

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

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**REBUTTAL TESTIMONY OF**

**SAMUEL C. HADAWAY**

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

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

**DOCKET NO. 07-KCPE-905-RTS**

1 **I. Introduction**

2 **Q. Are you the same Samuel C. Hadaway who submitted Direct Testimony in**  
3 **this proceeding?**

4 A. Yes, I am.

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

6 A. The purpose of my Rebuttal Testimony is to respond to the return on equity  
7 ("ROE") recommendations of Kansas Corporation Commission Staff ("Staff")  
8 witness Adam H. Gatewood and Citizens' Utility Ratepayers Board ("CURB")  
9 witness Andrea C. Crane. I also respond to their criticisms of my ROE analysis  
10 and update my equity cost estimates.

11 **II. Overview of Rate of Return Positions**

12 **Q. What are the parties' rate of return recommendations?**

13 A. Mr. Gatewood recommends an ROE of 10.30 percent from the mid-point of a  
14 9.80 percent to 10.80 percent range. In his overall rate of return ("ROR")

1 calculation, he uses a slightly lower cost of debt and a slightly different capital  
2 structure than Kansas City Power & Light Company ("KCPL" or the "Company")  
3 requested. His calculated ROR is 8.18 percent. He states that his capital structure  
4 is the forecasted capital structure of Great Plains Energy Incorporated ("Great  
5 Plains") from data request number 320 and that his cost of debt is KCPL's  
6 embedded and forecasted cost of debt. I understand that the Company does not  
7 disagree with Mr. Gatewood's recommended capital structure but disputes his use  
8 of KCPL's cost of debt, as discussed in detail in the Rebuttal testimony of witness  
9 Michael W. Cline. Ms. Crane recommends an ROE of 9.59 percent. Her overall  
10 ROR of 7.90 percent is based on this ROE along with the same capital structure  
11 used by Mr. Gatewood, but with a slightly higher cost of debt than he uses. The  
12 Company's requested ROR of 8.83 percent is based on my recommended ROE of  
13 11.25 percent and Great Plains' projected capital structure and debt and preferred  
14 stock cost rates at September 30, 2007. The parties' rate of return  
15 recommendations are summarized in the tables below:

16 **Staff Recommended Rate of Return**

<u>Capital Components</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	45.72%	5.83%	2.67%
Preferred Stock	1.29%	4.29%	0.06%
<u>Common Equity</u>	<u>52.99%</u>	<u>10.30%</u>	<u>5.46%</u>
TOTAL	100.00%		8.18%

23 **CURB Recommended Rate of Return**

<u>Capital Components</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	45.72%	6.04%	2.76%
Preferred Stock	1.29%	4.29%	0.06%
<u>Common Equity</u>	<u>52.99%</u>	<u>9.59%</u>	<u>5.08%</u>
TOTAL	100.00%		7.90%

1 **Company Requested Rate of Return**

2	<u>Capital Components</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
3	Debt	45.24%	6.09%	2.76%
4	Preferred Stock	1.33%	4.29%	0.06%
5	<u>Common Equity</u>	<u>53.43%</u>	<u>11.25%</u>	<u>6.01%</u>
6	TOTAL	100.00%		8.83%

7 **Q. Do the other parties' adjust their base ROE estimates to reflect KCPL's**  
8 **higher risk profile?**

9 A. No, they do not. Ms. Crane gives no consideration to KCPL's larger construction  
10 program relative to other electric utilities and Mr. Gatewood claims, mistakenly,  
11 that KCPL's construction risk is incorporated into his analysis by the construction  
12 risk of his comparable companies. Mr. Gatewood's claim is incorrect because, as  
13 I will show later in my testimony, KCPL's construction program relative to  
14 existing net plant is much larger than the construction programs of Mr.  
15 Gatewood's comparable companies. Although his ROE recommendation is  
16 approximately the same as the average rate of return allowed recently by other  
17 state regulators, in light of KCPL's higher risk profile, his recommendation is  
18 below KCPL's cost of equity capital. Ms. Crane's 9.59 percent ROE is completely  
19 unsupportable.

20 **Q. How do the other parties' ROE recommendations compare to rates of return**  
21 **allowed recently by other state regulators?**

22 A. I have prepared as Schedule SCH-9 a summary of electric utility ROEs allowed  
23 by other state commissions over the past two and one-half years. The results from  
24 that Schedule are shown in the following table:

**Table 1:**  
**Authorized Electric Utility Equity Returns**

	2005	2006	2007
1st Quarter	10.51%	10.38%	10.27%
2nd Quarter	10.05%	10.69%	10.27%
3rd Quarter	10.84%	10.06%	
4th Quarter	10.75%	10.39%	
Full Year	10.54%	10.36%	10.27%

1 Source: Regulatory Research Associates, *Regulatory Focus*, July 3, 2007, page 2.

2 As shown in Table 1, average allowed Electric Utility ROEs for 2005-2007 were  
3 10.54 percent, 10.36 percent, and 10.27 percent. Considering KCPL's higher risk  
4 profile and considering that many of the reported cases are for lower risk  
5 transmission and distribution-only companies, these data indicate that Mr.  
6 Gatewood's recommendation is below KCPL's cost of capital. Ms. Crane's ROE  
7 recommendation is 68 basis points below the recent national averages and, with  
8 no regard for KCPL's higher risk profile, it is entirely unreasonable.

9 **Q. How have interest rates changed during the past two years?**

10 A. The Federal Reserve Open Market Committee has now increased the Federal  
11 Funds rate 17 times (from 1.0 percent to 5.25 percent) since mid-2004. The  
12 Prime rate charged by banks to their best customers has similarly increased from  
13 4.0 percent in June 2004 to a current level of 8.25 percent. Although long-term  
14 interest rates were slower to move, since mid-2005, long-term utility interest rates  
15 have increased by 80 basis points. I have prepared as Schedule SCH-10 a month-  
16 by-month summary of long-term interest rates for August 2005 through July  
17 2007. Those monthly interest rate data are summarized in the following table:

**Table 2**  
**Long-Term Interest Rate Trends**

<b>Month</b>	<b>Baa Utility Rates</b>	<b>Average Utility Rates</b>	<b>Long-Term Treasury Rates</b>	<b>10-Year Treasury Rates</b>
Aug-05	5.80%	5.51%	4.53%	4.26%
Sep-05	5.83%	5.54%	4.51%	4.20%
Oct-05	6.08%	5.79%	4.74%	4.46%
Nov-05	6.19%	5.88%	4.83%	4.54%
Dec-05	6.14%	5.83%	4.73%	4.47%
Jan-06	6.06%	5.77%	4.65%	4.42%
Feb-06	6.11%	5.83%	4.73%	4.57%
Mar-06	6.25%	5.98%	4.91%	4.72%
Apr-06	6.54%	6.28%	5.22%	4.99%
May-06	6.59%	6.39%	5.35%	5.11%
Jun-06	6.63%	6.41%	5.29%	5.11%
Jul-06	6.63%	6.39%	5.25%	5.09%
Aug-06	6.43%	6.20%	5.08%	4.88%
Sep-06	6.26%	6.02%	4.93%	4.72%
Oct-06	6.24%	6.01%	4.94%	4.73%
Nov-06	6.04%	5.82%	4.78%	4.60%
Dec-06	6.05%	5.83%	4.78%	4.56%
Jan-07	6.16%	5.97%	4.95%	4.76%
Feb-07	6.10%	5.91%	4.93%	4.72%
Mar-07	6.10%	5.87%	4.81%	4.56%
Apr-07	6.24%	6.01%	4.95%	4.69%
May-07	6.23%	6.03%	4.98%	4.75%
Jun-07	6.54%	6.34%	5.29%	5.10%
Jul-07	6.49%	6.28%	5.19%	5.00%

Sources: Mergent Bond Record (Utility Rates);  
www.federalreserve.gov (Treasury Rates).

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The data in Table 2 show that long-term Treasury rates have increased by about 70 basis points during the past two years. Borrowing costs for Baa rated utilities like KCPL increased from 5.80 percent to 6.49 percent during this period (69 basis points). These increasing trends in long-term borrowing costs should not be

1 ignored and should be considered explicitly in estimates of the on-going cost of  
2 equity capital.

3 **Q. What levels of interest rates are forecast for the coming year?**

4 A. Both corporate and government interest rates are expected to rise further from  
5 present levels. I have reproduced as Schedule SCH-11 Standard & Poor's most  
6 recent economic forecast from its *Trends & Projections* publication for July 19,  
7 2007. The summary interest rate data from that publication are presented in the  
8 following table:

9 **Table 3:**  
10 **Standard & Poor's Interest Rate Forecast**

	Current	Average 2007 Est.	Average 2008 Est.
Treasury Bills	4.7%	4.8%	4.7%
10-Yr. T-Bonds	4.8%	5.0%	5.5%
30-Yr. T-Bonds	5.0%	5.1%	5.6%
Corporate Bonds	5.7%	5.7%	6.3%

11 Sources: [www.yahoo.com](http://www.yahoo.com) Yahoo Finance (Current Rates);  
12 Standard & Poor's *Trends & Projections*, July 19, 2007, page 8  
13 (Projected Rates).  
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17 The data in Table 3 show that interest rates are projected to increase further  
18 during the coming year. Relative to current levels, rates on 10-year and 30-year  
19 Treasury bonds for 2008 are expected to increase by an additional 60 to 70 basis  
20 points. Corporate borrowing costs are also expected to increase by an additional  
21 60 basis points.  
22  
23  
24

25 All these factors indicate that the other parties' ROE recommendations are  
26 below the cost of equity for KCPL. Their recommendations are at or below the  
27 average rate of return approved by other state regulators for electric utilities  
28 during the past two and one-half years. Their recommendations are inconsistent

1 with the increasing trend in long-term interest rates during the past two years.  
2 Their positions are also inconsistent with projections for further interest rate  
3 increases in 2008. And, most important, neither Mr. Gatewood nor Ms. Crane  
4 provides any compensation for KCPL's higher risk profile relative to the  
5 companies used to estimate ROE. Had either more reasonably considered  
6 available economic data and capital market trends, as well as KCPL's higher  
7 construction risk, they would have recognized that their ROE recommendations  
8 are too low.

9 **III. Technical Rebuttal of Staff Witness Adam L. Gatewood**

10 **Q. What are your principal areas of disagreement with Mr. Gatewood?**

11 A. I disagree with Mr. Gatewood's rejection of KCPL's requested increment to ROE  
12 for its higher construction risk profile and I disagree with several technical aspects  
13 of his ROE analysis. Mr. Gatewood's ROE recommendation is below the cost of  
14 equity of KCPL because he rejects any adjustment for the higher risk profile that  
15 results from KCPL's large construction program. Although Mr. Gatewood clearly  
16 recognizes that this risk exists, he rejects the Company's request for a 50 basis  
17 point adjustment to account for this risk. In addition, Mr. Gatewood's discounted  
18 cash flow ("DCF") analysis is too narrowly focused by his sole reliance on one  
19 version of the constant growth version of the DCF model and his refusal to  
20 consider longer-term estimates of growth in that model. I will also respond  
21 briefly to Mr. Gatewood's criticisms of my cost of capital analysis.

22 **Q. On pages 8 through 11, Mr. Gatewood discusses his reasons for rejecting the**  
23 **Company's requested construction risk adjustment. Are his reasons valid?**

1 A. No, they are not. I have prepared as Schedule SCH-12 an analysis of projected  
2 construction programs for Mr. Gatewood's comparable companies relative to  
3 KCPL's construction program. As shown in that schedule, KCPL's construction  
4 program is projected to be 95 percent of its existing net plant. For Mr.  
5 Gatewood's comparable group, the average is 68 percent of net plant. KCPL's  
6 higher construction percentage clearly indicates its higher construction risk  
7 profile.

8           While Mr. Gatewood acknowledges that power plant construction is risky,  
9 he refuses to acknowledge that KCPL's higher construction risks should be  
10 compensated in terms of a higher rate of return. The logical fallacy of this  
11 position seems obvious. Over the next few years, KCPL faces a myriad of risks  
12 related to plant construction, including cost increases, delays, labor shortages, and  
13 new regulations, to name but a few.

14           Mr. Gatewood attempts to minimize this risk differential by asserting at  
15 page 9, "*All electric utility companies face this risk and the risks of constructing*  
16 *new plants.*" This is true, but only in the most general sense. Mr. Gatewood  
17 ignores the concepts of (1) relative project size and scale to a given company; and  
18 (2) timing, *i.e.*, utilities competing for investment capital are not all facing  
19 construction risk at the same time. The importance of recognizing the relative  
20 risk that this project's scale represents to KCPL is absolutely critical in terms of  
21 KCPL's / GPE's ability to attract equity capital required to fund capital  
22 expenditures over the next few years. In competitive capital markets, if investors  
23 can achieve similar returns from utilities with less construction risk, why would

1 they provide equity capital to finance KCPL's more risky capital needs? Rational  
2 investors will not. KCPL's capital providers must be compensated for the risks  
3 they bear. In this regard, Mr. Gatewood's rejection of the Company's requested  
4 risk adjustment is unreasonable and his recommended rate of return is too low.

5 **Q. What are your primary disagreements with Mr. Gatewood's ROE analysis?**

6 A. In addition to our disagreement about KCPL's higher risk profile, my technical  
7 disagreements with Mr. Gatewood fall into two categories.

8 **Q. What is the first category?**

9 A. First, I question his interpretation of his own quantitative results. On page 24, he  
10 presents a table that he offers to support his 10.3 percent ROE recommendation. I  
11 believe that a more reasonable interpretation of that table supports an ROE in the  
12 range of 10.8 percent to 10.9 percent, not the 10.3 percent he recommends. Mr.  
13 Gatewood obtained his 10.3 percent ROE by simply averaging five results from  
14 his quantitative models: three from his DCF model and two from the capital asset  
15 pricing model ("CAPM"). His average is badly skewed because it includes two  
16 unreasonably low DCF results (8.52 percent and 8.82 percent) and one  
17 unreasonably high CAPM result (12.44 percent). Rather than mechanically  
18 averaging these data, as Mr. Gatewood did, the results should have been  
19 compared to an independent check of reasonableness, such as the rates of return  
20 being allowed for other regulated electric utilities and the outlying results should  
21 have be eliminated. To my knowledge, no one believes that the fair cost of equity  
22 is as low as 8.52 percent or 8.82 percent, or as high as 12.44 percent. For Mr.  
23 Gatewood to create an average in which these three unreasonable observations

1 account for 60 percent of the final result is not a reasonable interpretation. In fact,  
2 had Mr. Gatewood eliminated the outliers and simply averaged his earnings based  
3 DCF estimate (10.84 percent) with his long-term CAPM estimate (10.89 percent),  
4 the midpoint recommendation would have been 10.87 percent.

5 **Q. What is your second category of disagreement with Mr. Gatewood's**  
6 **analysis?**

7 A. Mr. Gatewood's DCF analysis is much too narrow and his growth rate estimates  
8 in that analysis are largely unreasonable. His analysis is too narrow because he  
9 relies solely on the constant growth version of the DCF model. As I explained in  
10 my direct testimony, ROE estimates from that model using traditional growth rate  
11 methodologies are currently unreasonably low. For example, in my direct  
12 testimony Schedule SCH-4, I showed that growth rate estimates like Mr.  
13 Gatewood's "Intrinsic Growth Rate" are currently two percentage points lower  
14 than they were just five years ago. Such growth rate fluctuations are hardly  
15 appropriate in the constant growth DCF model upon which Mr. Gatewood entirely  
16 relies.

17 These low and fluctuating growth rate estimates are the result of  
18 restructuring and consolidation in the electric utility industry and the resulting  
19 financial effects. Under these circumstances, the constant growth DCF model  
20 with traditional growth rate sources, such as Mr. Gatewood's Intrinsic Growth  
21 Rate, simply does not provide reasonable estimates of ROE. Contrary to Mr.  
22 Gatewood's assertions, the basic risk premium checks of reasonableness I  
23 provided in my direct testimony show that the traditional constant growth DCF

1 model is not reliable. Mr. Gatewood's unreasonably low results from the tradition  
2 constant growth model are a clear demonstration of this fact.

3 **Q. What is the impact of including a measure of long-term growth in Mr.**  
4 **Gatewood's DCF analysis?**

5 A. The results of his analysis with long-term growth in gross domestic product  
6 ("GDP") averaged with his growth rates are shown in Schedule SCH-13, page 1.  
7 This outcome also includes stock prices for the comparable group companies that  
8 have been updated from the time Mr. Gatewood prepared his analysis. He relied  
9 on prices for the April 2007 through June 2007 period. I have updated these  
10 prices for the period June 2007 through August 20, 2007 (the latest date available  
11 at the time this rebuttal testimony was prepared). When GDP growth is averaged  
12 with Mr. Gatewood's earnings growth and more current stock prices are used, the  
13 average DCF ROE for his group is 10.91 percent. When this result is averaged  
14 with his long-term Treasury bond CAPM estimate, updated for current interest  
15 rates (see Schedule SCH-13, page 2), the mid-point ROE is 10.89 percent. These  
16 results show that had Mr. Gatewood taken a more reasonable approach to his DCF  
17 modeling and growth rate inputs, his estimates of ROE would have been much  
18 more consistent and his overall ROE recommendation would likely have been  
19 considerably higher.

20 **Q. On page 7, Mr. Gatewood says that your similar base ROE recommendations**  
21 **are "simply happenstance." How do you respond?**

22 A. It is not an accident that my DCF models based on GDP growth produce estimates  
23 of ROE that are similar to his DCF estimate based on projected earnings growth.

1 His projected earnings growth rate is 7.0 percent (first panel of Schedule AHG-2).  
2 The long-term GDP growth rate used in my analysis is 6.6 percent. It is no  
3 happenstance that we obtain similar results from these models (Gatewood: 10.84  
4 percent; Hadaway: 10.9 percent).

5 Rather than give full weight to his earnings-based DCF model, as most  
6 economist would have done, Mr. Gatewood improperly averaged down his DCF  
7 results by including other unreasonably low growth rate estimates. But for his  
8 inclusion of these unreasonably low growth rates, and his questionable  
9 interpretation of his own results, Mr. Gatewood's base ROE estimate would have  
10 been virtually identical to mine.

11 **IV. Technical Rebuttal of CURB witness Andrea C. Crane**

12 **Q. What are your principal areas of disagreement with Ms. Crane.**

13 A. I disagree with three fundamental aspects of Ms. Crane's analysis and  
14 recommendations. As noted previously, she entirely rejects the Company's  
15 requested construction risk increment. I also disagree entirely with her DCF  
16 analysis and with the market risk premium she uses in her CAPM analysis. From  
17 her flawed quantitative analyses, Ms. Crane produces an ROE recommendation  
18 that is well below KCPL's cost of capital. To my knowledge, no state regulator in  
19 any recent major rate case for a vertically-integrated electric utility has imposed  
20 an ROE as low as the 9.59 percent she recommends. Her final recommendation is  
21 mechanically derived by averaging DCF results of 9.62 percent (with a 0.75  
22 weighting factor) with CAPM results of 9.50 percent (with a 0.25 weighting

1 factor). She provides no basis, other than her own personal views, for why such a  
2 weighting approach might be appropriate.

3 Additionally, Ms. Crane employs unreasonable assumptions in both of her  
4 underlying models. Her DCF estimate is deficient because, like Mr. Gatewood,  
5 she relies solely on the constant growth version of the model and she uses  
6 analysts' growth forecasts that are not consistent with investors' long-term growth  
7 rate expectations. She makes no attempt to review other versions of the DCF  
8 model or long-term growth rate estimates that are required in the DCF model.  
9 Ms. Crane ultimately relies entirely on Value Line's 5-year earnings growth  
10 projections. I will demonstrate that had she more reasonably considered  
11 alternative approaches and alternative growth rates, her DCF estimates would  
12 have been much higher.

13 I will also show that, in her CAPM analysis, had Ms. Crane included the  
14 arithmetic market risk premium (as Mr. Gatewood did), her CAPM estimate of  
15 ROE would have been higher. Finally, although Ms. Crane offered a discussion  
16 of KCPL's financial condition, she gave no consideration to the Company's larger  
17 construction program relative to her comparable group. All these deficiencies  
18 detract from Ms. Crane' ROE recommendation.

19 **Q. How does Ms. Crane estimate the growth rate in her DCF analysis?**

20 A. Ms. Crane's final growth rate estimate of 5.30 percent is based entirely on  
21 analysts' 5-year earnings growth rate forecasts. As I explained in my Direct  
22 Testimony, analysts' near-term earnings forecasts for electric utilities have  
23 dropped significantly in recent years. Ms. Crane' sole reliance on these forecasts

1 is improper and biases her ROE estimate downward because the constant growth  
2 DCF model requires a very long-term estimate of investors' growth expectations.  
3 To meet this requirement, Ms. Crane should have considered more general,  
4 longer-term economic growth forecasts like projections of growth in GDP, as I  
5 did in my Direct Testimony.

6 As I explained in my Direct Testimony, projected growth in the overall  
7 U.S. economy (as reflected in GDP growth) is a reliable measure and an  
8 important indicator of expected long-term growth in the electric utility industry.  
9 Utilities are a fundamental sector in the economic infrastructure and the economic  
10 prospects of utility companies are directly linked to overall economic activity. As  
11 such, long-term growth expectations for utilities are closely tied to long-run  
12 economic performance as measured by the GDP growth rate.

13 Since the long-term growth expectations required in the DCF model  
14 cannot be measured directly, economists tend to rely on several alternatives for  
15 estimating growth. Particularly in proceedings before the Federal Energy  
16 Regulatory Commission, estimates of long-term growth (as opposed to analysts'  
17 five-year forecasts) have been used routinely. Such estimates have been based on  
18 long-term projected profits and more general long-term economic growth  
19 estimates. I have used projected long-term growth in GDP for this purpose.

20 In Schedule SCH-14, I recalculate Ms. Crane's ROE estimates taking into  
21 account long-term GDP growth. In a similar manner to my update of Mr.  
22 Gatewood's analysis, I also updated the stock prices in her analysis to the most  
23 recent available. When these prices and the somewhat higher GDP growth rate is

1 averaged with Ms. Crane's near-term growth rates, her DCF cost of equity  
2 increases by 73 basis points to 10.35 percent. These results show that had Ms.  
3 Crane more reasonably included other forms of the DCF model or other sources  
4 for her growth rate estimates, her ROE results would have been much higher.

5 **Q. Please explain your disagreement with Ms. Crane's CAPM analysis?**

6 A. Similar to her DCF approach, Ms. Crane applied the CAPM in a way that  
7 produces an unreasonably low ROE estimate. Had she included a more  
8 reasonable estimate of the market risk premium in the CAPM, she would have  
9 found a higher ROE estimate.

10 **Q. What is the specific effect of Ms. Crane's CAPM inputs?**

11 A. Ms. Crane's CAPM estimate of ROE is only 9.50 percent. This estimate of ROE  
12 is unreasonably low because she uses only Ibbotson's long-term *geometric* mean  
13 risk premium. The difference between Ms. Crane's CAPM estimate (9.50  
14 percent) and the long-term CAPM result obtained by Mr. Gatewood (10.89  
15 percent) is telling. Had Ms. Crane used a more reasonable market risk premium  
16 in her CAPM analysis, her CAPM ROE estimates would have been much higher.

17 **Q. What estimate of ROE would Ms. Crane have obtained if she had used  
18 current interest rates and an arithmetic risk premium in her analysis?**

19 A. As shown in my Schedule SCH-14, the average long-term Treasury bond rate for  
20 August 2007 is 4.96 percent. This compares to the rate used by Ms. Crane of 5.14  
21 percent. The arithmetic market risk premium from Ibbotson Associates is 6.50  
22 percent. In CAPM analyses, some analysts rely on arithmetic data (like Mr.  
23 Gatewood) and some rely on geometric data (like Ms. Crane). I believe that a

1 reasonable compromise position is to use an average of the two. When the  
2 geometric (5.00 percent) and arithmetic (6.50 percent) market premium are  
3 averaged from the most recent Ibbotson and Associates data, the result is a market  
4 premium of 5.75 percent. When these new values are substituted for the risk-free  
5 rate and market premium in Ms. Crane's Schedule ACC-7, the CAPM result  
6 becomes 10.08 percent (see Schedule SCH-14, Panel 2).

7 **VI. ROE Update**

8 **Q. What are the results of your updated DCF analyses?**

9 A. My updated DCF estimates are based on the same comparable company methods  
10 I used in my Direct Testimony. My updated DCF results are presented in  
11 Schedule SCH-15. The reasonable range from my updated DCF analysis is 10.6  
12 percent to 11.1 percent. These results are based on the two-stage growth DCF  
13 model and the single-stage growth DCF model with the growth rate based on the  
14 long-term GDP growth rate. The traditional constant growth DCF model  
15 indicates an ROE of only 8.8 percent to 9.2 percent, which fails to meet my risk  
16 premium checks of reasonableness and, therefore, continues to be excluded from  
17 my recommended electric utility DCF range.

18 **Q. What are the results of your updated risk premium analysis?**

19 A. My updated risk premium analysis is presented in Schedule SCH-16. Based on  
20 currently projected Baa utility interest rates for 2008, the electric utility risk  
21 premium analysis indicates an ROE of 11.06 percent. The updated results of the  
22 Ibbotson risk premium analysis and the Harris-Marston risk premium analysis

1 indicate ROEs of 11.4 percent ( $6.90\% + 4.5\% = 11.40\%$ ) and 12.0 percent ( $6.90\%$   
2  $+ 5.13\% = 12.03\%$ ), respectively.

3 **Q. What do you conclude from your updated ROE analyses?**

4 A. My updated analyses indicate that the Company's requested 10.75 percent base  
5 ROE is a reasonable estimate of the fair cost of equity capital for my comparable  
6 company group. With the additional construction risk increment of 50 basis  
7 points, KCPL's cost of equity is 11.25 percent. My conclusions are also  
8 supported by the interest rate risk associated with projections for higher rates over  
9 the coming year and the ongoing risks and uncertainties that exist in the electric  
10 utility industry as well as the specific risks that KCPL is currently facing.

11 **Q. Does this conclude your rebuttal testimony?**

12 A. Yes, it does.

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

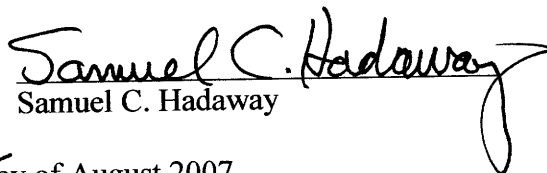
In the Matter of the Application of Kansas City )  
Power & Light Company to Modify Its Tariffs to ) Docket No. 07-KCPE-905-RTS  
Begin the Implementation of Its Regulatory Plan )

**AFFIDAVIT OF SAMUEL C. HADAWAY**

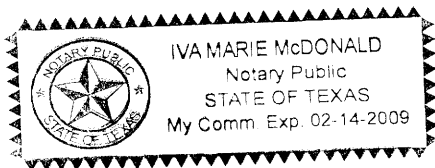
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) **ss**  
**COUNTY OF TRAVIS** )

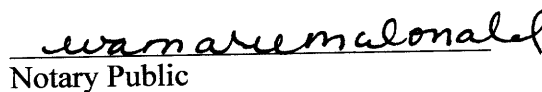
Samuel C. Hadaway, being first duly sworn on his oath, states:

1. My name is Samuel C. Hadaway. I am employed by FINANCO, Inc. in Austin, Texas. I have been retained by Great Plains Energy, Inc., the parent company of Kansas City Power & Light Company, as an expert witness to provide cost of capital testimony on behalf of Kansas City Power & Light Company.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of 17 pages and Schedules SCH-9 through SCH-16, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

  
Samuel C. Hadaway

Subscribed and sworn before me this 22<sup>nd</sup> day of August 2007.



  
Notary Public

My commission expires: 2-14-2009

**Kansas City Power & Light Co.**  
**Authorized Electric Utility Equity Returns**

	2005	2006	2007
1st Quarter	10.51%	10.38%	10.27%
2nd Quarter	10.05%	10.69%	10.27%
3rd Quarter	10.84%	10.06%	
4th Quarter	10.75%	10.39%	
Full Year	10.54%	10.36%	10.27%

Source: Regulatory Research Associates, *Regulatory Focus*,  
July 3, 2007.

## Kansas City Power & Light Co. Long-Term Interest Rate Trends

<b>Month</b>	<b>Baa Utility Rates</b>	<b>Average Utility Rates</b>	<b>Long-Term Treasury Rates</b>	<b>10-Year Treasury Rates</b>
Aug-05	5.80%	5.51%	4.53%	4.26%
Sep-05	5.83%	5.54%	4.51%	4.20%
Oct-05	6.08%	5.79%	4.74%	4.46%
Nov-05	6.19%	5.88%	4.83%	4.54%
Dec-05	6.14%	5.83%	4.73%	4.47%
Jan-06	6.06%	5.77%	4.65%	4.42%
Feb-06	6.11%	5.83%	4.73%	4.57%
Mar-06	6.26%	5.98%	4.91%	4.72%
Apr-06	6.54%	6.28%	5.22%	4.99%
May-06	6.59%	6.39%	5.35%	5.11%
Jun-06	6.61%	6.39%	5.29%	5.11%
Jul-06	6.61%	6.37%	5.25%	5.09%
Aug-06	6.43%	6.20%	5.08%	4.88%
Sep-06	6.26%	6.03%	4.93%	4.72%
Oct-06	6.24%	6.01%	4.94%	4.73%
Nov-06	6.04%	5.82%	4.78%	4.60%
Dec-06	6.05%	5.83%	4.78%	4.56%
Jan-07	6.16%	5.97%	4.95%	4.76%
Feb-07	6.10%	5.91%	4.93%	4.72%
Mar-07	6.10%	5.87%	4.81%	4.56%
Apr-07	6.24%	6.01%	4.95%	4.69%
May-07	6.23%	6.03%	4.98%	4.75%
Jun-07	6.54%	6.34%	5.29%	5.10%
Jul-07	6.49%	6.28%	5.19%	5.00%

Sources: Mergent Bond Record (Utility Rates);  
www.federalreserve.gov (Treasury Rates).

## Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

	2006				2007				2008					
	2006	E2007	E2008	2006	E2007	E2008	2006	E2007	E2008	2006	E2007	E2008		
<b>Gross Domestic Product</b>														
GDP (current dollars)	\$13,247.0	\$13,860.0	\$14,506.0	6.4	4.6	4.7	\$13,458.0	\$13,620.0	\$13,810.0	\$13,929.0	\$14,080.0	\$14,250.0	\$14,414.0	\$14,586.0
Annual rate of increase (%)	6.4	4.6	4.7	-	-	-	4.1	4.9	5.7	3.5	4.4	5.1	4.5	4.9
Annual rate of increase—real GDP (%)	3.3	2.1	2.7	-	-	-	2.5	0.7	3.2	2.5	2.7	2.6	2.5	2.9
Annual rate of increase—GDP deflator (%)	2.9	2.4	1.9	-	-	-	1.7	4.2	2.3	1.0	1.7	2.4	2.0	1.9
<b>* Components of Real GDP</b>														
Personal consumption expenditures	\$8,091.0	\$8,343.0	\$8,574.0	3.2	3.1	2.8	\$8,196.0	\$8,281.0	\$8,310.0	\$8,364.0	\$8,417.0	\$8,483.0	\$8,541.0	\$8,604.0
% change	3.2	3.1	2.8	-	-	-	4.2	4.2	1.4	2.6	2.6	3.2	2.8	3.0
Durable goods	1,202.9	1,250.5	1,276.8	5.0	4.0	2.1	1,221.9	1,247.7	1,248.3	1,254.1	1,251.8	1,261.0	1,266.4	1,282.8
Nondurable goods	2,362.0	2,423.1	2,496.9	3.7	2.6	3.1	2,394.0	2,413.2	2,411.0	2,423.2	2,445.0	2,468.7	2,488.2	2,506.7
Services	4,550.4	4,696.0	4,825.4	2.6	3.2	2.8	4,605.2	4,648.6	4,677.7	4,712.9	4,744.6	4,777.5	4,809.7	4,840.6
Nonresidential fixed investment	1,312.4	1,360.4	1,412.8	7.2	3.7	3.9	1,323.7	1,332.3	1,350.6	1,371.3	1,387.3	1,400.0	1,406.7	1,415.6
% change	7.2	3.7	3.9	-	-	-	(3.1)	2.6	5.6	6.3	4.8	3.7	1.9	2.6
Producers durable equipment	1,048.6	1,068.4	1,118.6	6.5	1.9	4.7	1,047.8	1,052.2	1,059.1	1,074.8	1,087.7	1,101.9	1,110.4	1,122.3
Residential fixed investment	572.5	479.1	442.1	(4.3)	(16.3)	(7.7)	530.2	507.6	490.6	469.0	449.3	438.9	435.4	441.2
% change	(4.3)	(16.3)	(7.7)	-	-	-	(20.0)	(16.0)	(12.7)	(16.5)	(15.7)	(8.9)	(3.2)	5.4
Net change in business inventories	43.2	14.4	27.7	-	-	-	22.4	(4.2)	18.7	16.2	26.9	28.1	25.4	25.7
Gov't purchases of goods & services	1,998.5	2,044.1	2,074.9	2.1	2.3	1.5	2,016.1	2,021.1	2,036.0	2,055.1	2,064.1	2,069.5	2,074.0	2,076.7
Federal	742.0	752.1	767.8	2.0	1.4	2.1	747.2	739.8	744.8	759.5	764.5	765.5	768.2	768.5
State & local	1,256.4	1,291.7	1,307.0	2.1	2.8	1.2	1,268.7	1,281.0	1,290.9	1,295.5	1,299.5	1,302.9	1,305.7	1,308.1
Net exports	(618.1)	(579.1)	(540.1)	-	-	-	(582.6)	(606.2)	(579.5)	(571.9)	(558.9)	(552.2)	(540.4)	(534.0)
Exports	1,302.8	1,384.1	1,505.0	8.9	6.2	8.7	1,343.5	1,345.7	1,366.1	1,396.4	1,428.3	1,460.1	1,490.7	1,519.5
Imports	1,920.9	1,963.2	2,045.1	5.8	2.2	4.2	1,926.1	1,951.9	1,945.6	1,968.2	1,987.2	2,012.4	2,031.1	2,053.5
<b>** Income &amp; Profits</b>														
Personal income	\$10,883.0	\$11,542.0	\$12,143.0	6.3	6.0	5.2	\$11,065.0	\$11,353.0	\$11,458.0	\$11,603.0	\$11,752.0	\$11,914.0	\$12,068.0	\$12,215.0
Disposable personal income	9,523.0	10,061.0	10,590.0	5.4	5.6	5.3	9,679.0	9,904.0	9,984.0	10,114.0	10,241.0	10,380.0	10,524.0	10,657.0
Savings rate (%)	(1.1)	(0.8)	(0.2)	-	-	-	(1.2)	(0.7)	(1.3)	(0.8)	(0.5)	(0.4)	(0.2)	(0.2)
Corporate profits before taxes	1,810.9	1,868.0	1,901.8	19.2	3.2	1.8	1,837.6	1,861.6	1,929.8	1,842.5	1,838.1	1,870.7	1,883.4	1,912.3
Corporate profits after taxes	1,336.0	1,389.1	1,415.9	19.4	4.0	1.9	1,361.5	1,382.0	1,433.9	1,371.1	1,369.5	1,391.9	1,402.0	1,424.1
† Earnings per share (S&P 500)	81.60	88.80	94.40	16.6	8.9	6.5	81.50	83.40	86.60	87.50	88.80	91.40	91.90	93.20
<b>† Prices &amp; Interest Rates</b>														
Consumer price index	3.2	2.5	1.8	-	-	-	(2.1)	3.8	6.0	0.5	0.7	2.0	1.9	2.0
Treasury bills	4.7	4.8	4.7	-	-	-	4.9	5.0	4.7	4.7	4.8	4.9	4.8	4.6
10-yr notes	4.8	5.0	5.5	-	-	-	4.6	4.7	4.9	5.1	5.4	5.5	5.5	5.5
30-yr bonds	4.9	5.1	5.6	-	-	-	4.7	4.8	5.0	5.2	5.5	5.6	5.6	5.6
New issue rate—corporate bonds	5.6	5.7	6.3	-	-	-	5.4	5.4	5.6	5.8	6.1	6.3	6.3	6.3
<b>Other Key Indicators</b>														
Housing starts (1,000 units SAAR)	1,820.0	1,400.0	1,440.0	(12.4)	(22.5)	2.3	1,560.0	1,460.0	1,470.0	1,340.0	1,350.0	1,340.0	1,360.0	1,470.0
Auto & truck sales (1,000,000 units)	16.5	16.3	16.5	(2.7)	(1.2)	1.3	16.3	16.5	15.9	16.4	16.3	16.5	16.5	16.5
Unemployment rate (%)	4.6	4.7	5.0	-	-	-	4.5	4.5	4.5	4.8	4.9	5.0	5.0	5.0
\$U.S. dollar	(1.5)	(4.4)	(4.2)	-	-	-	(0.7)	1.5	(11.9)	(8.3)	(3.7)	(3.3)	(2.0)	(2.4)

Note: Annual changes are from prior year and quarterly changes are from prior quarter. Figures may not add to totals because of rounding. A—Advance data. P—Preliminary. E—Estimated. R—Revised. \*1996 Chain-weighted dollars. \*\*Current dollars. †Trailing 4 quarters. ‡Average for period. §Quarterly % changes at quarterly rates. This forecast prepared by Standard & Poor's.

**Kansas City Power & Light Company**  
**Capital Spending Relative to Net Plant (Gatewood Comparable Companies)**

(\$millions unless otherwise noted)

No.	Reference Company	2005 Net Plant	Common Shares Outstanding			Capital Spending Per Share			Total Capital Spending	Relative to Net Plant
			2006	2007	2008-2011	2006	2007	2008-2011	2006 -2011	
1	ALLETE	860	30.7	31.1	32.0	3.50	4.85	4.75	866	100.6%
2	Cleco Corporation	1,189	58.0	59.0	62.0	5.50	6.25	1.50	1,060	89.2%
3	Dominion Resources	28,940	354.0	354.0	354.0	10.75	10.75	10.50	22,479	77.7%
4	DPL Inc.	2,573	112.0	112.0	120.0	2.05	2.05	2.05	1,443	56.1%
5	DTE Energy Co.	10,830	177.0	177.0	168.0	8.45	7.40	7.75	8,013	74.0%
6	Empire District	896	30.3	31.3	33.0	3.90	4.85	3.00	666	74.3%
7	Entergy Corp.	19,197	208.2	208.6	215.8	6.70	5.25	4.65	6,504	33.9%
8	FirstEnergy Corp.	13,998	319.2	317.8	317.8	4.15	5.25	3.75	7,760	55.4%
9	FPL Group	22,463	414.0	417.0	426.0	3.30	7.45	4.05	11,374	50.6%
10	MGE Energy, Inc.	668	20.7	20.7	20.7	3.95	4.00	4.00	496	74.2%
11	Pinnacle West	7,577	99.6	99.6	100.0	8.90	8.60	8.00	4,943	65.2%
12	Progress Energy	14,442	254.0	256.0	261.0	6.95	6.75	6.50	10,279	71.2%
13	Southern Co.	29,480	747.0	753.0	770.0	4.15	4.65	3.75	18,152	61.6%
	Average									<b>68.0%</b>
	Kansas City Power & Light*	2,645							2,517	<b>95.2%</b>
	Great Plains Energy*	2,645							2,539	<b>96.0%</b>

Source: Value Line Investment Survey, Electric Utility (East), Dec 1, 2006; (Central), Dec 29, 2006; (West), Nov 10, 2006.

\*KCP&L and GPE Net Plant data from 2004 10K dated as of December 31, 2004.

\*KCP&L and GPE Total Capital Spending 2005-2010 data from GPE Board Approved Budget as of December 2005.

Kansas City Power & Light Co.  
Gatewood DCF Analysis with GDP Growth Included

Panel 1: Gatewood DCF Analysis

No.	Company	(1) Dividend	(2) Price	(3) EPS Growth Rate			(6) DPS Growth Rate			(9) BxR Growth Rate		
				(4) Dividend Yield	(5) Growth Rate	(5) Cost of Equity	(6) Dividend Yield	(7) Growth Rate	(8) Cost of Equity	(9) Dividend Yield	(10) Growth Rate	(11) Cost of Equity
1	ALLETE	1.64	48.27	3.58%	10.50%	14.08%	3.55%	9.16%	12.71%	3.50%	6.15%	9.65%
2	Cleco Corp.	0.90	26.92	3.41%	4.00%	7.41%	3.43%	5.00%	8.43%	3.39%	3.01%	6.40%
3	Dominion Resources	2.84	88.04	3.46%	14.50%	17.96%	3.28%	3.50%	6.78%	3.38%	9.38%	12.76%
4	DPL Inc.	1.04	30.53	3.53%	7.00%	10.53%	3.47%	3.50%	6.97%	3.54%	7.69%	11.23%
5	DTE Energy	2.14	50.70	4.31%	4.00%	8.31%	4.27%	2.50%	6.77%	4.28%	2.91%	7.19%
6	Empire Dist. Elec.	1.28	24.10	5.60%	11.00%	16.60%	5.35%	1.50%	6.85%	5.40%	3.29%	8.69%
7	Entergy Corp.	2.16	112.21	2.00%	7.50%	9.50%	2.00%	7.50%	9.50%	1.99%	6.56%	8.55%
8	FirstEnergy Corp.	2.03	68.20	3.11%	9.00%	12.11%	3.06%	5.50%	8.56%	3.08%	7.19%	10.27%
9	FPL Group	1.64	62.12	2.75%	8.00%	10.75%	2.74%	7.50%	10.24%	2.72%	5.81%	8.53%
10	MGE Energy	1.41	34.77	4.18%	6.00%	10.18%	4.07%	0.50%	4.57%	4.17%	5.81%	9.98%
11	Pinnacle West Capital	2.13	46.75	4.64%	3.50%	8.14%	4.65%	4.00%	8.65%	4.60%	2.14%	6.74%
12	Progress Energy	2.44	49.93	4.96%	3.00%	7.96%	4.91%	1.00%	5.91%	4.93%	1.96%	6.89%
13	Southern Co.	1.60	36.48	4.45%	3.00%	7.45%	4.47%	4.00%	8.47%	4.46%	3.33%	7.79%
Average				3.84%	7.00%	10.84%	3.79%	4.24%	8.03%	3.80%	5.02%	8.82%
Gatewood Averages						10.84%			8.54%			8.82%

Panel 2: Updated Gatewood DCF Analysis

No.	Company	(12) Dividend	(13) Price	(14) Dividend Yield	(15)	(16)	(17)	(18)
					EPS Growth Rate	GDP Growth Rate	Average Growth Rate	Cost of Equity
1	ALLETE	1.64	44.98	3.80%	10.50%	6.60%	8.55%	12.35%
2	Cleco Corp.	0.90	24.58	3.76%	4.00%	6.60%	5.30%	9.06%
3	Dominion Resources	2.84	85.77	3.49%	14.50%	6.60%	10.55%	14.04%
4	DPL Inc.	1.04	28.29	3.80%	7.00%	6.60%	6.80%	10.60%
5	DTE Energy	2.14	49.03	4.48%	4.00%	6.60%	5.30%	9.78%
6	Empire Dist. Elec.	1.28	22.73	5.88%	11.00%	6.60%	8.80%	14.68%
7	Entergy Corp.	2.16	103.77	2.15%	7.50%	6.60%	7.05%	9.20%
8	FirstEnergy Corp.	2.03	64.00	3.30%	9.00%	6.60%	7.80%	11.10%
9	FPL Group	1.64	59.40	2.86%	8.00%	6.60%	7.30%	10.16%
10	MGE Energy	1.41	32.34	4.50%	6.00%	6.60%	6.30%	10.80%
11	Pinnacle West Capital	2.13	40.52	5.39%	3.50%	6.60%	5.05%	10.44%
12	Progress Energy	2.44	46.45	5.38%	3.00%	6.60%	4.80%	10.18%
13	Southern Co.	1.60	34.90	4.70%	3.00%	6.60%	4.80%	9.50%
Average				4.11%	7.00%	6.60%	6.80%	10.91%

Summary of Results		
	Gatewood	
	Initial	Updated
	Average	Average
<b>DCF Models</b>		
Earnings Forecasts	10.84%	NA
Dividend Forecasts	8.54%	*
Intrinsic Growth	8.82%	*
Earnings & GDP	NA	10.91%
<b>CAPM Models</b>		
Short-Term	12.44%	*
Long-Term	10.89%	10.86%
<b>Avg of DCF &amp; CAPM</b>	10.31%	10.89%

\*Outlier and not considered in the final result.

Notes:

Columns 1-12: Gatewood Schedule AHG-2.

Column 13: Average of monthly high/low stock price average for June, July, August (through August 20) 2007.

Column 14: Column 12 increased by one-half column 17, divided by column 13.

Column 15: See column 4.

Column 16: See Hadaway Direct, Schedule SCH-5.

Column 17: Average of columns 15 and 16.

Column 18: Sum of columns 14 and 17.

**Kansas City Power & Light Co.**  
**Gatewood CAPM Analysis with Updated Interest Rates**

**Long-Term: Using Updated 30 Year Treasury Bond Yields**

No.	Company	(1) Risk-Free Rate	(2) Risk Premium	(3) Beta	(4) Cost of Equity
1	ALLETE	4.96%	6.50%	0.90	10.81%
2	Cleco Corp.	4.96%	6.50%	1.30	13.41%
3	Dominion Resources	4.96%	6.50%	1.05	11.79%
4	DPL Inc.	4.96%	6.50%	0.95	11.14%
5	DTE Energy	4.96%	6.50%	0.75	9.84%
6	Empire Dist. Elec.	4.96%	6.50%	0.85	10.49%
7	Entergy Corp.	4.96%	6.50%	0.85	10.49%
8	FirstEnergy Corp.	4.96%	6.50%	0.85	10.49%
9	FPL Group	4.96%	6.50%	0.85	10.49%
10	MGE Energy	4.96%	6.50%	0.80	10.16%
11	Pinnacle West Capital	4.96%	6.50%	1.00	11.46%
12	Progress Energy	4.96%	6.50%	0.95	11.14%
13	Southern Co.	4.96%	6.50%	0.70	9.51%
	Average			0.91	<b>10.86%</b>

**Short-Term: Using Updated 90 Day Treasury Bill Yields**

No.	Company	(5) Risk-Free Rate	(6) Risk Premium	(7) Beta	(8) Cost of Equity
1	ALLETE	4.48%	8.50%	0.90	12.13%
2	Cleco Corp.	4.48%	8.50%	1.30	15.53%
3	Dominion Resources	4.48%	8.50%	1.05	13.41%
4	DPL Inc.	4.48%	8.50%	0.95	12.56%
5	DTE Energy	4.48%	8.50%	0.75	10.86%
6	Empire Dist. Elec.	4.48%	8.50%	0.85	11.71%
7	Entergy Corp.	4.48%	8.50%	0.85	11.71%
8	FirstEnergy Corp.	4.48%	8.50%	0.85	11.71%
9	FPL Group	4.48%	8.50%	0.85	11.71%
10	MGE Energy	4.48%	8.50%	0.80	11.28%
11	Pinnacle West Capital	4.48%	8.50%	1.00	12.98%
12	Progress Energy	4.48%	8.50%	0.95	12.56%
13	Southern Co.	4.48%	8.50%	0.70	10.43%
	Average			0.91	<b>12.20%</b>

Column 1: 30-Year Treasury Bond, Fed Reserve Bank of St. Louis website, average of daily rates August 1-17, 2007.

Columns 2-3: See Gatewood Schedule AHG-6.

Column 4: Column 1 plus column 2 multiplied by column 3.

Column 5: 90-Day Treasury Bill, Fed Reserve Bank of St. Louis website, average of daily rates August 1-17, 2007.

Columns 6-7: See Gatewood Schedule AHG-6.

Column 8: Column 5 plus column 6 multiplied by column 7.

## Kansas City Power & Light Co. Crane ROE Analysis

### Panel 1: Updated Crane DCF Analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
No. Company	Dividend	Price	Adjusted Div Yld (Analysts)	Analysts Growth	Updated Price	Adjusted Div Yld (incl GDP)	GDP Growth	Average Growth
1 Alliant Energy Co.	1.27	39.56	3.30%	5.00%	38.85	3.37%	6.60%	
2 Ameren	2.54	50.16	5.20%	2.50%	50.30	5.20%	6.60%	
3 American Elec. Pwr.	1.56	46.06	3.48%	6.50%	45.45	3.53%	6.60%	
4 CH Energy Group	2.16	47.19	4.70%	3.00%	45.91	4.85%	6.60%	
5 Cent. Vermont P.S.	0.92	41.03	2.30%	11.00%	36.60	2.59%	6.60%	
6 Cleco Corporation	0.90	25.10	3.68%	4.00%	24.58	3.77%	6.60%	
7 Con. Edison	2.32	45.72	5.21%	3.50%	45.90	5.21%	6.60%	
8 DTE Energy Co.	2.12	50.67	4.29%	4.00%	49.03	4.45%	6.60%	
9 Duquesne Light								
10 Empire District	1.28	23.46	5.60%	11.00%	22.73	5.80%	6.60%	
11 Energy East Corp.	1.20	26.21	4.70%	2.50%	25.41	4.86%	6.60%	
12 Green Mtn. Power				4.50%				
13 Hawaiian Electric	1.24	23.57	5.40%	4.00%	23.01	5.55%	6.60%	
14 IDACORP	1.20	31.59	3.90%	2.50%	32.38	3.82%	6.60%	
15 MGE Energy, Inc.	1.39	32.92	4.33%	6.00%	32.34	4.43%	6.60%	
16 NiSource Inc.	0.92	21.08	4.48%	2.50%	20.28	4.67%	6.60%	
17 Northeast Utilities	0.80	28.99	2.83%	12.00%	28.40	2.90%	6.60%	
18 NSTAR	1.30	32.90	4.06%	8.50%	32.63	4.10%	6.60%	
19 Pinnacle West	2.10	40.20	5.36%	3.50%	40.52	5.34%	6.60%	
20 PPL Corporation	1.22	48.54	2.58%	11.00%	47.42	2.65%	6.60%	
21 Progress Energy	2.44	46.17	5.42%	3.00%	46.45	5.41%	6.60%	
22 Puget Energy, Inc.	1.00	24.50	4.19%	6.00%	24.15	4.26%	6.60%	
23 SCANA Corp.	1.76	39.20	4.61%	3.50%	38.36	4.72%	6.60%	
24 Southern Co.	1.61	34.64	4.77%	3.00%	34.90	4.75%	6.60%	
25 Vectren Corp.	1.26	27.46	4.71%	4.00%	26.95	4.81%	6.60%	
26 Xcel Energy Inc.	0.92	20.75	4.55%	5.50%	20.91	4.53%	6.60%	
Average			4.32%	5.30%		4.40%	6.60%	5.95%
Crane Initial DCF Result				9.62%				
Updated Crane DCF Result								10.35%

### Panel 2: Updated Crane CAPM Analysis

	(9)	(10)
	Crane Initial ROE	Crane Revised ROE
Risk Free Rate	5.14%	4.96%
Beta	0.89	0.89
Market Premium	4.90%	5.75%
ROE	9.50%	10.08%

### Panel 3: Updated Crane ROE Results

	(11)
	ROE
Revised DCF Result	10.35%
Revised CAPM Result	10.08%
<b>Weighted Average ROE</b>	<b>10.28%</b>

#### Notes:

Columns 1-2: See Crane Schedule ACC-5.

Column 3: Column 1 divided by column 2, increased by one-half of the average growth at the bottom of column 4.

Column 4: See Crane Schedule ACC-6. DCF ROE result at bottom of column is sum of column 3 and column 4 averages.

Column 5: Average of monthly high/low stock price average for June, July, August (through August 20) 2007.

Column 6: Column 1 divided by column 5, increased by one-half of the average growth at the bottom of column 7.

Column 7: See Hadaway Direct, Schedule SCH-5.

Column 8: Average of bottom-line averages of columns 4 and 7. Updated DCF ROE result at bottom of column is sum of column 6 and column 8 averages.

Column 9: See Crane Schedule ACC-7.

Column 10: Risk free rate is 30-Year Treasury Bond, Fed Reserve Bank of St. Louis website, average of daily rates August 1-17, 2007.

Market premium is average of geometric and arithmetic long-term risk premiums from Ibbotson Assoc. 2007 Yearbook, page 31.

Column 11: Weighted average ROE based on 75% weighting of DCF result and 25% weighting of CAPM result.

**Kansas City Power & Light Company**  
**Discounted Cash Flow Analysis**  
**Summary Of DCF Model Results**

Company	Traditional Constant Growth DCF Model	Constant Growth DCF Model Long-Term GDP Growth	Low Near-Term Growth Two-Stage Growth DCF Model
1 Alliant Energy Co.	8.7%	10.1%	9.7%
2 Ameren	9.2%	11.6%	10.8%
3 American Elec. Pwr.	9.4%	10.4%	10.6%
4 CH Energy Group	7.6%	11.3%	10.7%
5 Cent. Vermont P.S.	10.1%	9.1%	8.6%
6 Cleco Corporation	10.0%	10.3%	10.6%
7 Con. Edison	8.3%	11.7%	11.0%
8 DTE Energy Co.	8.7%	11.1%	10.7%
9 Empire District	11.4%	12.2%	11.7%
10 Energy East Corp.	7.8%	11.6%	11.3%
11 Hawaiian Electric	8.1%	12.0%	11.1%
12 IDACORP	7.5%	10.3%	9.6%
13 MGE Energy, Inc.	10.3%	11.0%	10.4%
14 NiSource Inc.	7.3%	11.1%	10.7%
15 Northeast Utilities	11.0%	9.5%	9.4%
16 NSTAR	11.4%	11.0%	11.0%
17 Pinnacle West	8.7%	12.1%	11.4%
18 PPL Corporation	13.8%	9.3%	10.0%
19 Progress Energy	8.4%	11.9%	11.1%
20 Puget Energy, Inc.	9.2%	10.7%	10.7%
21 SCANA Corp.	8.8%	11.3%	10.9%
22 Southern Co.	8.3%	11.4%	11.0%
23 Vectren Corp.	8.6%	11.5%	11.0%
24 Xcel Energy Inc.	9.2%	11.1%	10.9%
GROUP AVERAGE	9.2%	11.0%	10.6%
GROUP MEDIAN	8.8%	11.1%	10.8%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 1, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007.

Note: Duquesne Light and Green Mountain Power are no longer included in the comparable group due to mergers.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

**Kansas City Power & Light Company**  
**Discounted Cash Flow Analysis**  
**Traditional Constant Growth DCF Model**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Company	Recent Price(P0)	Next Year's Div(D1)	Dividend Yield	Projected Growth Rate Analysis									ROE K=Div Yld+G (Cols 3+12)
				Year 2011 "BR" Growth Rate Calculation						Zacks	Value Line	Average Growth (Cols 9-11)	
				DPS	EPS	Retention Rate (B)	NBV	ROE (R)	B*R Growth				
1 Alliant Energy Co.	38.85	1.37	3.53%	1.49	2.75	45.82%	28.05	9.80%	4.49%	6.00%	5.00%	5.16%	8.7%
2 Ameren	50.30	2.54	5.05%	2.54	3.35	24.18%	36.30	9.23%	2.23%	7.80%	2.50%	4.18%	9.2%
3 American Elec. Pwr.	45.45	1.72	3.78%	2.20	4.00	45.00%	31.75	12.60%	5.67%	4.70%	6.50%	5.62%	9.4%
4 CH Energy Group	45.91	2.16	4.71%	2.26	3.25	30.46%	35.75	9.09%	2.77%	NA	3.00%	2.88%	7.6%
5 Cent. Vermont P.S.	36.60	0.92	2.51%	0.92	1.85	50.27%	22.45	8.24%	4.14%	NA	11.00%	7.57%	10.1%
6 Cleco Corporation	24.58	0.90	3.66%	1.20	1.75	31.43%	18.25	9.59%	3.01%	12.00%	4.00%	6.34%	10.0%
7 Con. Edison	45.90	2.34	5.10%	2.40	3.40	29.41%	38.05	8.94%	2.63%	3.50%	3.50%	3.21%	8.3%
8 DTE Energy Co.	49.03	2.20	4.49%	2.40	3.50	31.43%	37.75	9.27%	2.91%	5.70%	4.00%	4.20%	8.7%
9 Empire District	22.73	1.28	5.63%	1.40	2.00	30.00%	18.25	10.96%	3.29%	3.00%	11.00%	5.76%	11.4%
10 Energy East Corp.	25.41	1.26	4.96%	1.45	2.00	27.50%	21.75	9.20%	2.53%	3.50%	2.50%	2.84%	7.8%
11 Hawaiian Electric	23.01	1.24	5.39%	1.24	1.50	17.33%	14.00	10.71%	1.86%	4.90%	1.50%	2.75%	8.1%
12 IDACORP	32.38	1.20	3.71%	1.20	2.25	46.67%	30.95	7.27%	3.39%	6.00%	2.00%	3.80%	7.5%
13 MGE Energy, Inc.	32.34	1.43	4.42%	1.47	2.60	43.46%	19.45	13.37%	5.81%	NA	6.00%	5.90%	10.3%
14 NiSource Inc.	20.28	0.92	4.54%	1.00	1.50	33.33%	20.75	7.23%	2.41%	3.50%	2.50%	2.80%	7.3%
15 Northeast Utilities	28.40	0.83	2.92%	0.98	1.75	44.00%	20.45	8.56%	3.77%	13.00%	7.50%	8.09%	11.0%
16 NSTAR	32.63	1.43	4.38%	1.75	3.00	41.67%	19.75	15.19%	6.33%	6.30%	8.50%	7.04%	11.4%
17 Pinnacle West	40.52	2.21	5.45%	2.31	2.90	20.34%	37.00	7.84%	1.59%	6.70%	1.50%	3.26%	8.7%
18 PPL Corporation	47.42	1.30	2.74%	2.00	3.75	46.67%	19.00	19.74%	9.21%	13.00%	11.00%	11.07%	13.8%
19 Progress Energy	46.45	2.46	5.30%	2.52	3.20	21.25%	34.70	9.22%	1.96%	4.40%	3.00%	3.12%	8.4%
20 Puget Energy, Inc.	24.15	1.00	4.14%	1.20	2.00	40.00%	22.00	9.09%	3.64%	5.50%	6.00%	5.05%	9.2%
21 SCANA Corp.	38.36	1.82	4.74%	2.00	3.25	38.46%	30.00	10.83%	4.17%	4.50%	3.50%	4.06%	8.8%
22 Southern Co.	34.90	1.66	4.76%	1.85	2.50	26.00%	19.50	12.82%	3.33%	4.40%	3.00%	3.58%	8.3%
23 Vectren Corp.	26.95	1.31	4.86%	1.43	2.00	28.50%	19.25	10.39%	2.96%	4.30%	4.00%	3.75%	8.6%
24 Xcel Energy Inc.	20.91	0.95	4.54%	1.10	1.75	37.14%	17.00	10.29%	3.82%	4.50%	5.50%	4.61%	9.2%
GROUP AVERAGE	34.73	1.52	4.39%						3.66%	6.06%	4.94%	4.86%	9.2%
GROUP MEDIAN			4.54%										8.8%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 1, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007.

Note: Duquesne Light and Green Mountain Power are no longer included in the comparable group due to mergers.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

**Kansas City Power & Light Company**  
**Discounted Cash Flow Analysis**  
**Constant Growth DCF Model**  
**Long-Term GDP Growth**

	(14)	(15)	(16)	(17)	(18)
Company	Next			GDP Growth	ROE K=Div Yld+G (Cols 16+17)
	Recent Price(P0)	Year's Div(D1)	Dividend Yield		
1 Alliant Energy Co.	38.85	1.37	3.53%	6.60%	10.1%
2 Ameren	50.30	2.54	5.05%	6.60%	11.6%
3 American Elec. Pwr.	45.45	1.72	3.78%	6.60%	10.4%
4 CH Energy Group	45.91	2.16	4.71%	6.60%	11.3%
5 Cent. Vermont P.S.	36.60	0.92	2.51%	6.60%	9.1%
6 Cleco Corporation	24.58	0.90	3.66%	6.60%	10.3%
7 Con. Edison	45.90	2.34	5.10%	6.60%	11.7%
8 DTE Energy Co.	49.03	2.20	4.49%	6.60%	11.1%
9 Empire District	22.73	1.28	5.63%	6.60%	12.2%
10 Energy East Corp.	25.41	1.26	4.96%	6.60%	11.6%
11 Hawaiian Electric	23.01	1.24	5.39%	6.60%	12.0%
12 IDACORP	32.38	1.20	3.71%	6.60%	10.3%
13 MGE Energy, Inc.	32.34	1.43	4.42%	6.60%	11.0%
14 NiSource Inc.	20.28	0.92	4.54%	6.60%	11.1%
15 Northeast Utilities	28.40	0.83	2.92%	6.60%	9.5%
16 NSTAR	32.63	1.43	4.38%	6.60%	11.0%
17 Pinnacle West	40.52	2.21	5.45%	6.60%	12.1%
18 PPL Corporation	47.42	1.30	2.74%	6.60%	9.3%
19 Progress Energy	46.45	2.46	5.30%	6.60%	11.9%
20 Puget Energy, Inc.	24.15	1.00	4.14%	6.60%	10.7%
21 SCANA Corp.	38.36	1.82	4.74%	6.60%	11.3%
22 Southern Co.	34.90	1.66	4.76%	6.60%	11.4%
23 Vectren Corp.	26.95	1.31	4.86%	6.60%	11.5%
24 Xcel Energy Inc.	20.91	0.95	4.54%	6.60%	11.1%
GROUP AVERAGE	34.73	1.52	4.39%	6.60%	11.0%
GROUP MEDIAN			4.54%		11.1%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 1, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007.

Note: Duquesne Light and Green Mountain Power are no longer included in the comparable group due to mergers.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

**Kansas City Power & Light Company**  
**Discounted Cash Flow Analysis**  
**Low Near-Term Growth**  
**Two-Stage Growth DCF Model**

	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)
Company	Next	Annual	Recent	CASH FLOWS							ROE=Internal Rate of Return (Yrs 0-150)
	Year's Div	2011 Div		Change to 2011	Year 1 Div	Year 2 Div	Year 3 Div	Year 4 Div	Year 5 Div	Year 5-150 Div Growth	
1 Alliant Energy Co.	1.37	1.49	0.04	38.85	1.37	1.41	1.45	1.49	1.59	6.60%	9.7%
2 Ameren	2.54	2.54	0.00	50.30	2.54	2.54	2.54	2.54	2.71	6.60%	10.8%
3 American Elec. Pwr.	1.72	2.20	0.16	45.45	1.72	1.88	2.04	2.20	2.35	6.60%	10.6%
4 CH Energy Group	2.16	2.26	0.03	45.91	2.16	2.19	2.23	2.26	2.41	6.60%	10.7%
5 Cent. Vermont P.S.	0.92	0.92	0.00	36.60	0.92	0.92	0.92	0.92	0.98	6.60%	8.6%
6 Cleco Corporation	0.90	1.20	0.10	24.58	0.90	1.00	1.10	1.20	1.28	6.60%	10.6%
7 Con. Edison	2.34	2.40	0.02	45.90	2.34	2.36	2.38	2.40	2.56	6.60%	11.0%
8 DTE Energy Co.	2.20	2.40	0.07	49.03	2.20	2.27	2.33	2.40	2.56	6.60%	10.7%
9 Empire District	1.28	1.40	0.04	22.73	1.28	1.32	1.36	1.40	1.49	6.60%	11.7%
10 Energy East Corp.	1.26	1.45	0.06	25.41	1.26	1.32	1.39	1.45	1.55	6.60%	11.3%
11 Hawaiian Electric	1.24	1.24	0.00	23.01	1.24	1.24	1.24	1.24	1.32	6.60%	11.1%
12 IDACORP	1.20	1.20	0.00	32.38	1.20	1.20	1.20	1.20	1.28	6.60%	9.6%
13 MGE Energy, Inc.	1.43	1.47	0.01	32.34	1.43	1.44	1.46	1.47	1.57	6.60%	10.4%
14 NiSource Inc.	0.92	1.00	0.03	20.28	0.92	0.95	0.97	1.00	1.07	6.60%	10.7%
15 Northeast Utilities	0.83	0.98	0.05	28.40	0.83	0.88	0.93	0.98	1.04	6.60%	9.4%
16 NSTAR	1.43	1.75	0.11	32.63	1.43	1.54	1.64	1.75	1.87	6.60%	11.0%
17 Pinnacle West	2.21	2.31	0.03	40.52	2.21	2.24	2.28	2.31	2.46	6.60%	11.4%
18 PPL Corporation	1.30	2.00	0.23	47.42	1.30	1.53	1.77	2.00	2.13	6.60%	10.0%
19 Progress Energy	2.46	2.52	0.02	46.45	2.46	2.48	2.50	2.52	2.69	6.60%	11.1%
20 Puget Energy, Inc.	1.00	1.20	0.07	24.15	1.00	1.07	1.13	1.20	1.28	6.60%	10.7%
21 SCANA Corp.	1.82	2.00	0.06	38.36	1.82	1.88	1.94	2.00	2.13	6.60%	10.9%
22 Southern Co.	1.66	1.85	0.06	34.90	1.66	1.72	1.79	1.85	1.97	6.60%	11.0%
23 Vectren Corp.	1.31	1.43	0.04	26.95	1.31	1.35	1.39	1.43	1.52	6.60%	11.0%
24 Xcel Energy Inc.	0.95	1.10	0.05	20.91	0.95	1.00	1.05	1.10	1.17	6.60%	10.9%
GROUP AVERAGE											10.6%
GROUP MEDIAN											10.8%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 1, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007.

Note: Duquesne Light and Green Mountain Power are no longer included in the comparable group due to mergers.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

**Kansas City Power & Light Company**  
**Discounted Cash Flow Analysis**  
**DCF Analysis Column Descriptions**

Column 1: Three-month Average Price per Share (Jun 2007-Aug 20, 2007)	Column 16: Column 15 Divided by Column 14
Column 2: Estimated 2008 Dividends per Share from Value Line	Column 17: Average of GDP Growth During the Last 10 year, 20 year, 30 year, 40 year, 50 year, and 59 year growth periods.
Column 3: Column 2 Divided by Column 1	Column 18: Column 16 Plus Column 17
Column 4: Estimated 2011 Dividends per Share from Value Line	Column 19: See Column 2
Column 5: Estimated 2011 Earnings per Share from Value Line	Column 20: See Column 4
Column 6: One Minus (Column 4 Divided by Column 5)	Column 21: (Column 20 Minus Column 19) Divided by Three
Column 7: Estimated 2011 Net Book Value per Share from Value Line	Column 22: See Column 1
Column 8: Column 5 Divided by Column 7	Column 23: See Column 19
Column 9: Column 6 Multiplied by Column 8	Column 24: Column 23 Plus Column 21
Column 10: "Next 5 Years" Company Growth Estimate as Reported by Zacks.com	Column 25: Column 24 Plus Column 21
Column 11: "Est'd 04-06 to 10-12" Earnings Growth Reported by Value Line.	Column 26: Column 25 Plus Column 21
Column 12: Average of Columns 9-11	Column 27: Column 26 Increased by the Growth Rate Shown in Column 28
Column 13: Column 3 Plus Column 12	Column 28: See Column 17
Column 14: See Column 1	Column 29: The Internal Rate of Return of the Cash Flows in Columns 22-27 along with the Dividends for the Years 6-150 Implied by the Growth Rates shown in Column 28
Column 15: See Column 2	

**Kansas City Power & Light Company**  
Risk Premium Analysis

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1980	13.15%	14.23%	1.08%
1981	15.62%	15.22%	-0.40%
1982	15.33%	15.78%	0.45%
1983	13.31%	15.36%	2.05%
1984	14.03%	15.32%	1.29%
1985	12.29%	15.20%	2.91%
1986	9.46%	13.93%	4.47%
1987	9.98%	12.99%	3.01%
1988	10.45%	12.79%	2.34%
1989	9.66%	12.97%	3.31%
1990	9.76%	12.70%	2.94%
1991	9.21%	12.55%	3.34%
1992	8.57%	12.09%	3.52%
1993	7.56%	11.41%	3.85%
1994	8.30%	11.34%	3.04%
1995	7.91%	11.55%	3.64%
1996	7.74%	11.39%	3.65%
1997	7.63%	11.40%	3.77%
1998	7.00%	11.66%	4.66%
1999	7.55%	10.77%	3.22%
2000	8.14%	11.43%	3.29%
2001	7.72%	11.09%	3.37%
2002	7.53%	11.16%	3.63%
2003	6.61%	10.97%	4.36%
2004	6.20%	10.75%	4.55%
2005	5.67%	10.54%	4.87%
2006	6.08%	10.36%	4.28%
AVERAGE	9.35%	12.48%	3.13%

**INDICATED COST OF EQUITY**

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.90%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.35%
INTEREST RATE DIFFERENCE	-2.45%
INTEREST RATE CHANGE COEFFICIENT	-42.18%
ADJUSTMENT TO AVG RISK PREMIUM	1.03%
BASIC RISK PREMIUM	3.13%
INTEREST RATE ADJUSTMENT	1.03%
EQUITY RISK PREMIUM	4.16%
PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.90%
<b>INDICATED EQUITY RETURN</b>	<b>11.06%</b>

Sources:

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

\*The projected triple-B bond yield is equal to the projected 30-year Treasury bond rate (5.6 percent) from S&P's Trends & Projections (Schedule SCH-11) plus 130 basis points. The average triple-B spread over Treasuries for 2006 was 133 basis points.

### Kansas City Power & Light Company Risk Premium Analysis

