

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-2010-0356*
Date Testimony Prepared: *February 22, 2011*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

DAVID MURRAY

**Great Plains Energy, Incorporated
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

FILE NO. ER-2010-0356

*Jefferson City, Missouri
February 2011*

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

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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 Commission
11 (“Staff”) and, in addition, was responsible for the section of the Staff’s Cost of Service Report
12 (“COS Report”) filed November 17, 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 capital
16 structure and embedded costs of capital. I will provide an updated overall rate of return (“ROR”)
17 recommendation based on these individual component updates.

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

19 A. I recommend a ROR range of 7.63 percent to 8.10 percent, with a midpoint ROR
20 of 7.86 percent. The cost of equity is normally not updated for purposes of a true-up ROR
21 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 lower. My recommended ROR range as of June 30, 2010, was 7.74 percent
5 to 8.22 percent, midpoint, 7.98 percent.

6 **CAPITAL STRUCTURE**

7 Q. What is your updated recommended ratemaking capital structure for KCP&L
8 Greater Missouri Operations Company (“GMO”)?

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

12 Q. What is the primary cause for the difference in GMO’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 GMO’s response to Staff Data Request No. 0159, it appears that GPE
18 used at least some of these funds for GMO’s financing needs.

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

21 A. GMO’s response to Staff Data Request No. 0159 indicates that GPE made a
22 decision to assign this debt to GMO’s operations because the total amount of this debt is
23 included with the rest of GMO’s debt even though it was issued by GPE.

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

2 Q. What is your recommended embedded cost of long-term debt for GMO as of the
3 true-up period in this case?

4 A. My embedded cost of long-term debt recommendation for GMO as of the true-up
5 period is 6.36 percent.

6 Q. If you used The Empire District Electric Company's ("Empire") embedded cost
7 of long-term debt as a proxy cost of debt for GMO as of the updated test year, why did this cost
8 of debt change?

9 A. Because Staff received Empire's embedded cost of debt information for the
10 period ending November 30, 2010, in File No. ER-2011-0004. Although this is not the exact
11 true-up period in this case, it is still before the end of the true-up date.

12 Q. Why did Empire's embedded cost-of-debt decrease between June 30, 2010, and
13 November 30, 2010?

14 A. Because Empire issued \$50 million of 30-year First Mortgage Bonds on
15 August 25, 2010 at a cost of 5.20 percent. Because this cost was below Empire's prior aggregate
16 embedded cost of long-term debt, this reduced Empire's aggregate embedded cost of
17 long-term debt.

18 **IMPACT OF GPE'S RECENT FINANCING ACTIVITIES**

19 Q. Although you continue to recommend using Empire's embedded cost of debt as a
20 proxy for GMO's cost of debt, do you believe GPE's financing activities between the updated
21 test year and true-up period may have an impact on Staff's approach for both KCPL's and
22 GMO's cost of debt in future rate cases?

1 A. Yes. Although GMO's response to Staff Data Request No. 0159 implies that
2 GPE's issuance of \$250 million of 2.75 percent 3-year bonds was for financing GMO's
3 operations, GPE's decision to reduce GMO's short-term debt balance as opposed to KCPL's
4 short-term debt can have an impact on the cost of debt embedded in either company's ROR.
5 This is something that the Staff will need to evaluate in subsequent cases.

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 re-evaluate its
9 approach in subsequent cases based on the manner in which GPE chooses to finance its KCPL
10 and 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
12 or merger, due to the commingling of financing activities after the transaction, this may no
13 longer be the best approach.

14 **COST OF MANDATORILY CONVERTIBLE EQUITY UNITS**

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

16 A. No.

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

18 A. Yes.

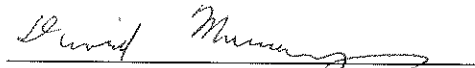
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L)
Greater Missouri Operations Company for)
Approval to Make Certain Changes in its) File No. ER-2010-0356
Charges for Electric Service)

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 4 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.

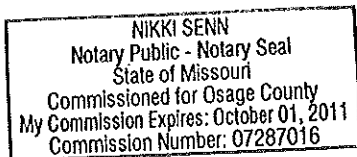


David Murray

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

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IN ITS ENTIRETY