

IN THE MATTER OF THE APPLICATION OF )  
KANSAS CITY POWER & LIGHT COMPANY TO )  
MODIFY ITS TARIFFS TO CONTINUE THE ) DOCKET No. 07-KCPE-905-RTS  
IMPLEMENTATION OF ITS REGULATORY PLAN )

STATE CORPORATION COMMISSION

AUG 03 2007

 Docket  
Room

DIRECT TESTIMONY

PREPARED BY

JEFFREY D. McCLANAHAN

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION STAFF

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

2 A. Jeffrey D. McClanahan, 1500 SW Arrowhead Road, Topeka, Kansas.

3

4 **Q. Who is your employer and what is your title?**

5 A. I am employed by the Kansas Corporation Commission (“Commission” or  
6 “KCC”) as the Chief of Accounting and Financial Analysis.

7

8 **Q. What is your educational background and professional experience?**

9 A. I hold a B.A. in Accounting from West Texas State University. I was  
10 employed for approximately eight years by a Savings and Loan institution in  
11 professional positions in auditing and accounting. I joined the KCC in December  
12 1997 as a Utility Auditor II. I was promoted to Senior Auditor in May 1998 and  
13 was subsequently promoted to my present position in February 2002. I am a  
14 Certified Internal Auditor.

15

16 **Q. Have you previously testified before the Commission?**

17 A. Yes, I have filed testimony in numerous dockets before the Commission.

18

19 **Q. What is the purpose of your testimony?**

20 A. The purpose of my testimony is as follows:

21 1. Provide background information on the Customer Contribution In Aid of  
22 Construction (CIAC) mechanism defined in Kansas City Power & Light’s  
23 (KCPL) regulatory plan. [Docket No. 04-KCPE-1025-GIE].

- 1           2. Support the calculation of the CIAC amount necessary for the current  
2           docket and discuss its application to the current docket and future dockets.
- 3           3. Discuss Staff's calculated amount of CIAC.
- 4           4. Discuss Staff's current position regarding KCPL's proposed deferred tax  
5           asset related to CIAC.

6

7   **Q.    Please provide some background information on the CIAC mechanism.**

8    A.           The CIAC mechanism is a component of KCPL's five-year regulatory  
9           plan that was approved by the Commission on August 5, 2005 in Docket No. 04-  
10          KCPE-1025-GIE (1025 Docket). The CIAC mechanism provides for any  
11          additional cash flows that may be needed by KCPL to meet certain agreed-upon  
12          credit metrics. That is, after the revenue requirement is determined, based on  
13          traditional ratemaking principles, the total amount of additional revenues that may  
14          be needed in order to meet the agreed-upon credit metrics is calculated and then  
15          added to the cost of service. The CIAC mechanism is discussed in more detail in  
16          the 1025 Docket<sup>1</sup> and in the current application by KCPL witnesses Michael W.  
17          Cline.

18

19   **Q.    Why is the CIAC mechanism included in KCPL's five-year regulatory plan?**

20    A.           The CIAC mechanism is included in the five-year regulatory plan to help  
21          mitigate the financial risks associated with the plan. KCPL is in a construction  
22          phase and believes, absent some type of mechanism to help maintain its

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<sup>1</sup> See Direct and Supplemental Testimony of Jeffrey D. McClanahan and Direct Testimony of Donald Low.

1 investment grade credit profile with ratings agencies, it would be taking on too  
2 much risk and would therefore be unwilling to undertake its resource plan. KCPL  
3 bases its position on the fact that an investment grade rating has an effect on the  
4 type, term, cost and amount of capital available to KCPL during the five-year plan  
5 period. The CIAC mechanism will aid KCPL in maintaining its credit profile  
6 because it will provide for any additional revenues required to meet the  
7 investment grade credit metrics agreed to in the regulatory plan. The credit  
8 metrics used to determine CIAC amounts are; (1) Funds From Operations to  
9 Average Total Debt and (2) Funds From Operations Interest Coverage. These  
10 metrics are defined in Appendix E to the approved Stipulation and Agreement in  
11 the 1025 Docket and are designed to provide sufficient funds to meet the low end  
12 of the top third of the range for BBB rated companies.

13  
14 **Q. How is the CIAC mechanism determined?**

15 A. The CIAC is calculated based on Kansas utility operations only and will  
16 be determined by using the results and certain line items of the final revenue  
17 requirement as determined by the Commission in the current docket. For  
18 example, the operating revenue, operating and maintenance expenses,  
19 depreciation expense and amortization expense derived from Staff's traditional  
20 revenue requirement determination (without CIAC) will be used to determine the  
21 amount of CIAC. However, certain other items that may not be found in a  
22 revenue requirement determination will also be used to determine the CIAC  
23 amount. In the current docket these items include capitalized lease obligations,

1 short-term debt, operating lease debt equivalent, purchase power debt equivalent  
2 and accounts receivable debt equivalent. These items are included because the  
3 rating agencies consider them as “debt like” obligations in determining credit  
4 metrics. The calculation of Staff’s CIAC amount would be reflected in the Staff’s  
5 revenue requirement schedules if Staff was presently advocating CIAC.

6

7 **Q. What amount of CIAC is reflected in Staff’s CIAC schedules?**

8 A. Staff’s CIAC Schedules indicate no amount of CIAC is necessary to  
9 support KCPL’s operations.

10

11 **Q. Will the amount of the CIAC change based on any changes to KCPL’s cost of  
12 service?**

13 A. Yes, any changes the Commission may order to the cost of service  
14 determined by Staff will require that the CIAC calculation be updated because the  
15 CIAC is calculated based on certain cost of service components such as rate base  
16 and revenues.

17

18 **Q. Did Staff perform an analysis to determine whether the benefits of any  
19 potential CIAC amount are greater than the costs?**

20 A. Yes. Staff believes the ratemaking treatment afforded the CIAC amount  
21 under the 1025 docket will result in the benefits exceeding the costs. Therefore,  
22 Staff feels it is not necessary to perform an analysis each time the CIAC amount  
23 is calculated. Attached as Exhibit JDM-1 are four scenarios which demonstrate

1           that CIAC provides the lowest cost alternative to ratepayers under reasonable  
2           assumptions regarding discount rates. Staff's scenarios use discount rates of 0%  
3           (nominal dollars), 5%, 8.1786% (Staff's proposed rate of return), and 15%. The  
4           four scenarios also include CIAC amounts of \$4 million (CIAC amount in effect  
5           during 2007), \$12.8 million (KCPL's requested CIAC amount in the current  
6           docket), and a hypothetical \$50 million for the year 2009.

7           The approach to determining whether benefits exceed costs is fairly  
8           simple. The costs to ratepayers are compared between a traditional cost of service  
9           (COS) approach and a COS approach using the CIAC mechanism. The  
10          traditional COS approach uses the cumulative amount of CIAC, on a net-of-tax  
11          basis, to represent the amount of additional plant in service that ratepayers would  
12          have to pay a return on and return of. In addition, the traditional COS approach  
13          assumes a three-year rate case cycle. The CIAC alternative includes the annual  
14          cost of the CIAC, on a pre-tax or grossed-up for taxes basis, during the regulatory  
15          plan period. After the regulatory plan period expires in 2010, the cumulative  
16          CIAC balance, on a net-of tax basis,<sup>2</sup> is used to offset rate base thereby reducing  
17          the depreciation expense and total return to shareholders. Both the traditional  
18          approach and CIAC alternative comparison are based on the present value of the  
19          assumed 20-year period over which the benefits will accrue to ratepayers.

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<sup>2</sup> The CIAC amounts allowed during the regulatory plan period are reflected at a pre-tax amount because ratepayers are paying for the income taxes associated with the CIAC. Beginning in 2010, the CIAC amounts reflected as an increase to rate base under the traditional method and a decrease to rate base under the CIAC alternative are reflected at a net-of-tax amounts since taxes would never have been paid under the traditional method and the increase to depreciation reserve under the CIAC alternative is offset by the total amount of taxes paid through the deferred tax asset. Staff believes this analysis is conservative because it reflects (1) the effects on rates to ratepayers and (2) the additional benefit from the reversal of the deferred tax asset is not included in the analysis.

1    **Q.     Did KCPL propose a CIAC amount in its application?**

2    A.           Yes.    KCPL has included a request for CIAC in the amount of  
3           \$12,840,873 based on its application and the related pro forma adjustments.  The  
4           \$12,840,873 is in addition to both the \$34,220,000 requested increase based on a  
5           traditional COS (i.e., absent any CIAC) in the current docket and the \$4,000,000  
6           CIAC amount granted in KCPL's last rate case, Docket No. 06-KCPE-828-RTS.

7

8    **Q.     What is the primary difference between KCPL's requested CIAC amount of**  
9           **\$12,840,873 and Staff's calculation indicating that no CIAC is needed?**

10   A.           The primary difference is that Staff's calculation uses KCPL specific  
11           projected debt balances as of September 30, 2007, as provided by KCPL in  
12           response to Staff Data Request No. 320, while KCPL's calculation uses a ratio of  
13           the long-term debt in Great Plains Energy's (GPE) capital structure to determine  
14           KCPL's portion of GPE's total debt.  Staff believes that only KCPL's utility  
15           operations should be supported by any CIAC amount and that GPE's general  
16           corporate or non-utility operations should not receive CIAC support.  Staff's  
17           approach in this docket is consistent with its approach in KCPL's last rate case, in  
18           which Staff used KCPL's actual 2<sup>nd</sup> quarter long-term debt.  Staff witness Adam  
19           Gatewood discusses this issue further in his testimony.

20

21   **Q.     What will be the ratemaking treatment of the cumulative CIAC amount after**  
22           **the end of the Regulatory Plan period?**

23   A.           The Stipulation and Agreement in the 1025 Docket states as follows:

1                   ...[N]o CIAC amounts will be booked after June 1, 2010.  
2                   The accumulated CIAC amounts will be treated as increases  
3                   to the depreciation reserve and be deducted from rate base in  
4                   any future KCPL rate proceedings, beginning with the 2009  
5                   rate case.  
6

7   **Q.    In KCPL's last rate case, Staff expressed concerns regarding the**  
8           **appropriateness of KCPL's proposed deferred tax asset related to the CIAC**  
9           **amount. Does Staff still have the same concerns?**

10   A.       Staff has had further discussions with KCPL during the course of this  
11            case. In these discussions, KCPL represented the deferred tax asset as a  
12            temporary book-tax timing difference that will reverse itself. Therefore,  
13            ratepayers will receive a benefit through a reduced return to shareholders as the  
14            deferred tax asset is reversed. This benefit is in addition to the rate base offset  
15            created by the increase to the depreciation reserve for the cumulative CIAC  
16            amounts. Based on KCPL's representation, Staff is willing to adopt the  
17            ratemaking treatment proposed by KCPL witness Robert W. Hriszko in Docket  
18            No. 06-KCPE-828-RTS. The ratemaking treatment proposed by Mr. Hriszko does  
19            not change the amount of CIAC or its revenue requirement effect, only the  
20            presentation within Staff's schedules. That is, rather than including a net-of-tax  
21            amount of CIAC in amortization expense and allowing the amount to be grossed-  
22            up for taxes through Staff's tax calculations, Staff will include a pre-tax or  
23            grossed-up CIAC amount in amortization expense. Mr. Hriszko's testimony is  
24            attached as Staff Exhibit JDM-2.

25

1    **Q.     You indicated that Staff is willing to adopt Mr. Hriszko’s proposed treatment**  
2           **for including CIAC in Staff’s schedules; does this mean Staff has no further**  
3           **concerns regarding the deferred tax asset?**

4    A.           No. Staff is basing its revised position on KCPL’s representation that the  
5           tax asset is temporary and will reverse itself. Should the tax asset turn out to be a  
6           permanent difference, Staff reserves its right to determine the appropriate  
7           ratemaking treatment.

8  
9    **Q.     Does this conclude your testimony?**

10   A.           Yes, it does.

# EXHIBIT JDM-1

Long Term Debt	Weight	Cost
Preferred Stock	45.7180%	5.8300%
Common Equity	1.2939%	4.2900%
ROE	52.9881%	10.3000%
		8.1786%

- Assumptions:
- Costs associated with lower cost of debt due to investment grade rating is not calculated due to difficulty in determining assumptions.
  - CIAC to be assigned to Accumulated Depreciation accounts with average life of 20-years.
  - Gross Plant amounts reflect three year rate case cycle after 2010.
  - CIAC amounts offset rate base at the post-tax level, reversal of DTA not shown due to unknown variables.

Discount Rate for PV calc 0.0000%

Cumulative CIAC in Nominal Dollars (66,840,873)  
 Depreciable Life (Years) 20  
 Annual Depreciation (3,342,044)

### Traditional Cost of Service

	0	1	2	3	4	5	6	7	8	9	10	11
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross Plant (Traditional)				40,251,574	40,251,574	40,251,574	34,213,838	34,213,838	34,213,838	29,081,762	29,081,762	29,081,762
Staff Rate of Return				8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Ratepayer Cost of Return to Shareholders				(3,292,032)	(3,292,032)	(3,292,032)	(2,798,227)	(2,798,227)	(2,798,227)	(2,378,493)	(2,378,493)	(2,378,493)
Ratepayer Cost of Depreciation Expense				(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)
Total Ratepayer Cost in Nominal Dollars	0	0	0	(6,634,076)	(6,634,076)	(6,634,076)	(6,140,271)	(6,140,271)	(6,140,271)	(5,720,537)	(5,720,537)	(5,720,537)
PV Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
PV of Ratepayer Costs	0	0	0	(6,634,076)	(6,634,076)	(6,634,076)	(6,140,271)	(6,140,271)	(6,140,271)	(5,720,537)	(5,720,537)	(5,720,537)

	12	13	14	15	16	17	18	19	20	21	22	23
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Plant (Traditional)	24,719,498	24,719,498	24,719,498	21,011,573	21,011,573	21,011,573	17,859,837	17,859,837	17,859,837	15,180,862	15,180,862	15,180,862
Staff Rate of Return	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Cost of Return to Shareholders	(2,021,719)	(2,021,719)	(2,021,719)	(1,718,461)	(1,718,461)	(1,718,461)	(1,460,692)	(1,460,692)	(1,460,692)	(1,241,588)	(1,241,588)	(1,241,588)
Cost of Depreciation Expense	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)
Total Ratepayer Cost in Nominal Dollars	(5,363,763)	(5,363,763)	(5,363,763)	(5,060,505)	(5,060,505)	(5,060,505)	(4,802,736)	(4,802,736)	(4,802,736)	(4,583,632)	(4,583,632)	(4,583,632)
PV Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
PV of Ratepayer Costs	(5,363,763)	(5,363,763)	(5,363,763)	(5,060,505)	(5,060,505)	(5,060,505)	(4,802,736)	(4,802,736)	(4,802,736)	(4,583,632)	(4,583,632)	(4,583,632)

Total Net Present Value of Traditional Cost of Service (114,916,558)

### CIAC Alternative

	0	1	2	3	4	5	6	7	8	9	10	11
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Amount Paid for CIAC / Reduction to Rate Base	(4,000,000)	(12,840,873)	(50,000,000)	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574
Staff Rate of Return				8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Reduced Costs of Rate of Return				3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032
Reduced Costs of Depreciation Expense				3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044
Total Ratepayer Cost / Savings in Nominal Dollars	(4,000,000)	(12,840,873)	(50,000,000)	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076
PV Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
PV of Ratepayer Costs / Savings	(4,000,000)	(12,840,873)	(50,000,000)	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076

	12	13	14	15	16	17	18	19	20	21	22	23
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Reduction to Rate Base	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574
Staff Rate of Return	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Reduced Costs of Rate of Return	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032
Reduced Costs of Depreciation Expense	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044
Total Ratepayer Savings in Nominal Dollars	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076
PV Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
PV of Ratepayer Savings	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076

Total Net Present Value of CIAC Alternative 72,474,718

Long Term Debt	Weight	Cost
Preferred Stock	45.7180%	5.5300%
Common Equity	1.2939%	4.2900%
ROR	52.9891%	10.3000%
		8.1786%

**Assumptions:**

1. Costs associated with lower cost of debt due to investment grade rating is not calculated due to difficulty in determining assumptions.
2. CIAC to be assigned to Accumulated Depreciation accounts with average life of 20-years.
3. Gross Plant amounts reflect three year rate case cycle after 2010.
4. CIAC amounts offset rate base at the post-tax level, reversal of DTA not shown due to unknown variables.

Discount Rate for PV calc 5.0000%

Cumulative CIAC in Nominal Dollars (86,840,873)  
 Depreciable Life (Years) 20  
 Annual Depreciation (3,342,044)

**Traditional Cost of Service**

	0	1	2	3	4	5	6	7	8	9	10	11
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross Plant (Traditional)				40,251,574	40,251,574	40,251,574	34,213,838	34,213,838	34,213,838	29,081,762	29,081,762	29,081,762
Staff Rate of Return				8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Ratepayer Cost of Return to Shareholders				(3,292,032)	(3,292,032)	(3,292,032)	(2,796,227)	(2,796,227)	(2,796,227)	(2,378,493)	(2,378,493)	(2,378,493)
Ratepayer Cost of Depreciation Expense				(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)
Total Ratepayer Cost in Nominal Dollars	0	0	0	(6,634,076)	(6,634,076)	(6,634,076)	(6,140,271)	(6,140,271)	(6,140,271)	(5,720,537)	(5,720,537)	(5,720,537)
PV Factor	1.00	0.95	0.91	0.86	0.82	0.78	0.75	0.71	0.68	0.64	0.61	0.58
PV of Ratepayer Costs	0	0	0	(5,730,764)	(5,457,871)	(5,197,972)	(4,581,965)	(4,363,776)	(4,155,977)	(3,687,509)	(3,511,913)	(3,344,679)

	12	13	14	15	16	17	18	19	20	21	22	23
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Plant (Traditional)	24,719,498	24,719,498	24,719,498	21,011,573	21,011,573	21,011,573	17,859,837	17,859,837	17,859,837	15,180,862	15,180,862	15,180,862
Staff Rate of Return	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Cost of Return to Shareholders	(2,021,719)	(2,021,719)	(2,021,719)	(1,718,461)	(1,718,461)	(1,718,461)	(1,460,692)	(1,460,692)	(1,460,692)	(1,241,588)	(1,241,588)	(1,241,588)
Cost of Depreciation Expense	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)
Total Ratepayer Cost in Nominal Dollars	(5,363,763)	(5,363,763)	(5,363,763)	(5,060,505)	(5,060,505)	(5,060,505)	(4,802,736)	(4,802,736)	(4,802,736)	(4,583,632)	(4,583,632)	(4,583,632)
PV Factor	0.56	0.53	0.51	0.48	0.46	0.44	0.42	0.40	0.38	0.36	0.34	0.33
PV of Ratepayer Costs	(2,986,744)	(2,844,518)	(2,709,065)	(2,434,189)	(2,318,276)	(2,207,882)	(1,995,636)	(1,900,606)	(1,810,101)	(1,645,260)	(1,568,914)	(1,492,299)

Total Net Present Value of Traditional Cost of Service (65,943,914)

**CIAC Alternative**

	0	1	2	3	4	5	6	7	8	9	10	11
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Amount Paid for CIAC / Reduction to Rate Base	(4,000,000)	(12,840,873)	(50,000,000)	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574
Staff Rate of Return				8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Reduced Costs of Rate of Return				3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032
Reduced Costs of Depreciation Expense				3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044
Total Ratepayer Cost / Savings in Nominal Dollars	(4,000,000)	(12,840,873)	(50,000,000)	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076
PV Factor	1.00	0.95	0.91	0.88	0.82	0.78	0.75	0.71	0.68	0.64	0.61	0.58
PV of Ratepayer Costs / Savings	(4,000,000)	(12,229,403)	(45,351,474)	5,730,764	5,457,871	5,197,972	4,950,449	4,714,714	4,490,204	4,276,384	4,072,747	3,876,807

	12	13	14	15	16	17	18	19	20	21	22	23
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Reduction to Rate Base	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574
Staff Rate of Return	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Reduced Costs of Rate of Return	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032
Reduced Costs of Depreciation Expense	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044
Total Ratepayer Savings in Nominal Dollars	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076
PV Factor	0.56	0.53	0.51	0.48	0.46	0.44	0.42	0.40	0.38	0.36	0.34	0.33
PV of Ratepayer Savings	3,694,102	3,516,192	3,350,859	3,191,104	3,039,147	2,894,425	2,756,596	2,625,329	2,500,313	2,381,251	2,267,858	2,159,865

Total Net Present Value of CIAC Alternative 15,567,875

Long Term Debt	Weight	Cost
Preferred Stock	45.7180%	5.8300%
Common Equity	1.2939%	4.2900%
ROB	52.9881%	10.3000%
		8.1786%

- Assumptions:
- Costs associated with lower cost of debt due to investment grade rating is not calculated due to difficulty in determining assumptions.
  - CIAC to be assigned to Accumulated Depreciation accounts with average life of 20-years.
  - Gross Plant amounts reflect three year rate case cycle after 2010.
  - CIAC amounts offset rate base at the post-tax level, reversal of DTA not shown due to unknown variables.

Discount Rate for PV calc 8.1786%

Cumulative CIAC in Nominal Dollars (66,840,873)  
 Depreciable Life (Years) 20  
 Annual Depreciation (3,342,044)

### Traditional Cost of Service

	0	1	2	3	4	5	6	7	8	9	10	11
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross Plant (Traditional)				40,251,574	40,251,574	40,251,574	34,213,838	34,213,838	34,213,838	29,081,762	29,081,762	29,081,762
Staff Rate of Return				8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Ratepayer Cost of Return to Shareholders				(3,292,032)	(3,292,032)	(3,292,032)	(2,798,227)	(2,798,227)	(2,798,227)	(2,378,493)	(2,378,493)	(2,378,493)
Ratepayer Cost of Depreciation Expense				(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)
Total Ratepayer Cost in Nominal Dollars	0	0	0	(6,834,076)	(6,834,076)	(6,834,076)	(6,140,271)	(6,140,271)	(6,140,271)	(5,720,537)	(5,720,537)	(5,720,537)
PV Factor	1.00	1.00	0.92	0.85	0.79	0.73	0.67	0.62	0.58	0.53	0.49	0.46
PV of Ratepayer Costs	0	0	0	(5,668,881)	(5,240,296)	(4,844,114)	(4,144,574)	(3,831,231)	(3,541,578)	(3,050,033)	(2,819,441)	(2,606,283)

	12	13	14	15	16	17	18	19	20	21	22	23
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Plant (Traditional)	24,719,498	24,719,498	24,719,498	21,011,573	21,011,573	21,011,573	17,859,837	17,859,837	17,859,837	15,180,862	15,180,862	15,180,862
Staff Rate of Return	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Cost of Return to Shareholders	(2,021,719)	(2,021,719)	(2,021,719)	(1,718,461)	(1,718,461)	(1,718,461)	(1,460,692)	(1,460,692)	(1,460,692)	(1,241,588)	(1,241,588)	(1,241,588)
Cost of Depreciation Expense	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)
Total Ratepayer Cost in Nominal Dollars	(5,383,763)	(5,383,763)	(5,383,763)	(5,060,505)	(5,060,505)	(5,060,505)	(4,802,738)	(4,802,738)	(4,802,738)	(4,583,632)	(4,583,632)	(4,583,632)
PV Factor	0.42	0.39	0.36	0.33	0.31	0.28	0.26	0.24	0.22	0.21	0.19	0.18
PV of Ratepayer Costs	(2,258,382)	(2,088,196)	(1,930,322)	(1,683,498)	(1,556,220)	(1,438,565)	(1,282,068)	(1,166,652)	(1,078,449)	(951,435)	(879,504)	(813,011)

Total Net Present Value of Traditional Cost of Service (52,853,334)

### CIAC Alternative

	0	1	2	3	4	5	6	7	8	9	10	11
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Amount Paid for CIAC / Reduction to Rate Base	(4,000,000)	(12,840,873)	(50,000,000)	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574
Staff Rate of Return				8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Reduced Costs of Rate of Return				3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032
Reduced Costs of Depreciation Expense				3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044
Total Ratepayer Cost / Savings in Nominal Dollars	(4,000,000)	(12,840,873)	(50,000,000)	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078
PV Factor	1.00	0.92	0.85	0.79	0.73	0.67	0.62	0.58	0.53	0.49	0.46	0.42
PV of Ratepayer Costs / Savings	(4,000,000)	(11,870,063)	(42,725,480)	5,240,298	4,844,114	4,477,884	4,139,342	3,826,395	3,537,107	3,269,691	3,022,492	2,793,982

	12	13	14	15	16	17	18	19	20	21	22	23
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Reduction to Rate Base	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574
Staff Rate of Return	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Reduced Costs of Rate of Return	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032
Reduced Costs of Depreciation Expense	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044
Total Ratepayer Savings in Nominal Dollars	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078	6,834,078
PV Factor	0.39	0.36	0.33	0.31	0.28	0.26	0.24	0.22	0.21	0.19	0.18	0.16
PV of Ratepayer Savings	2,582,749	2,387,485	2,206,983	2,040,129	1,885,889	1,743,309	1,611,510	1,489,675	1,377,051	1,272,941	1,176,703	1,087,741

Total Net Present Value of CIAC Alternative (2,582,077)

	Weight	Cost
Long Term Debt	45.7180%	5.8300%
Preferred Stock	1.2939%	4.2900%
Common Equity	52.9881%	10.3000%
ROR		8.1786%

**Assumptions:**

1. Costs associated with lower cost of debt due to investment grade rating is not calculated due to difficulty in determining assumptions.
2. CIAC to be assigned to Accumulated Depreciation accounts with average life of 20-years.
3. Gross Plant amounts reflect three year rate case cycle after 2010.
4. CIAC amounts offset rate base at the post-tax level, reversal of DTA not shown due to unknown variables.

Discount Rate for PV calc 15.0000%

Cumulative CIAC in Nominal Dollars (66,840,873)  
 Depreciable Life (Years) 20  
 Annual Depreciation (3,342,044)

**Traditional Cost of Service**

	0	1	2	3	4	5	6	7	8	9	10	11
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross Plant (Traditional)				40,251,574	40,251,574	40,251,574	34,213,838	34,213,838	34,213,838	29,081,762	29,081,762	29,081,762
Staff Rate of Return				8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Ratepayer Cost of Return to Shareholders				(3,292,032)	(3,292,032)	(3,292,032)	(2,798,227)	(2,798,227)	(2,798,227)	(2,378,493)	(2,378,493)	(2,378,493)
Ratepayer Cost of Depreciation Expense				(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)
Total Ratepayer Cost in Nominal Dollars	0	0	0	(6,634,076)	(6,634,076)	(6,634,076)	(6,140,271)	(6,140,271)	(6,140,271)	(5,720,537)	(5,720,537)	(5,720,537)
PV Factor	1.00	1.00	1.00	0.87	0.76	0.66	0.57	0.50	0.43	0.38	0.33	0.28
PV of Ratepayer Costs	0	0	0	(5,768,762)	(5,016,314)	(4,362,013)	(3,510,720)	(3,052,900)	(2,654,609)	(2,150,562)	(1,870,054)	(1,626,134)

	12	13	14	15	16	17	18	19	20	21	22	23
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Plant (Traditional)	24,719,498	24,719,498	24,719,498	21,011,573	21,011,573	21,011,573	17,859,837	17,859,837	17,859,837	15,180,862	15,180,862	15,180,862
Staff Rate of Return	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Cost of Return to Shareholders	(2,021,719)	(2,021,719)	(2,021,719)	(1,718,461)	(1,718,461)	(1,718,461)	(1,460,692)	(1,460,692)	(1,460,692)	(1,241,588)	(1,241,588)	(1,241,588)
Cost of Depreciation Expense	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)	(3,342,044)
Total Ratepayer Cost in Nominal Dollars	(5,363,783)	(5,363,783)	(5,363,783)	(5,060,505)	(5,060,505)	(5,060,505)	(4,802,736)	(4,802,736)	(4,802,736)	(4,583,632)	(4,583,632)	(4,583,632)
PV Factor	0.25	0.21	0.19	0.16	0.14	0.12	0.11	0.09	0.08	0.07	0.06	0.05
PV of Ratepayer Costs	(1,325,840)	(1,152,904)	(1,002,528)	(822,474)	(715,194)	(621,908)	(513,243)	(448,298)	(388,086)	(322,070)	(260,061)	(243,531)

Total Net Present Value of Traditional Cost of Service (37,846,102)

**CIAC Alternative**

	0	1	2	3	4	5	6	7	8	9	10	11
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Amount Paid for CIAC / Reduction to Rate Base	(4,000,000)	(12,840,873)	(50,000,000)	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574
Staff Rate of Return	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Reduced Costs of Rate of Return				3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032
Reduced Costs of Depreciation Expense				3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044
Total Ratepayer Cost / Savings in Nominal Dollars	(4,000,000)	(12,840,873)	(50,000,000)	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076
PV Factor	1.00	0.87	0.76	0.66	0.57	0.50	0.43	0.38	0.33	0.28	0.25	0.21
PV of Ratepayer Costs / Savings	(4,000,000)	(11,165,977)	(37,907,183)	4,362,013	3,793,054	3,296,308	2,868,094	2,493,966	2,168,691	1,885,818	1,639,842	1,425,950

	12	13	14	15	16	17	18	19	20	21	22	23
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Reduction to Rate Base	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574	40,251,574
Staff Rate of Return	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%	8.1786%
Reduced Costs of Rate of Return	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032	3,292,032
Reduced Costs of Depreciation Expense	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044	3,342,044
Total Ratepayer Savings in Nominal Dollars	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076	6,634,076
PV Factor	0.19	0.16	0.14	0.12	0.11	0.09	0.08	0.07	0.06	0.05	0.05	0.04
PV of Ratepayer Savings	1,239,958	1,078,223	937,585	816,291	708,949	616,477	536,067	466,145	405,344	352,473	306,498	266,520

Total Net Present Value of CIAC Alternative (21,307,865)

# EXHIBIT JDM-2

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

REBUTTAL TESTIMONY OF

SEP 07 2006

ROBERT W. HRISZKO

*Susan L. Coffey* Docket  
Room

ON BEHALF OF  
KANSAS CITY POWER & LIGHT COMPANY

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

DOCKET NO. 06-KCPE-828-RTS

1 Q: Would you please state your name, occupation and business address?

2 A: My name is Robert W. Hriszko. I am a managing director in the firm of  
3 PricewaterhouseCoopers LLP. My business address is One North Wacker Drive,  
4 Chicago, IL 60606.

5 Q: Would you please describe the firm of PricewaterhouseCoopers ("PwC")?

6 A: PwC is an international firm of independent public accountants with offices  
7 throughout the United States and in many countries. We have as clients a large  
8 number of both publicly and privately owned companies. The firm performs audits of  
9 financial statements, prepares and reviews income tax returns for all types of  
10 businesses, and consults with businesses regarding financial, accounting and tax  
11 matters. PwC audits a significant number of the electric, gas and telecommunications  
12 companies in the United States.

1 PwC also performs financial and accounting consultation services for utility clients  
2 and consults with utility clients on a variety of tax matters, including income tax  
3 issues raised in utility rate cases.

4 **Q: Would you please describe your professional background and qualifications to**  
5 **testify as an expert in this proceeding?**

6 A: I am a graduate of St. Mary's College in Winona, Minnesota, from which I obtained a  
7 Bachelor of Arts degree in Accounting and Economics in 1964. I am also a graduate  
8 of Northwestern University School of Law from which I obtained a Juris Doctor  
9 degree in 1967. I am a member of the American Institute of Certified Public  
10 Accountants, the Illinois CPA Society, and the Tax Committee of the American Bar  
11 Association.

12 **Q: What experience have you personally had in the utility field?**

13 A: I have spent my entire career working with utility companies on industry issues.  
14 After a 35-year career at Arthur Andersen LLP, I presently assist in directing the PwC  
15 tax practice for the utility industry in the U.S. and head the central region utility tax  
16 practice. I have been with PwC for four years. I am also responsible for technical  
17 matters involving federal income tax and related ratemaking issues. My  
18 responsibilities also include consulting with our offices throughout the world on tax  
19 matters relating to utility clients. In addition, I am responsible for the tax training  
20 programs the firm offers in the utility industry.

21 **Q: Have you previously testified before regulatory agencies?**

22 A: Yes. I have testified before the Public Utility Commission of Texas, the Illinois  
23 Commerce Commission, the Ohio Public Utility Commission, the Wisconsin Public

1 Utility Commission and the U.S. Treasury Department. My testimony has addressed  
2 the normalization requirements of the Internal Revenue Code as applied to various  
3 factual settings and various other tax issues in ratemaking proceedings. In addition to  
4 my personal testimony, I have reviewed testimony prepared by my present and  
5 predecessor firms and/or their clients on numerous occasions.

6 **Q: Have you previously testified in this docket?**

7 A: No. I have not.

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

9 A: The purpose of my testimony is to rebut certain aspects of the testimony of  
10 Mr. Jeffrey D. McClanahan of the Kansas Corporation Commission (“KCC”) Staff as  
11 it relates to the Contribution In Aid of Construction (“CIAC”) mechanism.

12 **Q: Do you agree with Mr. McClanahan that the CIAC should be grossed up for**  
13 **income taxes?**

14 A: Yes. The CIAC mechanism will result in additional book deductions in cost of  
15 service in the nature of additional book depreciation. However, no additional tax  
16 deductions will be available as a result of the CIAC. Thus, KCPL will have to pay  
17 additional taxes on its tax return on the revenue generated from the CIAC. The  
18 income tax gross-up is necessary for KCPL to have enough cash to satisfy the cash  
19 flow formula under the CIAC mechanism.

20 **Q: Mr. McClanahan indicates that he has a concern that the Staff of the Missouri**  
21 **Public Service Commission has proposed that the CIAC amount in Missouri not**  
22 **be grossed up for income taxes. Do you share that concern?**

1 A: Yes. I am filing rebuttal testimony in KCPL's Missouri case (on September 8, 2006)  
2 that disagrees with the Missouri Staff's contention that the CIAC amount should not  
3 be grossed up for income taxes. If no gross-up occurs in Missouri, KCPL will fall  
4 short of its cash flow requirements under the Missouri formula.

5 **Q: What is the nature of your disagreement with Mr. McClanahan's testimony?**

6 A: First, let me say that I agree with Mr. McClanahan that a tax gross-up is required. I  
7 also agree with the tax gross-up computed on the base CIAC amortization indicated  
8 by Mr. McClanahan, as well as the future net rate base effects of both. My  
9 disagreement centers around two items: first, Mr. McClanahan's discussion (see pp. 8  
10 and 9 of his testimony) of the deferred tax asset created by the CIAC and gross-up,  
11 and second, Mr. McClanahan does not include the tax gross-up as part of the CIAC  
12 amortization expense.

13 **Q: If you agree with Mr. McClanahan's computations and the resulting revenue**  
14 **requirement would not change, why would any disagreement on the deferred tax**  
15 **asset and the gross-up matter?**

16 A: The reason that the deferred tax asset and the gross-up must be treated correctly is to  
17 accurately reflect all aspects of the CIAC in KCPL's financial statements.

18 **Q: Please explain.**

19 A: As Mr. McClanahan notes on p. 7 of his testimony (lines 1-5), the Stipulation and  
20 Agreement, approved by the Commission in Docket No. 04-KCPE-1025-GIE, treats  
21 accumulated CIAC amounts as increases to the depreciation reserve. Thus, CIAC is  
22 in the nature of additional book depreciation. When there is additional book  
23 depreciation with no corresponding tax depreciation, a timing difference is created.

1 Because, in this instance, there is a book deduction that is greater than the  
2 corresponding tax deduction, the effect of the timing difference is a reduction of  
3 deferred tax expense and thus a reduction of accumulated deferred income taxes, or  
4 the creation of a deferred tax asset. Under either view, the answer is the same; i.e.,  
5 the reduction of a deferred tax liability versus the creation of a deferred tax asset has  
6 the exact same effect on rate base.

7 **Q: If Mr. McClanahan ignores the deferred tax effects of CIAC and does not treat**  
8 **the gross-up as additional CIAC, what happens on KCPL's financial**  
9 **statements?**

10 A: As I have previously mentioned, KCPL needs to reflect the CIAC appropriately in its  
11 financial statements. On Exhibit RWH-1 I have portrayed the effects of the CIAC  
12 under the method proposed by Mr. McClanahan (termed KCC Staff) and under the  
13 method advanced by KCPL.

14 Under the KCC Staff method, there is an effective tax rate on CIAC of 100%. This is  
15 a result of not reflecting the gross-up for taxes as additional amortization expense and  
16 of not reflecting the deferred tax effects of the CIAC. In order to force the numbers  
17 to work under the KCC Staff method, the tax effect of the original amortization  
18 expense would be flowed through and treated as a permanent item. The results of this  
19 methodology would skew the income tax expense amounts in the financial statements  
20 and be misleading.

21 The KCPL methodology more accurately reflects the CIAC and tax gross-up and will  
22 not distort taxes in the financial statements.

1 **Q: Should Mr. McClanahan object to the KCPL method of reflecting the CIAC and**  
2 **gross-up?**

3 A: I do not believe so. I think Mr. McClanahan has a concern that the KCPL accounting  
4 may result in a different revenue requirement now or in the future. But it does not.  
5 Revenues, operating expenses and rate base, I believe, would be the same under either  
6 methodology. KCPL is merely trying to avoid showing a higher effective tax rate  
7 than should be shown.

8 **Q: Mr. Hriszko, does this conclude your testimony?**

9 A: Yes, it does.

Kansas City Power & Light Co.  
Docket No. 06-KCPE-828-rts

Income Statement Example

	<u>KCC Staff</u>	<u>KCPL</u>
Revenue	5,000,000	5,000,000
Amortization Expense	<u>(3,250,000)</u>	<u>(5,000,000)</u>
Book Income Before Tax	<u>1,750,000</u>	<u>0</u>
Current Tax Expense	1,750,000	1,750,000
Deferred Tax Expense	0	(1,750,000)
Total Tax Expense	<u>1,750,000</u>	<u>0</u>
Book Income After Tax	<u>0</u>	<u>0</u>
Effective Tax Rate	100%	0%

## Rate Reconciliation

Book Income Before Tax	1,750,000	0
Statutory Rate	35%	35%
Taxes @ Statutory Rate	612,500	0
Flow through of Amortization Expense (3,250,000 x 35%)	1,137,500	0
Total Tax Expense as Reported	<u>1,750,000</u>	<u>0</u>

Rate Base Impact

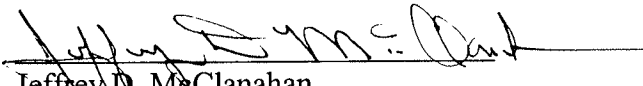
Reserve for Amortization	(3,250,000)	(5,000,000)
Deferred Tax (Liability)/Asset	0	1,750,000
Net Future Effect on Rate Base	<u>(3,250,000)</u>	<u>(3,250,000)</u>



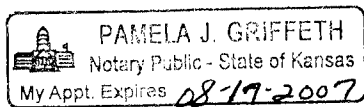
STATE OF KANSAS                    )  
  ) ss.  
COUNTY OF SHAWNEE            )

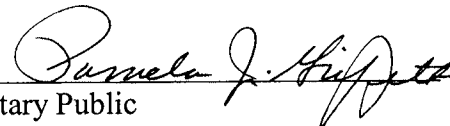
**VERIFICATION**

Jeffrey D. McClanahan, being duly sworn upon his oath deposes and says that he is the Chief of Accounting and Financial Analysis for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Direct Testimony*, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

  
Jeffrey D. McClanahan  
Chief of Accounting and Financial Analysis,  
Utilities Division  
State Corporation Commission of the  
State of Kansas

Subscribed and sworn to before me this 2nd day of August, 2007-.



  
Notary Public

My Appointment Expires:

August 17, 2007

CERTIFICATE OF SERVICE

07-KCPE-905-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Direct Testimony was placed in the United States mail, postage prepaid, or hand-delivered this 3rd day of August, 2007, to the following:

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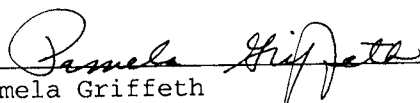
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