Division of the Ratepayer Advocate
Cablevision of Bergen, Bayonne, Newark	C	New Jersey	CR98111197-199 CR98111190	5/99	Cable Rates Forms 1240/1205	Division of the Ratepayer Advocate
Cablevision of Bergen, Hudson, Monmouth	C	New Jersey	CR97090624-626 CTV 1697-98N	5/99	Cable Rates - Form 1235 (Rebuttal)	Division of the Ratepayer Advocate
Kent County Water Authority	W	Rhode Island	2860	4/99	Revenue Requirements	Division of Public Utilities & Carriers
Montague Water and Sewer Companies	W/WW	New Jersey	WR98101161 WR98101162	4/99	Revenue Requirements Rate Design	Division of the Ratepayer Advocate
PEPCO	E	District of Columbia	945	4/99	Divestiture of Assets	U.S. GSA - Public Utilities
Western Resources, Inc. and Kansas City Power & Light	E	Kansas	97-WSRE-676-MER	4/99	Merger Approval (Surrebuttal)	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	98-479F	3/99	Fuel Costs	Division of the Public Advocate
Lenfest Atlantic d/b/a Suburban Cable	C	New Jersey	CR97070479 et al	3/99	Cable Rates	Division of the Ratepayer Advocate
Electric Restructuring Comments	E	District of Columbia	945	3/99	Regulatory Policy	U.S. GSA - Public Utilities
Petitions of BA-NJ and NJPA re: Payphone Ops	T	New Jersey	TO97100792 PUCOT 11269-97N	3/99	Tariff Revision Payphone Subsidies FCC Services Test (Rebuttal)	Division of the Ratepayer Advocate
Western Resources, Inc. and Kansas City Power & Light	E	Kansas	97-WSRE-676-MER	3/99	Merger Approval (Answering)	Citizens' Utility Ratepayer Board
Western Resources, Inc. and Kansas City Power & Light	E	Kansas	97-WSRE-676-MER	2/99	Merger Approval	Citizens' Utility Ratepayer Board
Adelphia Cable Communications	C	Vermont	6117-6119	1/99	Late Fees (Additional Direct Supplemental)	Department of Public Service
Adelphia Cable Communications	C	Vermont	6117-6119	12/98	Cable Rates (Forms 1240, 1205, 1235) and Late Fees (Direct Supplemental)	Department of Public Service
Adelphia Cable Communications	C	Vermont	6117-6119	12/98	Cable Rates (Forms 1240, 1205, 1235) and Late Fees	Department of Public Service
Orange and Rockland/ Consolidated Edison	E	New Jersey	EM98070433	11/98	Merger Approval	Division of the Ratepayer Advocate
Cablevision	C	New Jersey	CR97090624 CR97090625 CR97090626	11/98	Cable Rates - Form 1235	Division of the Ratepayer Advocate
Petitions of BA-NJ and NJPA re: Payphone Ops.	T	New Jersey	TO97100792 PUCOT 11269-97N	10/98	Payphone Subsidies FCC New Services Test	Division of the Ratepayer Advocate

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United Water Delaware	W	Delaware	98-98	8/98	Revenue Requirements	Division of the Public Advocate
Cablevision	C	New Jersey	CR97100719, 726 730, 732	8/98	Cable Rates (Oral Testimony)	Division of the Ratepayer Advocate
Potomac Electric Power Company	E	Maryland	Case No. 8791	8/98	Revenue Requirements Rate Design	U.S. GSA - Public Utilities
Investigation of BA-NJ IntraLATA Calling Plans	T	New Jersey	TO97100808 PUCOT 11326-97N	8/98	Anti-Competitive Practices (Rebuttal)	Division of the Ratepayer Advocate
Investigation of BA-NJ IntraLATA Calling Plans	T	New Jersey	TO97100808 PUCOT 11326-97N	7/98	Anti-Competitive Practices	Division of the Ratepayer Advocate
TCI Cable Company/ Cablevision	C	New Jersey	CTV 03264-03268 and CTV 05061	7/98	Cable Rates	Division of the Ratepayer Advocate
Mount Holly Water Company	W	New Jersey	WR98020058 PUC 03131-98N	7/98	Revenue Requirements	Division of the Ratepayer Advocate
Pawtucket Water Supply Board	W	Rhode Island	2674	5/98	Revenue Requirements (Surrebuttal)	Division of Public Utilities & Carriers
Pawtucket Water Supply Board	W	Rhode Island	2674	4/98	Revenue Requirements	Division of Public Utilities and Carriers
Energy Master Plan Phase II Proceeding - Restructuring	E	New Jersey	EX94120585U, EO97070457,60,63,66	4/98	Electric Restructuring Issues (Supplemental Surrebuttal)	Division of the Ratepayer Advocate
Energy Master Plan Phase I Proceeding - Restructuring	E	New Jersey	EX94120585U, EO97070457,60,63,66	3/98	Electric Restructuring Issues	Division of the Ratepayer Advocate
Shorelands Water Company	W	New Jersey	WR97110835 PUC 11324-97	2/98	Revenue Requirements	Division of the Ratepayer Advocate
TCI Communications, Inc.	C	New Jersey	CR97030141 and others	11/97	Cable Rates (Oral Testimony)	Division of the Ratepayer Advocate
Citizens Telephone Co. of Kecksburg	T	Pennsylvania	R-00971229	11/97	Alternative Regulation Network Modernization	Office of Consumer Advocate
Consumers Pennsylvania Water Co. - Shenango Valley Division	W	Pennsylvania	R-00973972	10/97	Revenue Requirements (Surrebuttal)	Office of Consumer Advocate
Universal Service Funding	T	New Jersey	TX95120631	10/97	Schools and Libraries Funding (Rebuttal)	Division of the Ratepayer Advocate
Universal Service Funding	T	New Jersey	TX95120631	9/97	Low Income Fund High Cost Fund	Division of the Ratepayer Advocate
Consumers Pennsylvania Water Co. - Shenango Valley Division	W	Pennsylvania	R-00973972	9/97	Revenue Requirements	Office of Consumer Advocate
Delmarva Power and Light Company	G/E	Delaware	97-65	9/97	Cost Accounting Manual Code of Conduct	Office of the Public Advocate
Western Resources, Oneok, and WAI	G	Kansas	WSRG-486-MER	9/97	Transfer of Gas Assets	Citizens' Utility Ratepayer Board
Universal Service Funding	T	New Jersey	TX95120631	9/97	Schools and Libraries Funding (Rebuttal)	Division of the Ratepayer Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Universal Service Funding	T	New Jersey	TX95120631	8/97	Schools and Libraries Funding	Division of the Ratepayer Advocate
Kent County Water Authority	W	Rhode Island	2555	8/97	Revenue Requirements (Surrebuttal)	Division of Public Utilities and Carriers
Ironton Telephone Company	T	Pennsylvania	R-00971182	8/97	Alternative Regulation Network Modernization (Surrebuttal)	Office of Consumer Advocate
Ironton Telephone Company	T	Pennsylvania	R-00971182	7/97	Alternative Regulation Network Modernization	Office of Consumer Advocate
Comcast Cablevision	C	New Jersey	Various	7/97	Cable Rates (Oral Testimony)	Division of the Ratepayer Advocate
Maxim Sewerage Corporation	WW	New Jersey	WR97010052 PUCRA 3154-97N	7/97	Revenue Requirements	Division of the Ratepayer Advocate
Kent County Water Authority	W	Rhode Island	2555	6/97	Revenue Requirements	Division of Public Utilities and Carriers
Consumers Pennsylvania Water Co. - Roaring Creek	W	Pennsylvania	R-00973869	6/97	Revenue Requirements (Surrebuttal)	Office of Consumer Advocate
Consumers Pennsylvania Water Co. - Roaring Creek	W	Pennsylvania	R-00973869	5/97	Revenue Requirements	Office of Consumer Advocate
Delmarva Power and Light Company	E	Delaware	97-58	5/97	Merger Policy	Office of the Public Advocate
Middlesex Water Company	W	New Jersey	WR96110818 PUCRL 11663-96N	4/97	Revenue Requirements	Division of the Ratepayer Advocate
Maxim Sewerage Corporation	WW	New Jersey	WR96080628 PUCRA 09374-96N	3/97	Purchased Sewerage Adjustment	Division of the Ratepayer Advocate
Interstate Navigation Company	N	Rhode Island	2484	3/97	Revenue Requirements Cost of Capital (Surrebuttal)	Division of Public Utilities & Carriers
Interstate Navigation Company	N	Rhode Island	2484	2/97	Revenue Requirements Cost of Capital	Division of Public Utilities & Carriers
Electric Restructuring Comments	E	District of Columbia	945	1/97	Regulatory Policy	U.S. GSA - Public Utilities
United Water Delaware	W	Delaware	96-194	1/97	Revenue Requirements	Office of the Public Advocate
PEPCO/ BGE/ Merger Application	E/G	District of Columbia	951	10/96	Regulatory Policy Cost of Capital (Rebuttal)	GSA
Western Resources, Inc.	E	Kansas	193,306-U 193,307-U	10/96	Revenue Requirements Cost of Capital (Supplemental)	Citizens' Utility Ratepayer Board
PEPCO and BGE Merger Application	E/G	District of Columbia	951	9/96	Regulatory Policy, Cost of Capital	U.S. GSA - Public Utilities
Utilicorp United, Inc.	G	Kansas	193,787-U	8/96	Revenue Requirements	Citizens' Utility Ratepayer Board
TKR Cable Company of Gloucester	C	New Jersey	CTV07030-95N	7/96	Cable Rates (Oral Testimony)	Division of the Ratepayer Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of
TKR Cable Company of Warwick	C	New Jersey	CTV057537-95N	7/96	Cable Rates (Oral Testimony)	Division of the Ratepayer Advocate
Delmarva Power and Light Company	E	Delaware	95-196F	5/96	Fuel Cost Recovery	Office of the Public Advocate
Western Resources, Inc.	E	Kansas	193,306-U 193,307-U	5/96	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Princeville Utilities Company, Inc.	W/WW	Hawaii	95-0172 95-0168	1/96	Revenue Requirements Rate Design	Princeville at Hanalei Community Association
Western Resources, Inc.	G	Kansas	193,305-U	1/96	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Environmental Disposal Corporation	WW	New Jersey	WR94070319 (Remand Hearing)	11/95	Revenue Requirements Rate Design (Supplemental)	Division of the Ratepayer Advocate
Environmental Disposal Corporation	WW	New Jersey	WR94070319 (Remand Hearing)	11/95	Revenue Requirements	Division of the Ratepayer Advocate
Lanai Water Company	W	Hawaii	94-0366	10/95	Revenue Requirements Rate Design	Division of Consumer Advocacy
Cablevision of New Jersey, Inc.	C	New Jersey	CTV01382-95N	8/95	Basic Service Rates (Oral Testimony)	Division of the Ratepayer Advocate
Cablevision of New Jersey, Inc.	C	New Jersey	CTV01381-95N	8/95	Basic Service Rates (Oral Testimony)	Division of the Ratepayer Advocate
Chesapeake Utilities Corporation	G	Delaware	95-73	7/95	Revenue Requirements	Office of the Public Advocate
East Honolulu Community Services, Inc.	WW	Hawaii	7718	6/95	Revenue Requirements	Division of Consumer Advocacy
Wilmington Suburban Water Corporation	W	Delaware	94-149	3/95	Revenue Requirements	Office of the Public Advocate
Environmental Disposal Corporation	WW	New Jersey	WR94070319	1/95	Revenue Requirements (Supplemental)	Division of the Ratepayer Advocate
Roaring Creek Water Company	W	Pennsylvania	R-00943177	1/95	Revenue Requirements (Surrebuttal)	Office of Consumer Advocate
Roaring Creek Water Company	W	Pennsylvania	R-00943177	12/94	Revenue Requirements	Office of Consumer Advocate
Environmental Disposal Corporation	WW	New Jersey	WR94070319	12/94	Revenue Requirements	Division of the Ratepayer Advocate
Delmarva Power and Light Company	E	Delaware	94-84	11/94	Revenue Requirements	Office of the Public Advocate
Delmarva Power and Light Company	G	Delaware	94-22	8/94	Revenue Requirements	Office of the Public Advocate
Empire District Electric Company	E	Kansas	190,360-U	8/94	Revenue Requirements	Citizens' Utility Ratepayer Board
Morris County Municipal Utility Authority	SW	New Jersey	MM10930027 ESW 1426-94	6/94	Revenue Requirements	Rate Counsel
US West Communications	T	Arizona	E-1051-93-183	5/94	Revenue Requirements (Surrebuttal)	Residential Utility Consumer Office

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Pawtucket Water Supply Board	W	Rhode Island	2158	5/94	Revenue Requirements (Surrebuttal)	Division of Public Utilities & Carriers
US West Communications	T	Arizona	E-1051-93-183	3/94	Revenue Requirements	Residential Utility Consumer Office
Pawtucket Water Supply Board	W	Rhode Island	2158	3/94	Revenue Requirements	Division of Public Utilities & Carriers
Pollution Control Financing Authority of Camden County	SW	New Jersey	SR91111718J	2/94	Revenue Requirements (Supplemental)	Rate Counsel
Roaring Creek Water Company	W	Pennsylvania	R-00932665	9/93	Revenue Requirements (Supplemental)	Office of Consumer Advocate
Roaring Creek Water Company	W	Pennsylvania	R-00932665	9/93	Revenue Requirements	Office of Consumer Advocate
Kent County Water Authority	W	Rhode Island	2098	8/93	Revenue Requirements (Surrebuttal)	Division of Public Utilities and Carriers
Wilmington Suburban Water Company	W	Delaware	93-28	7/93	Revenue Requirements	Office of Public Advocate
Kent County Water Authority	W	Rhode Island	2098	7/93	Revenue Requirements	Division of Public Utilities & Carriers
Camden County Energy Recovery Associates, Inc.	SW	New Jersey	SR91111718J ESW1263-92	4/93	Revenue Requirements	Rate Counsel
Pollution Control Financing Authority of Camden County	SW	New Jersey	SR91111718J ESW 1263-92	4/93	Revenue Requirements	Rate Counsel
Jamaica Water Supply Company	W	New York	92-W-0583	3/93	Revenue Requirements	County of Nassau Town of Hempstead
New Jersey-American Water Company	W/WW	New Jersey	WR92090908J PUC 7266-92S	2/93	Revenue Requirements	Rate Counsel
Passaic County Utilities Authority	SW	New Jersey	SR91121816J ESW0671-92N	9/92	Revenue Requirements	Rate Counsel
East Honolulu Community Services, Inc.	WW	Hawaii	7064	8/92	Revenue Requirements	Division of Consumer Advocacy
The Jersey Central Power and Light Company	E	New Jersey	PUC00661-92 ER91121820J	7/92	Revenue Requirements	Rate Counsel
Mercer County Improvement Authority	SW	New Jersey	EWS11261-91S SR91111682J	5/92	Revenue Requirements	Rate Counsel
Garden State Water Company	W	New Jersey	WR9109-1483 PUC 09118-91S	2/92	Revenue Requirements	Rate Counsel
Elizabethtown Water Company	W	New Jersey	WR9108-1293J PUC 08057-91N	1/92	Revenue Requirements	Rate Counsel
New-Jersey American Water Company	W/WW	New Jersey	WR9108-1399J PUC 8246-91	12/91	Revenue Requirements	Rate Counsel
Pennsylvania-American Water Company	W	Pennsylvania	R-911909	10/91	Revenue Requirements	Office of Consumer Advocate
Mercer County Improvement Authority	SW	New Jersey	SR9004-0264J PUC 3389-90	10/90	Revenue Requirements	Rate Counsel

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Kent County Water Authority	W	Rhode Island	1952	8/90	Revenue Requirements Regulatory Policy (Surrebuttal)	Division of Public Utilities & Carriers
New York Telephone	T	New York	90-C-0191	7/90	Revenue Requirements Affiliated Interests (Supplemental)	NY State Consumer Protection Board
New York Telephone	T	New York	90-C-0191	7/90	Revenue Requirements Affiliated Interests	NY State Consumer Protection Board
Kent County Water Authority	W	Rhode Island	1952	6/90	Revenue Requirements Regulatory Policy	Division of Public Utilities & Carriers
Ellesor Transfer Station	SW	New Jersey	SO8712-1407 PUC 1768-88	11/89	Regulatory Policy	Rate Counsel
Interstate Navigation Co.	N	Rhode Island	D-89-7	8/89	Revenue Requirements Regulatory Policy	Division of Public Utilities & Carriers
Automated Modular Systems, Inc.	SW	New Jersey	PUC1769-88	5/89	Revenue Requirements Schedules	Rate Counsel
SNET Cellular, Inc.	T	Connecticut	-	2/89	Regulatory Policy	First Selectman Town of Redding

APPENDIX B

Supporting Schedules

ACC-1 - Revenue Requirement Summary

ACC-2 through ACC-7 - Cost of Capital Schedules

ACC-8 through ACC-16 - Rate Base Schedules

ACC-17 through ACC-41 - Operating Income Schedules

ACC-42 - Revenue Requirement Impact of Adjustments

ACC-43 - Pro Forma Income Statement

ACC-44 - Coverage Ratios

KANSAS CITY POWER AND LIGHT COMPANY

TEST YEAR ENDED DECEMBER 31, 2005

REVENUE REQUIREMENT SUMMARY

	Company Claim	Recommended Adjustment	Recommended Position	
	(A)			
1. Pro Forma Rate Base	$1,014,794,214	($22,556,346)	$992,237,868	(B)
2. Required Cost of Capital	9.01%	-1.19%	7.82%	(C)
3. Required Return	$91,419,402	($13,820,141)	$77,599,261	
4. Operating Income @ Present Rates	66,051,941	12,439,028	78,490,969	(D)
5. Operating Income Deficiency	$25,367,461	($26,259,170)	($891,709)	
6. Revenue Multiplier	1.6663	0.0014	1.6677	(E)
7. Revenue Requirement Increase	**$42,270,000**	**($43,757,085)**	**($1,487,085)**	

Sources:

(A) Company Filing, Section 3 (i), Schedule 1, page 1.

(B) Schedule ACC-8.

(C) Schedule ACC-2.

(D) Schedule ACC-17.

(E) Schedule ACC-41.

Schedule 2
Confidential

KANSAS CITY POWER AND LIGHT COMPANY

TEST YEAR ENDING

RECOMMENDED COST OF EQUITY

1. Discounted Cash Flow Result (A)	9.67%	
2. Discounted Cash Flow Weighting (B)	75.00%	7.26%
3. CAPM Result (C)	8.88%	
4. CAPM Weighting (B)	25.00%	2.22%
5. Recommended Return on Equity		9.48%

Sources:
(A) Schedule ACC-4.
(B) Based on KCC's reliance primarily upon the DCF method.
(C) Schedule ACC-7.

Schedule ACC-4

KANSAS CITY POWER AND LIGHT COMPANY

TEST YEAR ENDING

DISCOUNTED CASH FLOW RESULT

1. Dividend Yield	4.66%	(A)
2. Growth Rate	4.90%	(B)
3. 1/2 Year Growth in Dividend	0.11%	(C)
4. Total Cost of Equity	9.67%	

Sources:
(A) Derived from Schedule ACC-5.
(B) Derived from Schedule ACC-6.
(C) (50% of Line 2) X Line 1.

Schedule ACC-5

KANSAS CITY POWER AND LIGHT COMPANY

TEST YEAR ENDING

ELECTRIC COMPANY DIVIDEND YIELDS

	Source: Yahoo Finance - July 26, 2006			Source: Yahoo Finance - July 26, 2005			
COMPANY	Divdend	Closing Price 7/25/2006	Dividend Yield	3-Month High 4/26/06 - 7/25/06	3-Month Low 4/26/06 - 7/25/06	Average	Average Yield
Alliant Energy Co. (NYSE-LNT)	1.15	35.75	3.22%	35.85	30.94	33.40	3.44%
Ameren (NYSE-AEE)	2.54	51.71	4.91%	52.00	47.96	49.98	5.08%
American Electric Power (NYSE-AEP)	1.48	35.69	4.15%	35.73	32.27	34.00	4.35%
CH Energy Group (NYSE-CHG)	2.16	49.95	4.32%	49.95	44.63	47.29	4.57%
Cent. Vermont P.S. (NYSE-CV)	0.92	21.95	4.19%	22.15	16.11	19.13	4.81%
Con. Edison (NYSE-ED)	2.30	46.97	4.90%	47.00	41.17	44.09	5.22%
DTE Energy Co. (NYSE-DTE)	2.06	43.02	4.79%	43.09	38.77	40.93	5.03%
Duquesne Light (NYSE-DQE)	1.00	19.43	5.15%	19.64	15.67	17.66	5.66%
Empire District (NYSE-EDE)	1.28	21.42	5.98%	23.05	20.25	21.65	5.91%
Energy East Corp. (NYSE-EAS)	1.16	24.37	4.76%	24.65	22.18	23.42	4.95%
FirstEnergy (NYSE-FE)	1.80	55.72	3.23%	56.26	48.68	52.47	3.43%
Green Mtn. Power (NYSE-GMP)	1.12	33.73	3.32%	34.00	27.74	30.87	3.63%
Hawaiian Electric (NYSE-HE)	1.24	28.50	4.35%	28.55	25.69	27.12	4.57%
MGE Energy, Inc. (NDQ-MGEE)	1.38	32.42	4.26%	32.66	29.20	30.93	4.46%
NiSource Inc. (NYSE-NI)	0.92	23.10	3.98%	23.28	20.43	21.86	4.21%
NSTAR (NYSE-NST)	1.21	29.86	4.05%	29.89	26.50	28.20	4.29%
Pinnacle West (NYSE-PNW)	2.00	43.90	4.56%	43.95	38.31	41.13	4.86%
Progress Energy (NYSE-PGN)	2.42	43.90	5.51%	44.07	40.27	42.17	5.74%
Puget Energy, Inc. (NYSE-PSD)	1.00	22.33	4.48%	22.40	20.13	21.27	4.70%
SCANA Corp. (NYSE-SCG)	1.68	40.69	4.13%	40.75	36.92	38.84	4.33%
Southern Co. (NYSE-SO)	1.55	33.82	4.58%	33.89	30.48	32.19	4.82%
Vectren Corp. (NYSE-VVC)	1.22	28.15	4.33%	28.22	25.24	26.73	4.56%
Westar Energy (NYSE-WR)	1.00	23.38	4.28%	23.43	20.40	21.92	4.56%
Xcel Energy Inc. (NYSE-XEL)	0.89	20.04	4.44%	20.20	18.00	19.10	4.66%
AVERAGE			4.41%				4.66%

KANSAS CITY POWER AND LIGHT COMPANY

TEST YEAR ENDING

ELECTRIC COMPANY GROWTH IN EARNINGS, DIVIDENDS, BOOK VALUE

	Past 5 Years Earnings	Past 5 Years Dividends	Past 5 Years Book Value	Past 10 Years Earnings	Past 10 Years Dividends	Past 10 Years Book Value	Projected 5 Years Earnings	Projected 5 Years Dividends	Projected 5 Years Book Value
Alliant Energy Co. (NYSE-LNT)	(1.0%)	(12.5%)	(2.5%)	(1.5%)	(6.0%)	1.0%	4.5%	7.0%	3.5%
Ameren (NYSE-AEE)	0.5%	-	5.0%	0.5%	0.5%	3.0%	1.5%	*nil*	3.0%
American Electric Power (NYSE-AEP)	3.5%	(9.0%)	(3.5%)	(0.5%)	(4.5%)	(5.0%)	4.0%	4.0%	5.5%
CH Energy Group (NYSE-CHG)	(1.5%)	-	2.0%	-	0.5%	2.0%	3.0%	0.5%	2.0%
Cent. Vermont P.S. (NYSE-CV)	1.0%	0.5%	2.5%	(4.5%)	(3.0%)	2.0%	11.5%	(1.0%)	1.0%
Con. Edison (NYSE-ED)	(2.0%)	1.0%	2.5%	(0.5%)	1.5%	2.5%	3.0%	1.0%	3.0%
DTE Energy Co. (NYSE-DTE)	(2.0%)	-	3.5%	(0.5%)	-	3.5%	4.5%	0.5%	2.0%
Duquesne Light (NYSE-DQE)	(12.0%)	(8.5%)	(14.5%)	(5.5%)	(1.5%)	(7.0%)	5.0%	*nil*	5.0%
Empire District (NYSE-EDE)	(5.0%)	-	2.0%	(1.5%)	-	2.0%	6.5%	*nil*	2.0%
Energy East Corp. (NYSE-EAS)	(2.5%)	5.0%	6.0%	3.5%	1.5%	4.5%	4.0%	4.5%	2.5%
FirstEnergy (NYSE-FE)	-	2.5%	6.0%	2.0%	1.5%	5.5%	11.5%	5.0%	6.5%
Green Mtn. Power (NYSE-GMP)	-	5.0%	3.0%	(1.0%)	(8.5%)	-	3.5%	10.0%	2.5%
Hawaiian Electric (NYSE-HE)	1.0%	-	3.0%	1.5%	0.5%	2.0%	3.0%	*nil*	2.5%
MGE Energy, Inc. (NDQ-MGEE)	4.0%	1.0%	5.0%	1.5%	1.0%	2.5%	6.0%	0.5%	7.0%
NiSource Inc. (NYSE-NI)	-	1.0%	7.0%	1.5%	3.0%	7.5%	3.5%	0.5%	3.5%
NSTAR (NYSE-NST)	4.0%	1.0%	2.0%	4.5%	1.5%	3.0%	6.0%	6.5%	5.5%
Pinnacle West (NYSE-PNW)	(4.5%)	6.5%	4.0%	2.0%	11.0%	5.0%	6.0%	5.0%	3.5%
Progress Energy (NYSE-PGN)	4.5%	3.0%	6.5%	3.5%	3.0%	6.5%	1.5%	2.0%	3.0%
Puget Energy, Inc. (NYSE-PSD)	(7.5%)	(11.5%)	0.5%	(3.5%)	(6.5%)	(1.0%)	5.0%	1.5%	4.0%
SCANA Corp. (NYSE-SCG)	7.0%	2.0%	3.0%	4.0%	0.5%	4.0%	4.5%	6.0%	5.5%
Southern Co. (NYSE-SO)	2.0%	1.0%	(1.0%)	2.5%	2.0%	1.0%	5.0%	4.5%	5.0%
Vectren Corp. (NYSE-VVC)	4.0%	3.5%	4.5%	-	-	-	4.0%	3.0%	4.0%
Westar Energy (NYSE-WR)	(1.5%)	(14.5%)	(11.0%)	(6.0%)	(8.0%)	(4.0%)	4.5%	6.5%	3.5%
Xcel Energy Inc. (NYSE-XEL)	(5.5%)	(11.0%)	(4.5%)	(3.5%)	(5.0%)	(1.0%)	6.0%	5.5%	3.0%
AVERAGE	(0.6%)	(1.8%)	1.3%	(0.1%)	(0.7%)	1.8%	4.9%	3.7%	3.7%

Source: *ValueLine* - May 12, June 2 and June 30, 2006

KANSAS CITY POWER AND LIGHT COMPANY

TEST YEAR ENDING

CAPITAL ASSET PRICING MODEL RESULT

Risk Free Rate + (Beta X Market Premium)

5.11% + (.77 X 4.9%) = 8.88%

Sources:
Risk Free Rate = 30 Year Constant Maturity Treasury at July 27, 2006.

Beta per Value Line Investment Survey.

Market Premium per 2006 Yearbook (Stocks, Bonds, Bills, and Inflation), Ibbotson Associates, Table 2-1.

Schedule 8
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KANSAS CITY POWER AND LIGHT COMPANY

TEST YEAR ENDED DECEMBER 31, 2005

WIND GENERATION

1.	Company Claim (Excluding AFUDC)	$166,000,000	(A)
2.	Amount Per Rate Plan	130,838,000	(B)
3.	Recommended Adjustment	$35,162,000	
4.	Allocation to Kansas (%)	45.51%	(C)
5.	Allocation to Kansas ($)	**$16,003,355**	

Sources:

(A) Testimony of Mr. Grimwade, page 5.

(B) Docket No. 04-KCPE-1025-GIE, Stipulation and Agreement, Appendix D.

(C) Derived from Company Filing, Section 4 (i) 1, Schedule 11, page 2.

KANSAS CITY POWER AND LIGHT COMPANY

TEST YEAR ENDED DECEMBER 31, 2005

ACCUMULATED DEPRECIATION

1. Post Test Year Plant Additions Ex. Wind	$70,574,000	(A)
2. Kansas Allocation	45.25%	(B)
3. Kansas Additions	$31,935,981	
4. Average Kansas Additions	$15,967,990	(C)
5. Composite Depreciation Rate - Monthly	0.24%	(D)
6. Monthly Addition to Reserve	$37,585	(E)
7. Recommended Adjustment	**$338,265**	(F)

Sources:

(A) Company Filing, Workpapers to Adj. 21.

(B) Derived from Company Filing, Section 3 (i), Schedule 1, page 1.

(C) Line 3 / 2.

(D) Composite rate derived from Company Filing, Section 3 (i), Schedule 1, page 1. Reflects composite rate / 12 months.

(E) Line 4 X Line 5.

(F) Line 6 X 9 months.