Exhibit No.:	
Issue:	Significance of Strong Credit Ratings
Witness:	Michael W. Cline
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Great Plains Energy Incorporated and Kansas City Power & Light Company
Case No.:	EM-2007-____
Date Testimony Prepared:	April 2, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-____

DIRECT TESTIMONY

OF

MICHAEL W. CLINE

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
April 2007

Certain Schedules Designated "(HC)" Contain "Highly Confidential" Information and are Being Provided Separately Under Seal.
These Schedules Should be Treated Confidentially Pursuant to 4 CSR 240-2.135.

DIRECT TESTIMONY

OF

MICHAEL W. CLINE

Case No. EM-2007-____

Q: Please state your name and business address.

A: My name is Michael W. Cline. My business address is 1201 Walnut, Kansas City, Missouri 64106.

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

A: I am employed by Great Plains Energy Incorporated ("Great Plains Energy"), the parent company of Kansas City Power & Light Company ("KCPL"), as Treasurer and Chief Risk Officer.

Q: What are your responsibilities?

A: My responsibilities include financing and investing activities, cash management, bank relations, rating agency relations, enterprise risk management, and insurance.

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

A: I graduated from Bradley University in 1983 with a B.S. in Finance, summa cum laude. I earned an MBA from Illinois State University in 1988. From 1984-1991, I was employed by Caterpillar Inc. in Peoria, Illinois and held a number of finance and treasury positions. From 1992-1993, I was Manager, International Treasury at Sara Lee Corporation in Chicago, Illinois. From 1994-2000, I was employed by Sprint Corporation in Overland Park, Kansas, initially as Manager, Financial Risk Management and then as Director, Capital Markets. During most of 2001, I was Assistant Treasurer, Corporate Finance, at

Corning Incorporated in Corning, New York. I joined Great Plains Energy in October 2001 as Director, Corporate Finance. I was promoted to Assistant Treasurer in November 2002. During 2004, I was assigned to lead the company's Sarbanes-Oxley Act compliance effort on a full-time basis, though I retained the Assistant Treasurer title during that time. I was promoted to Treasurer in April 2005 and added the title of Chief Risk Officer in July 2005.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC" or the "Commission") or before any other utility regulatory agency?

A: Yes, I have previously testified before the MPSC and the Kansas Corporation Commission.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to support the use of an "Additional Amortizations to Maintain Financial Ratios" ("Additional Amortizations") mechanism for Aquila, Inc. ("Aquila") following its acquisition by Great Plains Energy (the "Merger") and its achievement of credit metrics that would support an investment-grade credit rating, similar to that utilized by the Commission in KCPL's 2006 rate case in Case No. ER-2006-0314. I will address the following points: (1) The significance of the Additional Amortizations mechanism for Great Plains Energy and KCPL; (2) The credit rating evaluations of Great Plains Energy's proposed acquisition of Aquila performed by Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"); and (3) The benefits to Aquila's retail customers of Aquila achieving the financial metrics necessary to support an investment-grade credit rating. In this testimony I will refer to the company name “Aquila” both pre-Merger and post-Merger, realizing that a request for a name change is part of the Joint Application in this proceeding.

Significance of the Additional Amortizations for Great Plains Energy and KCPL

Q: Please review the purpose of the Additional Amortizations.

A: The Additional Amortizations mechanism focuses on three credit ratios deemed most important to S&P in determining a utility’s credit quality. These three ratios are: (i) Total Debt to Total Capitalization; (ii) Funds from Operations (“FFO”) Interest Coverage; and (iii) FFO as a Percentage of Average Total Debt. The fundamental purpose of the Additional Amortizations is to provide a means by which KCPL may achieve an amount of FFO sufficient to sustain levels of ratios (ii) and (iii), above, that are consistent with the low end of the top third of the range for BBB-rated utility companies with an equivalent Business Risk Profile to KCPL, per S&P’s guidelines.

Q: Does S&P publish these guidelines?

A: Yes. S&P published the ratio guidelines in 2004. The guidelines are attached as Schedule MWC-1. S&P’s methodology for calculating these ratios was updated in its October 2, 2006 report entitled “Utility Statistical Methodology,” which is attached as Schedule MWC-2.

Q: How does the Additional Amortizations mechanism work?

A: The mechanism results in Additional Amortizations being added to KCPL’s cost of service in a rate case when the projected cash flows resulting from KCPL’s Missouri jurisdictional operations, as determined by the MPSC, fail to meet or exceed the Missouri jurisdictional portion of the low end of the top third of the BBB range shown in Schedule MWC-1 for the FFO Interest Coverage and FFO as a Percentage of Average Total Debt ratios. The amount of Additional Amortizations is the amount needed to achieve that threshold. Any Additional Amortizations granted to KCPL are subsequently treated as an offset to KCPL's rate base, which reduces rates when the Commission sets KCPL's rates in subsequent rate cases.

Q: Please briefly review the significance of the Additional Amortizations mechanism and the maintenance of financial ratios for KCPL.

A: KCPL is in the second year of the implementation of its Comprehensive Energy Plan (the "Plan"). Maintaining high credit quality at KCPL is vital to debt and equity investors, banks, rating agencies, and retail customers. KCPL and its parent, Great Plains Energy, will rely extensively on the debt and equity capital markets for new-money financing over the next several years to fund the Plan and KCPL's demonstration of credit strength and financial wherewithal will be critical to its ability to access capital in a timely manner and on attractive terms.

In addition to the funding requests of the Plan, KCPL will have a significant amount of debt subject to refinancing during the period of the Plan. KCPL has $257 million of tax-exempt debt that is either subject to remarketing during the Plan period or is in a weekly or monthly "auction" mode and essentially refinanced at those intervals. KCPL's ability to refinance its debt efficiently, effectively, and on favorable terms will be heavily dependent on bondholder and rating agency views of KCPL's creditworthiness.

Finally, the strong financial profile required for an investment-grade rating benefits retail customers by enabling KCPL to (i) attract the capital needed to make infrastructure investments; (ii) reduce its interest costs; (iii) meet its obligations in a timely fashion; (iv) attract and retain a high-quality workforce; and (v) invest in the communities it serves.

Q: Did the Commission authorize Additional Amortizations in KCPL's 2006 rate case?

A: Yes. The Report and Order in KCPL's 2006 rate case, Case No. ER-2006-0314, authorized Additional Amortizations in the amount of $21.7 million as part of a total rate increase of $50.6 million.

<u>Credit Rating Impacts of the Merger on Great Plains Energy, KCPL and Aquila</u>

Q: Did Great Plains Energy discuss the credit rating impacts of the Merger with the credit rating agencies prior to announcing the Merger?

A: Yes, extensively. In October 2006, Great Plains Energy engaged S&P to conduct an analysis of the Merger through S&P's Ratings Evaluation Service, based on transaction assumptions as they stood at that time. A copy of S&P's October 2006 analysis is attached as Exhibit MWC-3 (HC). In January 2007, as the Merger appeared increasingly more likely, Great Plains Energy engaged S&P to perform another assessment based on the then-current transaction assumptions, Great Plains Energy also engaged Moody's to conduct a similar analysis through its Ratings Assessment Service. Copies of S&P's and Moody's January 2007 analyses are attached as Exhibits MWC-4 (HC) and MWC-5 (HC), respectively.

Q: Please summarize S&P's assessment of the long-term credit rating impacts of the Merger.

A: S&P indicated that, upon announcement of the Merger, the long-term ratings of Great Plains Energy and KCPL would not change but that the ratings would be placed on

"Credit Watch – Negative."[1] This action would communicate S&P's intent to formally review Great Plains Energy's and KCPL's credit ratings during the period between the announcement of the Merger and closing and, in particular, to evaluate whether a number of important "regulatory considerations" surrounding the Merger were addressed in a manner consistent with initial assumptions. Satisfactory resolution of these matters would lead to S&P's action to, as outlined in their January 9, 2007 analysis, "remove GXP and KCP&L's ratings from CreditWatch, **reaffirm all ratings** …(emphasis added)."

Q: Was extension of the Additional Amortizations mechanism to Aquila one of the "regulatory considerations" S&P highlighted?

A: Yes. One of the key regulatory assumptions S&P listed included the following: *"GXP or KCP&L seek and obtain access to 'accelerated amortization' for ASTEROID."* It should be noted here that the "accelerated amortization" to which S&P refers is equivalent to Additional Amortizations; also in referring to "ASTEROID", S&P was using Great Plains Energy's project name for Aquila.

Q: Did S&P give a clear indication of what action they would take if the "regulatory considerations" they highlighted were not adequately addressed?

A: Yes. They indicated the following in their January 9, 2007 analysis:

"If GXP chooses to proceed with the transaction as contemplated without addressing the various regulatory considerations listed……S&P would likely lower its ratings on GXP and KCP&L."

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[1] S&P also indicated that KCPL's short-term rating would be lowered from A-2 to A-3 upon transaction announcement. This is S&P's standard methodology in instances where the ratings for companies with BBB senior unsecured ratings are placed on Credit Watch – Negative.

Q: How would you expect S&P to treat the ratings of Aquila?

A: Consistent with S&P's methodology with respect to KCPL, Aquila's ratings will be based on those of Great Plains Energy. Since Aquila will be a wholly-owned subsidiary of Great Plains Energy, debt at the Aquila level will be structurally senior to debt at the parent company. S&P typically therefore assigns a rating for the subsidiary that is one notch higher than the parent rating. As a result, if Great Plains Energy's ratings were maintained at the current senior unsecured rating of BBB-, we would expect Aquila's senior unsecured rating to be BBB. If Great Plains Energy were downgraded, Aquila's rating would likely be established one notch above the lower parent rating. The rating agency's announcement of Aquila's improved credit rating will likely not occur immediately upon the closing of the Merger. I anticipate that some time would pass while S&P assesses the effects of the Merger.

Q. Please summarize S&P's view of Additional Amortizations as the mechanism relates to an investment-grade rating for Great Plains Energy, KCPL, and Aquila following the closing of the Merger.

A: The availability of the Additional Amortizations mechanism to Aquila following the Merger is a critical regulatory assumption that S&P made in determining not to immediately change the current investment-grade ratings at Great Plains Energy and KCPL. Action by the Commission to confirm this will be a key contributing factor to maintaining existing ratings for Great Plains Energy and KCPL at S&P post-Merger closing. Conversely, not having Additional Amortizations available to Aquila would likely compromise Great Plains Energy's and KCPL's ability to maintain current ratings post-closing.

Q: Please summarize Moody's assessment of the long-term credit rating impacts of the Merger.

A: Moody's indicated that, upon announcement of the Merger, the long-term ratings of Great Plains Energy and KCPL, as well as the Stable Outlook assigned to each, would not change.[2] Unlike S&P, Moody's did not place the ratings under formal review, but states the following in its January 12, 2007 analysis: *"Please note that the ratings determined herein are point in time assessments and based upon a set of assumptions presented by the company with regard to the structure of the proposed transaction. Additional facts and industry-specific circumstances* ***including potentially different regulatory outcomes*** *could change the overall assessment of the ratings."* (emphasis added).

Q: Was extension of the Additional Amortizations mechanism to Aquila one of the "regulatory outcomes" on which Moody's was focused?

A: Yes. One of the key regulatory assumptions Moody's listed included the following: "…..**implement regulatory amortization to maintain targeted financial metrics."** (emphasis added).

Q: Did Moody's address in their analysis how the ratings of Aquila would be impacted by the Merger?

A: Yes. Moody's indicated that Aquila debt assumed / guaranteed by Great Plains Energy would be rated equivalent to Great Plains Energy's ratings, *i.e.*, currently Baa2 senior

[2] The January 12, 2007 Moody's analysis attached as Schedule MWC-5 (HC) reflects a 1-notch downgrade in KCPL's rating; however, that was under the assumption that Aquila would be a subsidiary of, or merged into, KCPL. When the status of Aquila as a subsidiary of Great Plains Energy was confirmed, Moody's verbally clarified that KCPL's ratings would remain unchanged.

unsecured.[3] Similar to my comments above concerning S&P, I anticipate that Moody's upgrade of Aquila's credit rating to investment grade would not occur immediately, but rather after Moody's assesses the effects of the Merger.

Q: Please summarize Moody's view of Additional Amortizations as the mechanism relates to an investment-grade rating for Great Plains Energy, KCPL, and Aquila following the closing of the Merger.

A: Like S&P, Moody's viewed the availability of the Additional Amortizations mechanism to Aquila following the Merger as a critical regulatory assumption in determining not to immediately change the current investment-grade ratings at Great Plains Energy and KCPL. Action by the Commission to confirm this will be a key contributing factor to maintaining existing ratings for Great Plains Energy and KCPL at Moody's post-Merger closing. Though Moody's did not address it directly in their analysis, they would likely view not having Additional Amortizations available to Aquila similarly to S&P, *i.e.*, this would likely compromise Great Plains Energy's and KCPL's ability to maintain current ratings post-closing.

Q: When Great Plains Energy publicly announced the Merger on February 7, 2007, were the ratings actions announced by S&P and Moody's consistent with their preliminary assessments?

A: Yes. The actions taken by S&P and Moody's upon announcement of the Merger were fully consistent with what they had conveyed in their respective assessments.

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[3] As mentioned in footnote 2, this discussion in the January 12, 2007 analysis was framed around KCPL as guarantor; however, Moody's subsequently confirmed the same methodology would apply with Great Plains Energy as guarantor.

<u>Benefits of Investment-Grade Credit Ratings</u>

Q: What are the benefits of KCPL maintaining its current ratings and Aquila achieving an investment-grade rating after the Merger?

A: As discussed earlier in my testimony, KCPL benefits from its strong credit quality in a number of ways that generally reduce its cost of capital. Aquila would benefit from the achievement of an investment-grade rating primarily through significant savings in interest costs, both on existing Aquila debt, which Great Plains Energy expects to refinance and on much lower interest costs, and on new debt issued to fund future capital expenditures. Estimated synergies related to interest savings are discussed in greater detail in the testimony of Terry Bassham and Robert Zabors.

In addition to significantly reduced interest costs, the strong financial profile that goes hand-in-hand with an investment-grade rating will provide similar benefits to Aquila as those enumerated earlier for KCPL in terms of Aquila's ability to do the following: (i) readily attract the capital needed to make infrastructure investments; (ii) meet its obligations in a timely fashion; (iii) attract and retain a high-quality workforce; and (iv) invest in the communities it serves.

Q: Does this conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc. for Approval of the Merger of Aquila, Inc. with a Subsidiary of Great Plains Energy Incorporated and for Other Requester Relief	)))))	**Case No. EM-2007-____**

AFFIDAVIT OF MICHAEL W. CLINE

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Michael W. Cline, being first duly sworn on his oath, states:

1. My name is Michael W. Cline. I work in Kansas City, Missouri, and I am employed by Great Plains Energy Incorporated as Treasurer and Chief Risk Officer.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of ten (10) pages and Schedules MWC-1 through MWC-5, 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.

Michael W Cline
Michael W. Cline

Subscribed and sworn before me this 2nd day of April 2007.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

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