

**FILED**

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**Missouri Public  
Service Commission**

Exhibit No.:  
Issues: Short-Term Debt Rate  
Witness: Matthew J. Barnes  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Direct Testimony  
File No.: ER-2012-0024  
Date Testimony Prepared: October 21, 2011

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**DIRECT TESTIMONY**

**OF**

**MATTHEW J. BARNES**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**FILE NO. ER-2012-0024**

*Jefferson City, Missouri  
October 2011*

*Staff* Exhibit No. 6  
Date 1/5/12 Reporter JL  
File No. ER-2012-0024





Direct Testimony of  
Matthew J. Barnes

1 information about GMO's interest at its short-term borrowing rate that was used for that  
2 calculation. Over the past twenty months those rates have ranged from just under two percent  
3 to just under four percent per year.

4 Q. Why are you providing this short-term borrowing rate information?

5 A. In its *Order Suspending Tariff Sheets and Directing Filing* the Commission  
6 issued June 2, 2011, in GMO's last general electric rate case, File No. ER-2010-0356, the  
7 Commission stated:

8 No later than June 8, 2011, the parties shall file a pleading stating KCP&L  
9 Greater Missouri Operations Company's short-term debt and any arguments  
10 why the "carrying costs" for the phased-in tariffs should not be equal to the  
11 short-term debt cost.  
12

13 I understand that an issue in this case is the cost of short-term debt that should be used for  
14 determining the "carrying costs" for the phase-in of GMO's rate increase the Commission  
15 ordered in File No. ER-2010-0356. Staff witness David Murray is the primary witness  
16 sponsoring testimony on the reasonableness of the 3.25 percent rate used as a proxy for  
17 GMO's cost of short-term debt and agreed to be used as a "carrying cost" in the Non-  
18 Unanimous Stipulation and Agreement between GMO and Staff filed on September 2, 2011.

19 I am providing testimony discussing "carrying costs" because of my familiarity with  
20 "carrying costs" in the context of GMO's fuel adjustment clause. I regularly review GMO's  
21 "interest at its short-term borrowing rate"—average interest paid on short-term debt—to  
22 calculate the "carrying costs" for the under- or over-collection of the costs and revenues that  
23 flow through that clause as shown by the portions of Section 386.266, RSMo. Supp. 2011,  
24 quoted following:

25 4. The commission shall have the power to approve, modify, or reject  
26 adjustment mechanisms submitted under subsections 1 to 3 of this section

1 only after providing the opportunity for a full hearing in a general rate  
2 proceeding, including a general rate proceeding initiated by complaint. The  
3 commission may approve such rate schedules after considering all relevant  
4 factors which may affect the costs or overall rates and charges of the  
5 corporation, provided that it finds that the adjustment mechanism set forth in  
6 the schedules:

7 \* \* \* \*

8 (2) Includes provisions for an annual true-up which shall accurately and  
9 appropriately remedy any over- or under- collections, including *interest at the*  
10 *utility's short-term borrowing rate*, through subsequent rate adjustments or  
11 refunds; . . . . (Emphasis added.)

12 Q Why are you familiar with the use of average interest paid on short-term debt  
13 in connection with GMO's fuel adjustment clause?

14 A. In my work for the Energy Resource Analysis Section, I have reviewed GMO's  
15 interest at its short-term borrowing rate that has been used for its fuel adjustment clause for  
16 purposes of cost adjustment factor ("CAF") and true-up adjustments.

17 Q. How often is GMO's average interest paid on short-term debt used for its fuel  
18 adjustment clause change?

19 A. It changes monthly, as the LIBOR (London Inter-bank Offered Rate) changes.

20 Q. How is GMO's average interest paid on short-term debt used for its fuel  
21 adjustment clause calculated?

22 A. It is calculated by adding to a LIBOR as of the closing at the end of each  
23 month an investment grade margin based on the Guarantor's (Great Plains Energy's) long-  
24 term debt credit rating.

25 Q. As annual rates for each month, what was GMO's average  
26 interest paid on short-term debt from January 2010 to August 2011 for the three-month  
27 LIBOR that was used for its fuel adjustment clause?

Direct Testimony of  
Matthew J. Barnes

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A. They are the rates that appear in the table that follows:

<u>Jan-10</u>	<u>Feb-10</u>	<u>Mar-</u>	<u>Apr-10</u>	<u>May-10</u>	<u>Jun-10</u>	<u>Jul-10</u>	<u>Aug-10</u>	<u>Sep-10</u>
2.00%	1.90%	2.00%	1.90%	2.00%	2.00%	2.10%	3.83%	2.95%
<u>Oct-10</u>	<u>Nov-10</u>	<u>Dec-10</u>	<u>Jan-11</u>	<u>Feb-11</u>	<u>Mar-11</u>	<u>Apr-11</u>	<u>May-11</u>	<u>June-11</u>
2.95%	2.95%	2.95%	2.95%	2.95%	2.95%	2.95%	2.95%	2.75%
<u>July-11</u>	<u>Aug-11</u>							
2.77%	3.21%							

Q. What was the average of GMO's average interest paid on short-term debt over the 12-month period ending August 2011?

A. It was 2.94 percent (See Attachment A).

Q. Why are you presenting this historical information about GMO's average interest paid on short-term debt that was used for purposes of its fuel adjustment clause?

A. Because the interest at the utility's short-term borrowing rate referred to in the fuel adjustment clause statute, section 386.266, RSMo. Supp. 2011, and the "carrying costs" provision in the rate phase-in statute, section 393.155, RSMo. 2000, are intended to allow the recovery of the time value of money. Therefore, this is pertinent information the Commission may consider when deciding the carrying costs for the phase-in of GMO's rates. Staff witness David Murray is testifying as to the reasonableness of the use of 3.25 percent as a proxy for GMO's cost of short-term debt on a going-forward basis.

Q. Does this conclude your direct testimony?

A. Yes it does.

SUMMARY  
OF  
MATTHEW J. BARNES  
CASE PARTICIPATION

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
09/08/2004	Merger with TXU Gas	GM20040607	Staff Recommendation	Atmos Energy Corporation
10/15/2004	Rate of Return	TC20021076	Supplemental Direct	BPS Telephone Company
06/28/2005	Finance *	EF20050387	Staff Recommendation	Kansas City Power and Light Company
06/28/2005	Finance *	EF20050388	Staff Recommendation	Kansas City Power and Light Company
08/31/2005	Finance *	EF20050498	Staff Recommendation	Kansas City Power and Light Company
11/15/2005	Spin-off of landline operations	IO20060086	Rebuttal	Sprint Nextel Corporation
03/08/2006	Spin-off of landline operations	TM20060272	Rebuttal	Alltel Missouri, Inc.
08/08/2006	Rate of Return	ER20060314	Direct	Kansas City Power & Light Company
09/08/2006	Rate of Return	ER20060314	Rebuttal	Kansas City Power & Light Company
09/13/2006	Rate of Return	GR20060387	Direct	Atmos Energy Corporation

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Date Filed	Issue	Case Number	Exhibit	Case Name
10/06/2006	Rate of Return	ER20060314	Surrebuttal	Kansas City Power & Light Company
11/07/2006	Rate of Return	ER20060314	True-Up Direct	Kansas City Power & Light Company
11/13/2006	Rate of Return	GR20060387	Rebuttal	Atmos Energy Corporation
11/23/2006	Rate of Return	GR20060387	Surrebuttal	Atmos Energy Corporation
12/01/2006	Rate of Return	WR20060425	Direct	Algonquin Water Resources of Missouri LLC
12/28/2006	Rate of Return	WR20060425	Rebuttal	Algonquin Water Resources of Missouri LLC
01/12/2007	Rate of Return	WR20060425	Surrebuttal	Algonquin Water Resources of Missouri LLC
02/07/2007	Finance *	GF20070220	Staff Recommendation	Laclede Gas Company
05/04/2007	Rate of Return	GR20070208	Direct	Laclede Gas Company
07/24/2007	Rate of Return	ER20070291	Direct	Kansas City Power and Light Company



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<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
08/30/2007	Rate of Return	ER20070291	Rebuttal	Kansas City Power and Light Company
09/20/2007	Rate of Return	ER20070291	Surrebuttal	Kansas City Power and Light Company
11/02/2007	Rate of Return	ER20070291	True-up Direct	Kansas City Power and Light Company
02/01/2008	Finance *	EF20080214	Staff Recommendation	Kansas City Power and Light Company
02/22/2008	Rate of Return	ER20080093	Staff Report	The Empire District Electric Company
04/04/2008	Rate of Return	ER20080093	Rebuttal Testimony	The Empire District Electric Company
04/25/2008	Rate of Return	ER20080093	Surrebuttal Testimony	The Empire District Electric Company
08/18/2008	Rate of Return	WR20080311	Staff Report	Missouri-American Water Company
09/30/2008	Rate of Return	WR20080311	Rebuttal Testimony	Missouri-American Water Company
10/16/2008	Rate of Return	WR2008031	Surrebuttal Testimony	Missouri-American Water Company

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CASE PARTICIPATION

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
02/26/2010	Fuel Adjustment Clause	ER20100130	Staff Report	The Empire District Electric Company
04/02/2010	Fuel Adjustment Clause	ER20100130	Rebuttal Testimony	The Empire District Electric Company
04/23/2010	Fuel Adjustment Clause	ER20100130	Surrebuttal Testimony	The Empire District Electric Company
02/23/11	Fuel Adjustment Clause	ER20110004	Staff Report	The Empire District Electric Company
04/22/11	Fuel Adjustment Clause	ER20110004	Rebuttal Testimony	The Empire District Electric Company
04/28/11	Fuel Adjustment Clause	ER20110004	Surrebuttal Testimony	The Empire District Electric Company
05/06/11	Fuel Adjustment Clause	ER20110004	True-up Direct Testimony	The Empire District Electric Company

\* The Finance issue involves Staff approval for a utility company to issue debt securities and/or common stock. This includes analyzing a utility company's key credit metric ratios to determine if the issuances will have a detrimental effect on their current credit rating. The key credit metric ratios that Staff analyzes include Total Debt to Total Capital, Funds Flow From Operations as a percent of Total Debt, and Funds Flow From Operations to Interest Coverage.

KCP&L Greater Missouri Operations Company  
ER-2012-0024

**3-Month LIBOR Rate**

	3-Month Annual LIBOR	
Jun-09	2.30%	
Jul-09	2.00%	
Aug-09	1.80%	
Sep-09	1.80%	
Oct-09	1.70%	
Nov-09	1.70%	
Dec-09	1.70%	
Jan-10	2.00%	
Feb-10	1.90%	
Mar-10	2.00%	
Apr-10	1.90%	
May-10	2.00%	
Jun-10	2.00%	
Jul-10	2.10%	
		New revolver
Aug-10	3.83%	8/8/10
Sep-10	2.95%	
Oct-10	2.95%	
Nov-10	2.95%	
Dec-10	2.95%	
Jan-11	2.95%	
Feb-11	2.95%	
Mar-11	2.95%	
Apr-11	2.95%	
May-11	2.95%	
Jun-11	2.75%	
Jul-11	2.77%	
Aug-11	3.21%	
<b>12-month Average</b>	<b>2.94%</b>	