

Exhibit No.:
Issues: *Rate of Return, Capital Structure*
Witness: *David Murray*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *True Up Direct Testimony*
File No.: *ER-2010-0355*
Date Testimony Prepared: *February 22, 2011*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE UP DIRECT TESTIMONY

OF

DAVID MURRAY

**Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY**

FILE NO. ER-2010-0355

*Jefferson City, Missouri
February 2011*

**** Denotes Highly Confidential Information ****

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TRUE-UP DIRECT TESTIMONY

OF

DAVID MURRAY

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KANSAS CITY POWER & LIGHT COMPANY**

FILE NO. ER-2010-0355

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1 **TRUE-UP DIRECT TESTIMONY**

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3 **DAVID MURRAY**

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5 **KANSAS CITY POWER & LIGHT COMPANY**

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7 Q. Please state your name.

8 A. My name is David Murray.

9 Q. Are you the same David Murray who earlier filed rebuttal and surrebuttal
10 testimony in this proceeding on behalf of the Staff of the Missouri Public Service
11 Commission (“Staff”) and, in addition, was responsible for the section of the Staff’s Cost of
12 Service Report (“COS Report”) filed November 10, 2010, concerning cost of capital issues?

13 A. Yes, I am.

14 Q. What is the purpose of your True-up Direct Testimony?

15 A. The purpose of my true-up testimony is to update my recommended
16 capital structure and embedded costs of capital. I will provide an updated overall rate of
17 return (“ROR”) recommendation based on these individual component updates.

18 Q. What is your true-up ROR recommendation?

19 A. I recommend a ROR range of 7.78 percent to 8.24 percent, with a midpoint ROR
20 of 8.01 percent. The cost of equity is normally not updated for purposes of a true-up
21 ROR recommendation, which is the case for this true-up proceeding as well. Therefore, my
22 recommended return on common equity (“ROE”) remains in the range of 8.50 to 9.50 percent.

1 Q. How does your recommended ROR range as of the true-up period compare to your
2 recommended ROR range as of the updated test year, June 30, 2010 provided in the general
3 rate case?

4 A. It is slightly lower. My recommended ROR range as of June 30, 2010, was
5 7.80 percent to 8.28 percent, midpoint, 8.04 percent.

6 **CAPITAL STRUCTURE**

7 Q. What is your updated recommended ratemaking capital structure for Kansas
8 City Power & Light Company (“KCPL”)?

9 A. My updated recommended capital structure is as follows: ** ____ ** percent
10 common stock, ** ____ ** percent long-term debt, ** ____ ** percent preferred stock and
11 ** ____ ** percent mandatory convertible equity units (see Schedule 1).

12 Q. What is the primary cause for the difference in KCPL’s ratemaking capital
13 structure as of the true-up period compared to the updated test year in this case?

14 A. Great Plains Energy, Incorporated’s (“GPE”) August 13, 2010, issuance of
15 \$250 million of 3-year bonds with an annual coupon rate of 2.75 percent.

16 Q. How were the proceeds from the 3-year bond utilized by GPE?

17 A. Based on KCP&L Greater Missouri Operations Company’s (“GMO”) response to
18 Staff Data Request No. 0159 in File No. ER-2010-0356, it appears that GPE used at least some of
19 these funds for financing needs at the GMO subsidiary.

20 Q. What is the basis for your belief that this is how at least some of these proceeds
21 were used by GPE?

22 A. GMO’s response to Staff Data Request No. 0159 in File No. ER-2010-0356
23 indicates that GPE made a decision to assign this debt to GMO’s operations because the

1 total amount of this debt is included with the rest of GMO's debt even though it was issued
2 by GPE.

3 **EMBEDDED COST OF LONG-TERM DEBT**

4 Q. What is your recommended embedded cost of long-term debt for KCPL as of the
5 true-up period in this case?

6 A. My embedded cost of long-term debt recommendation for KCPL as of the
7 true-up period is 6.825 percent.

8 Q. If GPE issued debt between the update period and the true-up period that had a
9 lower cost than KCPL's aggregate embedded cost of debt, why didn't you reduce your
10 recommended embedded cost of debt for KCPL?

11 A. I chose to exclude the \$250 million 2.75 percent debt issuance from
12 KCPL's embedded cost of debt for purposes of this case.

13 Q. Why did you choose to exclude this debt issuance in KCPL's embedded cost of
14 debt as of the true-up period?

15 A. It appears that a majority of the proceeds from this debt issuance were used to
16 refinance outstanding cash borrowings under GMO's short-term credit facility. According to
17 GPE's SEC Form 10-Q Filing for the period ending June 30, 2010, GMO had \$267 million of
18 cash borrowings outstanding under its credit facility. GPE's SEC Form 10-Q Filing for the
19 period ending September 30, 2010, indicates that GMO's credit facility had no outstanding cash
20 borrowings.

21 Q. How much short-term debt did KCPL have outstanding as of June 30, 2010, and
22 September 30, 2010?

1 A. According to GPE's SEC Form 10-Q Filings, KCPL had \$297 million of short-
2 term debt outstanding as of June 30, 2010, and \$209.5 million of short-term debt outstanding as
3 of September 30, 2010.

4 Q. Did GPE assign the entire amount of the 3-year bond to GMO for purposes of the
5 embedded cost-of-debt calculations GMO provided in response to Staff Data Request No. 0159 in
6 File No. ER-2010-0356?

7 A. Yes.

8 Q. Did KCPL receive any funds from GPE during the same period?

9 A. Yes. KCPL received \$23 million of net money pool borrowings from GPE.

10 Q. Why didn't GPE assign any portion of the amount of the 3-year bond to KCPL?

11 A. I don't know, but if some of this debt had been assigned to KCPL to reduce the
12 amount of commercial paper, i.e. short-term debt, outstanding, then KCPL would have benefited
13 from a lower embedded cost of long-term debt.

14 Q. Do you believe the financing decisions that were made between the update period
15 and the true-up date in this case provide support for consideration of a GPE consolidated cost of
16 debt to be used for both KCPL's and GMO's ratemaking ROR, at least for future rate cases?

17 A. Yes.

18 Q. But did you not recommend downward adjustments to costs of capital issued by
19 GPE subsequent to its acquisition of GMO because of the strain of Aquila legacy debt on
20 GPE's credit metrics?

21 A. Yes. Although the 3-year bond GPE issued in August 2010 was at a low coupon
22 rate of 2.75 percent, this is primarily due to the current macroeconomic conditions in which the
23 cost of shorter-term debt in general has been very low for the last couple of years.

1 Q. Are you inferring that GPE could have issued this debt at an even more favorable
2 cost if it wasn't supporting the financially-strained GMO operations?

3 A. Yes. Although this 3-year bond reduced GPE's consolidated embedded cost of
4 debt, if KCPL and/or GPE had a 'BBB+' credit rating, it is possible that this 3-year bond could
5 have been issued at an even lower cost.

6 Q. If you are not proposing to change your methodology in this case, why are you
7 providing testimony on this matter?

8 A. To notify the Commission that Staff believes it will need to reevaluate its approach
9 in subsequent cases based on the manner in which GPE chooses to finance its KCPL and
10 GMO operations. GPE's integration of GMO into its operations is an inherently dynamic
11 process. Although it may be appropriate to have separate debt costs shortly after an acquisition or
12 merger, due to the commingling of financing activities after the transaction, this may no longer be
13 the best approach.

14 **COST OF PREFERRED STOCK**

15 Q. Did the cost of preferred stock change for the true-up period compared to the
16 test year?

17 A. No.

18 **COST OF MANDATORILY CONVERTIBLE EQUITY UNITS**

19 Q. Did the cost of the mandatorily-convertible equity units change in the true-up?

20 A. No.

21 Q. Does this conclude your True-up Direct Testimony?

22 A. Yes.


BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Kansas City Power & Light Company for)
Approval to Make Certain Changes in its) File No. ER-2010-0355
Charges for Electric Service to Continue the)
Implementation of Its Regulatory Plan)

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David Murray, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing True-Up Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

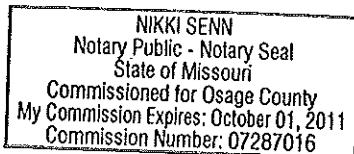


David Murray

Subscribed and sworn to before me this 22nd day of February, 2011.



Notary Public



SCHEDULE 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

SCHEDULE 2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY