

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

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**DIRECT TESTIMONY OF**

**CHRIS B. GILES**

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

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

**DOCKET NO. 07-KCPE-\_\_\_\_-RTS**

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

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

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

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

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

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

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

4 A: I graduated from the University of Missouri at Kansas City in 1974 with a Bachelor of  
5 Arts degree in Economics and in 1981 with a Master of Business Administration degree  
6 with concentrations in accounting and quantitative analysis. I was first employed at  
7 KCPL in 1975 as an Economic Research Analyst in the Rates and Regulation  
8 Department. I held positions as supervisor and manager of various rate functions until  
9 1988 when I was promoted to Director of Marketing. In January 1993, I returned to the  
10 rate area as Director, Regulatory Affairs. In March of 2005, I was promoted to  
11 Vice-President, Regulatory Affairs.

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

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

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

19 A: The purpose of my testimony is to provide a summary and overview of this case. I will  
20 address the progress of KCPL’s Regulatory Plan (“Regulatory Plan”), which the KCC  
21 approved in Docket No. 04-KCPE-1025-GIE in August 2005, including an update on the  
22 status of the investments associated with the Regulatory Plan. I will also describe the  
23 major drivers and components of the current proposed rate increase as well as how it was

1 determined. Finally, I will provide an overview of the energy cost recovery mechanism  
2 that KCPL is proposing in this case, and will explain how it impacts the proposed rate  
3 increase.

4 **I. REGULATORY PLAN PROGRESS**

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

6 A: The Company filed its first rate case in Kansas in nearly 20 years on January 31, 2006.

7 This was also the first rate case under the Regulatory Plan (the “2006 Rate Case”). In

8 that case, Docket No. 06-KCPE-828-RTS, KCPL requested an increase of \$42.3 million

9 or 10.56 percent. The Order in that case, issued by the Commission on December 4,

10 2006, approved the jointly filed Stipulation and Agreement which was submitted by

11 KCPL, KCC Staff, the Citizens’ Utility Ratepayers Board (“CURB”), Midwest Utility

12 Users’ Group (“MUUG”), Wal-Mart and the International Brotherhood of Electrical

13 Workers (“IBEW”) Locals 412, 1464 and 1613. The Order granted KCPL an increase in

14 Kansas revenues in the amount of \$29 million or 7.46 percent effective January 1, 2007.

15 The increase included an annual amount for pre-tax payment on plant of \$4 million.

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

17 A: Yes. KCPL included in the 2006 Rate Case the investment to build 100.5 MW of wind

18 generation, which was completed and in-service in September 2006, as well as the

19 investments in customer affordability, energy efficiency, and demand response programs,

20 and system reliability-focused transmission and distribution projects. These investments

21 are consistent with, and represent continued implementation of, the Company’s

22 Comprehensive Energy Plan (“CEP”) as set forth in the Regulatory Plan. While the 2006

23 Rate Case Stipulation and Agreement addressed rate treatment of the wind generation

1 project and the transmission and distribution investments, it did not address ratemaking  
2 treatment for the customer programs. KCPL has continued to accumulate these costs in a  
3 regulatory asset and has included them in this 2007 Rate Case.

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

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

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

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

22 A: At the time the Regulatory Plan was approved, the parties believed that, if KCPL chose to  
23 file a third rate case, it would do so on or about March 1, 2008. KCPL currently believes

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

12 **Q: When will the fourth rate case be filed?**

13 A: The Regulatory Plan calls for KCPL to submit a 2009 rate filing on or before August 15,  
14 2009 with rate schedules effective June 1, 2010, a test year based on the 12 months  
15 ending June 30, 2009, a final order deadline of May 10, 2010, and a new plant investment  
16 threshold date of May 31, 2010. KCPL currently expects to maintain this schedule.

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

19 A: KCPL completed construction of the 100.5 MW wind generation facility at a site near  
20 Spearville, Kansas, the Spearville Wind Energy Facility. The SCR at La Cygne Unit 1  
21 generating plant is currently under construction and is scheduled to be in operation prior  
22 to the summer of 2007 as planned. These projects are discussed in more detail in the  
23 direct testimony of KCPL witness John R. Grimwade. The Iatan Unit 1 and Unit 2

1 projects are also underway. Control budget estimates and schedules for the Iatan Project  
2 have been established. Contracting, procurement, and construction strategies are in  
3 place along with a cost control system to track and monitor schedule and costs.  
4 Partnership agreements have been executed. Ownership shares for Iatan Unit 2, based  
5 upon a total capacity of 850 MW, are as follows: KCPL – 465 MW, Empire District  
6 Electric Company – 102 MW, Aquila – 153 MW, Missouri Joint Municipal Electric  
7 Utility Cooperative – 100 MW, and Kansas Electric Power Cooperative – 30 MW. As  
8 part of the Regulatory Plan, the Company submits a quarterly report outlining overall  
9 progress on all of the CEP projects to the signatories of the Stipulation and Agreement in  
10 the Regulatory Plan docket. Periodically, the Company meets with the parties to discuss  
11 progress.

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

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

22 Under the Distribution Asset Management Program, designed to improve system  
23 reliability, KCPL completed the pilot inventory of its overhead distribution system and is

1 conducting targeted reliability studies based upon the results. KCPL has also evaluated  
2 vendor proposals to conduct a full system inventory. And, as a result of successful  
3 testing of the Dynamic Voltage Control (“DVC”) system on the Integrated Circuit of the  
4 Future project, part of the Distribution Automation Program, KCPL moved up the  
5 implementation start date of the DVC system into fourth quarter 2006. Highlights of the  
6 progress made in the distribution area on these and numerous other projects are more  
7 fully described in the direct testimony of KCPL witness William P. Herdegen.

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

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

16 **II. CURRENT RATE INCREASE REQUEST**

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

19 A: Pursuant to the 2006 Rate Case Stipulation and Agreement, the 2007 Rate Case test year  
20 is based on an historical test year ending December 31, 2006, using actual data for all  
21 twelve months. The data were stated to a Kansas jurisdictional basis, annualized, and  
22 normalized, as appropriate. The rate case data were then adjusted to projected month-end  
23 September 2007, with these adjustments allocated between FERC, Missouri and Kansas

1 jurisdictions. The production allocation was made on the basis of twelve coincident  
2 monthly peaks (“12 CP”). The cost of service and revenue requirement determination is  
3 contained in Schedule JPW-1 and is supported by the direct testimony of KCPL witness  
4 John P. Weisensee.

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

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

8 **Q: Does this amount include Contribution in Aid of Construction (“CIAC”) as defined  
9 in the Regulatory Plan?**

10 A: Yes, KCPL’s requested rate increase includes \$12.8 million attributable to Contribution  
11 in Aid of Construction (“CIAC”) as defined in the Regulatory Plan to maintain KCPL’s  
12 debt at investment grade. This CIAC is in addition to the pre-tax payment on plant of  
13 \$4 million received in the 2006 Rate Case in lieu of CIAC. The total amortization  
14 amount will result in an offset to rate base under the Regulatory Plan and will lower rates  
15 in future rate proceedings of KCPL beginning with the 2009 Rate Case. KCPL witness  
16 Michael W. Cline discusses this CIAC amount in further detail in his direct testimony.

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

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

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

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

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

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

17 **III. ENERGY COST ADJUSTMENT ("ECA") MECHANISM**

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

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

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

4 A: Yes, it does.

5 **Q: How did you develop your proposed ECA mechanism?**

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

17 **Q: Please describe KCPL's proposed ECA mechanism.**

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

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

4 The underlying premise behind KCPL's methodology is that charges for fuel  
5 costs and credit for off-system sales margins in a given year need to closely match the  
6 actual fuel costs incurred and the actual off-system sales margins realized in that same  
7 year. This is even more critical given KCPL's current significant construction program  
8 and the associated cash flow requirements. If the ECA mechanism does not provide  
9 KCPL adequate cash flow, its credit ratings could be downgraded resulting in higher  
10 costs to finance the construction program and, ultimately, higher rates for customers.  
11 With the significant volatility in the fuel and off-system sales markets, historical data is  
12 not representative of future fuel and purchased power costs or future off-system sales  
13 margins and could easily result in a mismatch of actual costs and margins compared to  
14 revenue received through the ECA tariff for a given year. Historical costs should not be  
15 used to establish the ECA factors for a future year. If historical 2007 fuel cost data were  
16 used as a proxy for KCPL fuel costs in 2008, KCPL would not recover its actual costs in  
17 2008 and its cash flow would suffer. Both KCPL's and Staff's methodologies recognize  
18 the value of using a forward-looking process for developing the underlying fuel,  
19 purchased power and related expenses included in the ECA factors. KCPL proposes to  
20 forecast these costs on a year-ahead basis rather than on a month-ahead basis because  
21 much of our fuel cost is hedged at least a year in advance, providing greater confidence in  
22 the projected fuel costs.

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

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

18 KCPL’s proposed methodology also includes provision for periodic review and  
19 potential adjustment to the remaining monthly ECA factors if it appears that the projected  
20 year-end revenue from the ECA tariff will differ significantly from the projected year-end  
21 fuel, purchased power and related costs offset by the projected off-system sales margin  
22 credit. This review and adjustment may be appropriate if actual costs are higher than  
23 expected or if changes in fuel, off-system sales or purchased power markets cause

1 estimates to need revision. This method provides the best balance of interests among  
2 customers, investors, and creditors, particularly in view of the scale of KCPL's  
3 construction program through the 2010 timeframe.

4 **Q: Why is KCPL proposing to use the 25<sup>th</sup> percentile for off-system sales margins**  
5 **rather than the 50<sup>th</sup> percentile?**

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

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

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

2 A: When KCPL filed its original 2006 application, the expected 50<sup>th</sup> percentile level of off-  
3 system sales margins was \*\* [REDACTED] \*\*. The Company included in its revenue  
4 requirement an amount equal to the 25<sup>th</sup> percentile or \*\* [REDACTED] \*\*. At that time,  
5 natural gas prices and the wholesale energy market were at a relatively high level.  
6 Natural gas prices were around \$10 per mcf, considerably higher than the \$2-\$5 range  
7 during years prior to that case. In the 2006 Rate Case, I testified that the Commission  
8 should look forward and take into account the risk of the off-system sales market in  
9 determining the amount of off-system sales margin to include in KCPL's revenue  
10 requirement. I noted that historical data should not be used as indicative of potential  
11 future margins in this volatile market. By September 2006, natural gas prices had sharply  
12 declined. This resulted in a much lower expectation of off-system sales margins for  
13 2007. In fact, prices declined to the extent that the expected 50<sup>th</sup> percentile point on the  
14 curve was approximately \$11 million lower than originally filed in the case. The  
15 25<sup>th</sup> percentile was approximately \$7 million lower than originally included in the 2006  
16 Rate Case.

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

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

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

2 A: Prices in the market have continued to decline. The Company's current 50<sup>th</sup> percentile  
3 projection (\*\* [REDACTED] \*\*) total Company) for 2007 is roughly equal to the  
4 25<sup>th</sup> percentile projection (\*\* [REDACTED] \*\*) total Company) of one year ago.

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

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

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

13 A: Based on the analysis of Mr. Schnitzer of Northbridge, the 25<sup>th</sup> percentile expectation for  
14 2008 off-system sales margins is \*\* [REDACTED] \*\* on a total Company basis. This is the  
15 amount, on a Kansas jurisdictional basis, that KCPL included in the revenue requirement  
16 in this case and used as the off-system sales margin projection for the ECA mechanism.

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

18 A: We first calculated a traditional revenue requirement including fuel expense, purchased  
19 power expense and related energy costs based upon the test year with known and  
20 measurable adjustments through September 30, 2007, and projected 2008 off-system  
21 sales margins at the 25<sup>th</sup> percentile as presented in the direct testimony of KCPL witness  
22 Michael M. Schnitzer. This provided the \*\* [REDACTED] \*\* overall revenue requirement  
23 and the expected impact on retail rates. KCPL then subtracted from the revenue

1 requirement the portion of the revenue requirement associated with fuel, purchased power  
2 and related costs (\*\*[REDACTED]\*\*), Kansas jurisdictional, as well as the off-system  
3 sales margins credit at (\*\*[REDACTED]\*\*), Kansas jurisdictional, to be recovered  
4 through the ECA, or a net \*\*[REDACTED]\*\*, and distributed this amount as a reduction  
5 across all retail energy rates. This provided the split between the portion of the revenue  
6 requirement to be collected in base retail energy rates, approximately \*\*[REDACTED]\*\*  
7 and the remainder of the revenue requirement to be collected under the proposed ECA  
8 tariff \*\*[REDACTED]\*\*. KCPL witness Tim M. Rush addresses this process in more  
9 detail in his direct testimony.

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

11 A: Because of the inclusion of an ECA mechanism, the requested increase based upon the  
12 calculated revenue requirement represents only a proxy for the actual increase for 2008  
13 that will result from this case. The requested increase in this case is actually a  
14 combination of (a) the revenue from the proposed base retail rate schedules, (b) recovery  
15 of fuel and purchased power expense for 2008 through the ECA mechanism, and  
16 (c) credit for off-system sales margins for 2008, also through the ECA mechanism. The  
17 projected fuel, purchased power and related expenses, and the projected 2008 off-system  
18 sales margins included in the case are current estimates and will be updated near year-end  
19 2007 for implementation of the ECA tariff.

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

21 A: Yes, it does. While sulfur dioxide (“SO<sub>2</sub>”) emission allowance sale proceeds and  
22 contract premiums for lower sulfur coal were addressed in the Appendix C-1, SO<sub>2</sub>  
23 Emission Allowance Management Policy, to the Regulatory Plan, and treatment for

1           ratemaking purposes was addressed in the Stipulation and Agreement in the 2006 Rate  
2           Case, KCPL expects to begin incurring costs for nitrogen oxide (“NOx”) emission  
3           allowances in 2009 and costs associated with mercury and carbon emissions are  
4           anticipated in the future as well. The ECA mechanism includes only these latter costs.

5   **Q:    Has KCPL implemented its SO<sub>2</sub> Plan as provided for in the SEAMP?**

6   A:    Yes. KCPL witness Wm. Edward Blunk describes in his direct testimony the 2006 SO<sub>2</sub>  
7           Plan and its implementation, as well as the 2007 SO<sub>2</sub> Plan recently submitted to the KCC  
8           Staff and CURB.

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

10  A:    Yes, it does.

