Exhibit No.:	
Issues:	*Rate of Return, Capital Structure*
Witness:	*David Murray*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*True-Up Rebuttal Testimony*
Case Nos.:	*ER-2012-0174 and ER-2012-0175*
Date Testimony Prepared:	*November 13, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES

TRUE-UP REBUTTAL TESTIMONY

OF

DAVID MURRAY

Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY

and

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NOS. ER-2012-0174 and ER-2012-0175

Jefferson City, Missouri
November 2012

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Q. Please state your name.

A. My name is David Murray.

Q. Are you the same David Murray who earlier filed rebuttal and surrebuttal in these proceedings on behalf of the Staff of the Missouri Public Service Commission ("Staff") and, in addition, was responsible for the section of the Staff's Cost of Service Report ("COS Report") concerning cost of capital issues?

A. Yes, I am.

Q. Did you file true-up direct testimony in this case?

A. No. I provided Staff's true-up capital structure and cost of capital recommendation in my surrebuttal testimony.[1]

Q. What is the purpose of your true-up rebuttal testimony?

A. The purpose of my true-up rebuttal testimony is to respond to The Office of the Public Counsel ("OPC") witness Michael P. Gorman's true-up direct testimony. Mr. Gorman's true-up testimony recommends a capital structure for Kansas City Power & Light Company ("KCPL") and KCP&L Greater Missouri Operations Company ("GMO") that contains a lower

[1] *Murray Surrebuttal*, pp. 4-5.

common equity ratio and higher debt ratio than Staff recommended in its surrebuttal testimony. While Staff still maintains its recommended capital structure as of the true-up date in this case is fair and reasonable, if the Commission were to accept Mr. Gorman's position that some additional debt should be included in the capital structure, Staff believes the Commission should adopt a different approach than that proposed by Mr. Gorman.

Q. What common equity ratio was reflected in your true-up capital structure recommendation?

A. 52.56%.

Q. What common equity ratio did Mr. Gorman recommend in his true-up capital structure recommendation?

A. 49.66%.

Q. What is the primary reason for the difference in your recommended common equity ratios?

A. Mr. Gorman made a pro forma adjustment to the amount of long-term debt included in the ratemaking capital structure.[2] Mr. Gorman's testimony indicates that he included the difference between the amount of long-term debt issued and retired between March 2011 and the true-up period, August 31, 2012. This resulted in an increase to the amount of debt of $376 million, which he then allocated to KCPL and KCP&L Greater Missouri Operations ("GMO") consistent with the Company's methodology proposed in its direct testimony.

Q. Why did Mr. Gorman review the period March 2011 through August 31, 2012?

[2] Although Mr. Gorman identified this additional debt as short-term debt in his true-up direct testimony, Staff considers this a pro forma adjustment to long-term debt because Mr. Gorman priced this debt consistent with long-term debt costs.

A. I believe Mr. Gorman intended to indicate that he reviewed the period from September 30, 2011 (the test year), through August 31, 2012 (the true-up period). Otherwise, Mr. Gorman failed to consider significant amounts of debt issued by KCPL and GPE since March 2011. KCPL issued $400 million in long-term debt in September 2011. GPE issued $350 million of debt in May 2011.

Q. What appears to be the logic underlying Mr. Gorman's proposal to reconcile the amount of long-term debt issued compared to the amount of long-term debt retired for the period he reviewed?

A. Mr. Gorman is trying to assign maturing long-term debt to rate base as it comes due. The treasury is much too fluid to allow for this to occur. For instance, the amount of short-term debt outstanding at any given time may have financed working capital, construction work in progress ("CWIP"), maturing long-term debt, dividends, rate base, etc.

Q. What approach does Staff recommend the Commission follow if it decides to add back the debt that had not been immediately refinanced with other long-term debt?

A. The Commission should include an amount of short-term debt equal to the difference between GPE's average monthly balance of short-term debt and CWIP for July 2012 and August 2012 because these two months capture the increase in the short-term debt balance caused by the need for additional funds to retire GMO's $500 million debt issuance.

Q. Using this approach, how much short-term debt would be included in the capital structure?

A. $149.7 million.

Q. Why didn't you recommend including this amount of short-term debt in your true-up recommendation?

A. For the twelve months ending August 31, 2012, the monthly balances of short-term debt have not consistently exceeded CWIP. If this is the case, then ratepayers are not harmed because short-term debt costs instead of long-term capital costs are assumed to be to the first capital source to finance CWIP. Because CWIP is not included in rate base until the plant construction is completed, short-term debt is not used in the capital structure unless short-term debt exceeds the CWIP balances. Only the level of the short-term debt that exceeds CWIP should be included in the capital structure.

Q. Is there merit to evaluating the period since short-term debt was issued to retire a portion of the $500 million debt issuance?

A. Yes. This is why Staff is providing this alternative method.

Q. Did the difference between the balance of short-term debt and CWIP increase or decrease from July to August 2012?

A. The short-term debt balance decreased, while the CWIP balance increased, causing a decline in the difference.

Q. What is likely to occur during the period rates are in effect from this case?

A. I don't know. However, GPE recently filed its Form 10-Q Filing with the SEC for the period through September 30, 2012. As of September 30, 2012, the short-term debt balance ($458 million) was lower than the CWIP balance ($468 million), which causes Staff to continue to believe that short-term debt is primarily supporting CWIP balances.

Q. Did you include the collateralized note payable of $190 million in the balance of short-term debt?

A. No.

Q. What is a collateralized note payable?

A. This current liability reflects the funds KCPL and GMO receive by selling their accounts receivables.

Q. Should the collateralized note payable be included in the capital structure for purposes of the true-up in this case?

A. Not in this case. Because Staff did not consider this source of capital for purposes of its capital structure recommendation in the general rate case, Staff will not introduce it for purposes of true-up in this case. Staff will revisit the treatment of this issue in the next rate case.

Q. Can you please elaborate and explain the problem Mr. Gorman's approach would cause if it were adopted?

A. Yes. It has been Staff's long-standing policy, which is consistent with the Uniform System of Accounts, to require companies to capitalize their financing costs for CWIP based on the short-term debt interest rate to the extent short-term debt balances exceed CWIP balances. If the Commission were to adopt Mr. Gorman's recommendation to include $376 million of additional debt because this amount of long-term debt was refinanced with short-term debt, then this amount would need to be deducted from short-term debt balances to determine the allowable charges for allowance for funds used during construction ("AFUDC"). Based on GPE's average monthly balances for CWIP and short-term debt for July 2012 and August 2012, this would cause a need to determine AFUDC based on long-term capital costs because CWIP would exceed short-term debt by approximately $226.3 million.

Q. Although you are standing by your recommendation to not include short-term debt in the capital structure, if the Commission were to do so, what cost of short-term debt should the Commission apply to this capital component?

A. If the Commission accepts Staff's argument in the general rate case that the cost of long-term debt assigned to GMO should be adjusted downward, then Staff recommends the Commission use KCPL's average cost of short-term debt through August 31, 2012, of 1.49%. If the Commission does not accept Staff's adjustment in the general rate case, then the Commission should use a KCPL and GMO blended rate of 1.99%.

Q. How does the inclusion of short-term debt at the previously-mentioned costs impact your overall ROR recommendation?

A. Schedules 2 and 3 attached to my testimony show that my recommended ROR range would decrease by 13 to 14 basis points using a 1.49% cost of short-term debt and approximately 12 basis points using a 1.99% cost of short-term debt.

Q. Does this conclude your true-up rebuttal testimony?

A. Yes.

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
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement General Rate Increase for Electric Service	))))	Case No. ER-2012-0175

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 6 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

David Murray

Subscribed and sworn to before me this 13th day of November, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D. Suzie Mankin

Notary Public

Kansas City Power & LIght Company, Case No. ER-2012-0174
and
KCP&L Greater Missouri Operations Company, Case No. ER-2012-0175

Capital Structure as of August 31, 2012
Great Plains Energy

($ in 000's)

Capital Component		Dollar Amount	Percentage of Capital
Common Stock Equity	$	3,389,546	51.37%
Preferred Stock	$	39,000	0.59%
Long-Term Debt	$	3,020,412	45.77%
Short-Term Debt	$	149,700	2.27%
Total Capitalization	**$**	**6,598,658**	**100.00%**

Source: True-up data provided by KCPL via email on August 20, 2012
and KCPL's response to Staff Data Request No. 526.

SCHEDULE 1

Kansas City Power & LIght Company, Case No. ER-2012-0174
and
KCP&L Greater Missouri Operations Company, Case No. ER-2012-0175

Weighted Cost of Capital as of August 31, 2012 for KCP&L and KCP&L-GMO

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of: **8.00%**	**8.50%**	**9.00%**
Common Stock Equity	51.37%	-----	4.11%	4.37%	**4.62%**
Preferred Stock	0.59%	4.291%	0.03%	0.03%	**0.03%**
Long-Term Debt	45.77%	6.187%	2.83%	2.83%	**2.83%**
Short-Term Debt	2.27%	1.490%	0.03%	0.03%	**0.03%**
Total	**100.00%**		**7.00%**	**7.26%**	**7.51%**

Sources:

Schedules 1-3 attached to David Murray Surrebuttal Testimony and KCPL's responses to Staff Data Request Nos. 525 and 526.

Kansas City Power & LIght Company, Case No. ER-2012-0174
and
KCP&L Greater Missouri Operations Company, Case No. ER-2012-0175

Weighted Cost of Capital as of August 31, 2012 for KCP&L and KCP&L-GMO

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of: **8.00%**	**8.50%**	**9.00%**
Common Stock Equity	51.37%	-----	4.11%	4.37%	**4.62%**
Preferred Stock	0.59%	4.291%	0.03%	0.03%	**0.03%**
Long-Term Debt	45.77%	6.187%	2.83%	2.83%	**2.83%**
Short-Term Debt	2.27%	1.990%	0.05%	0.05%	**0.05%**
Total	**100.00%**		**7.01%**	**7.27%**	**7.53%**

Sources:

Schedules 1-3 attached to David Murray Surrebuttal Testimony and KCPL's responses to Staff Data Request Nos. 525 and 526.

SCHEDULE 3