Exhibit No.:	
Issues:	Revenue Requirement
Witness:	Michael P. Gorman
Type of Exhibit:	True-Up Direct Testimony
Sponsoring Party:	Office of Public Counsel
Case No.:	ER-2012-0174
Date Testimony Prepared:	November 8, 2012

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service	))))))	**Case No. ER-2012-0174** Tracking No. YE-2012-0404

True-Up Direct Testimony and Schedule of

Michael P. Gorman

Revenue Requirement

On behalf of

The Office of Public Counsel

NON-PROPRIETARY VERSION

____

November 8, 2012

BRUBAKER & ASSOCIATES, INC.

Project 9605

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service	))))))	**Case No. ER-2012-0174** Tracking No. YE-2012-0404

STATE OF MISSOURI	)	
	)	**SS**
COUNTY OF ST. LOUIS	)	

Affidavit of Michael P. Gorman

Michael P. Gorman, being first duly sworn, on his oath states:

1. My name is Michael P. Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Office of Public Counsel in this proceeding on its behalf.

2. Attached hereto and made a part hereof for all purposes are my true-up direct testimony and schedule which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2012-0174.

3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.

M. Gorman
Michael P. Gorman

Subscribed and sworn to before me this 8th day of November, 2012.

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2013
Commission # 09706793

Maria E. Decker
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service	)))))	**Case No. ER-2012-0174** Tracking No. YE-2012-0404

<u>True-Up Direct Testimony of Michael P. Gorman</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED TESTIMONY IN THIS CASE ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL ("OPC")?

A Yes.

Q WHAT IS THE PURPOSE OF YOUR TRUE-UP DIRECT TESTIMONY?

A I will comment on the need for a balanced capital structure for Kansas City Power & Light Company ("KCPL" or "Company") for its true-up period in this proceeding.

Q DO YOU BELIEVE KCPL'S PROPOSED CAPITAL STRUCTURE IN THIS CASE HAS BEEN REASONABLE?

A No. As outlined in my direct and surrebuttal testimonies, I believe the Company's proposed capital structure reflects too much common equity and has unnecessarily inflated the claimed revenue deficiency in this proceeding. As I outlined in my surrebuttal testimony, it appeared to me that the Company had been building up its common equity because it was using common equity to refinance maturing long-term debt.

However, in the hearing on October 23, 2012,[1] KCPL's Vice President, Investor Relations and Treasurer, Mr. Kevin Bryant, testified that my understanding of the funding used to retire long-term debt was in error. Mr. Bryant asserted that the Company was relying on short-term debt to fund the refinancing of utility long-term debt maturities on an interim basis. The Company planned to refinance the buildup of short-term debt after it accumulated enough short-term debt to justify a long-term debt issuance of at least $300 million. Mr. Bryant testified that long-term debt issuances of $300 million and more, attract a bigger market and result in lower utility debt costs.

Q DID MR. BRYANT REFLECT THE SHORT-TERM DEBT USED TO FUND LONG-TERM DEBT MATURITIES IN HIS PROPOSED CAPITAL STRUCTURE?

A No. He excluded the short-term debt used to finance maturing long-term debt capital from his proposed ratemaking capital structure in this proceeding. Excluding this short-term debt inflated KCPL and KCP&L GMO common equity ratios of total capital and inflated their claimed revenue deficiency.

[1]See Transcript Volume 17.

Q IS IT APPROPRIATE TO EXCLUDE THIS SHORT-TERM DEBT FROM THE RATEMAKING CAPITAL STRUCTURE?

A No. The maturing long-term debt at issue has been included in KCPL's and KCP&L GMO's ratemaking capital structure in prior rate cases. This long-term utility debt is tied to utility operations. Because KCPL's and KCP&L GMO's rate bases are not lower in this case than they were in the last case, it is not reasonable to expect that the utilities can support their larger investments in rate base with less capital.

The utilities have used short-term debt to refinance maturing long-term debt and, therefore, are using short-term debt to support the utilities' rate base investments. Since the objective is to set a revenue requirement to allow KCPL and KCP&L GMO to recover their actual and reasonable cost of service, this short-term debt must be included in the ratemaking capital structure because it represents a component of the utilities' capital that is being used to fund their rate base investments.

Excluding the short-term debt from the ratemaking capital structure, as proposed by Mr. Bryant, will unjustifiably increase the percentage of common equity and inflate the utilities' claimed revenue deficiency and cost of service in this proceeding. Therefore, the Commission should reject the Company's proposal to develop a ratemaking capital structure that excludes the short-term debt that is being used to fund rate base investments.

Q HOW MUCH SHORT-TERM DEBT SHOULD BE INCLUDED IN THE RATEMAKING CAPITAL STRUCTURE?

A As noted at page 3 of my surrebuttal testimony, KCPL has **____________________

____

**

Q WHAT HAPPENS IF THE COMMISSION DOES NOT REQUIRE THIS CHANGE TO THE COMPANY'S TRUE-UP CAPITAL STRUCTURE?

A If this change is not made to recognize the appropriate (or actual) cost of capital, and the Company is allowed to substantially modify its actual weight of debt and equity within its capital structure, the result will be an unnecessary and unjustified increase in the common equity ratio (as discussed in prior testimony on this issue) and an unjustified increase in the revenue deficiency.

It is clear that the Company has not modified its actual debt and equity capital structure for funding its investment in utility plant and equipment. Rather, the Company is simply driving up its cost of service in this case by taking advantage of its policies to issue short-term debt to fund maturing long-term debt, and then later refinance the short-term debt with long-term debt after the end of the true-up period.

While I do not dispute the prudency of the policy to minimize the cost of long-term debt, I do dispute the Company's proposal in this case to set rates using a capital structure with a temporarily inflated common equity ratio and exclude debt capital actually being used to fund rate base investments.

Q PLEASE DESCRIBE YOUR PROPOSED CAPITAL STRUCTURE AND OVERALL RATE OF RETURN.

A I recommend adjusting the Company's true-up capital structure to **____** thus falsely driving up the common equity ratio of long-term total capital. Therefore, my recommended true-up capital structure is shown on my attached Highly Confidential Schedule MPG-TU-1. As shown on this schedule, **____

____** My recommended return on equity in this case is 9.1% to 9.5%. I used a return on equity of 9.3% on my Highly Confidential Schedule MPG-TU-1.

Q DOES THIS COMPLETE YOUR TRUE-UP DIRECT TESTIMONY?

A Yes.

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Schedule MPG-TU-1

Is Highly Confidential

In Its Entirety