Exhibit No.:
Issue: Credit Quality
Witness: Michael Cline
Type of Exhibit: Additional Supplemental Direct Testimony
Sponsoring Party: Great Plains Energy Incorporated and Kansas City Power & Light Company
Case No.: EM-2007-0374
Date Testimony Prepared: February 25, 2008

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-0374

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY

OF

MICHAEL W. CLINE

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri

"[redacted]**" Designates "Highly Confidential" Information Has Been Removed. Certain Schedules Attached to This Testimony Also Contain "Highly Confidential" Information and Have Been Removed Pursuant to 4 CSR 240-2.135.**

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY

OF

MICHAEL W. CLINE

Case No. EM-2007-0374

Q: Are you the same Michael W. Cline who submitted Direct, Supplemental Direct, and Surrebuttal testimony in this proceeding?

A: Yes, I am.

Q: What is the purpose of your testimony?

A: My testimony addresses the current request of Great Plains Energy Incorporated ("Great Plains Energy"), Kansas City Power & Light Company ("KCP&L"), and Aquila, Inc. ("Aquila") (collectively, "Joint Applicants") for treatment of interest costs on Aquila's debt, discusses a change in strategy regarding the refinancing of Aquila's debt, and comments on the credit rating implications of the Joint Applicants' proposal in its entirety, *i.e.*, including elements other than interest cost as described in the Additional Supplemental Direct Testimony of Terry Bassham and Chris Giles.

Q: Please summarize the Joint Applicants' current approach to interest costs.

A: As indicated in the Additional Supplemental Direct Testimony of Terry Bassham, the Joint Applicants are withdrawing their request for recovery of certain components of Aquila's actual debt interest cost. These include (1) high coupon rates in excess of investment-grade equivalent rates on certain debt issues incurred by Aquila during a period when its credit rating was under pressure due to unsuccessful non-regulated activities; and (2) debt repurchase costs related to the previously-contemplated refinancing by Great Plains Energy of most of Aquila's existing debt, as described in my Supplemental Direct Testimony in this proceeding.

Q: Please elaborate on the Joint Applicants' request with respect to high-coupon debt.

A: As described in my Supplemental Direct Testimony, Great Plains Energy will be acquiring all of Aquila's long-term debt, consisting of 15 separate issues totaling about $1.037 billion[1], through the proposed merger. Of the total portfolio, nine issues totaling about $53 million issued by Aquila were fully allocated to Aquila's Missouri operations at their actual coupon rates in Aquila's most recent rate case. Of the remaining Aquila debt, a total of about 60% was allocated to Aquila's Missouri operations in varying proportions for each of the six individual issues. Approximately $600 million of this debt was allocated at a blended interest rate of 6.78% (compared to an actual weighted average interest rate of 12.69%). The blended allocated rate reflected either (a) the actual all-in cost if the debt was issued when Aquila was still investment grade; or (b) the investment grade equivalent rate at the time of apportionment if the debt was issued when Aquila was not investment grade. The two issues that received the treatment in (b) included Aquila's $500 million, 14.875% Senior Notes and their $137.3 million, 9.95% Senior Notes. The Joint Applicants propose to use the established process for apportionments of the remaining debt in future rate cases as Aquila's Missouri rate base increases.

Q: What happens when the high-coupon debt matures and is refinanced?

[1] This is $50 million higher than indicated in my earlier testimony (see Cline Supplemental Direct, page 2, line 22), because Aquila reallocated funds to support necessary capital expenditures.

A: The Joint Applicants have withdrawn their request with respect to recovery of Aquila's actual debt interest based on past commitments made by Aquila with respect to certain specific debt issues. Once those issues mature and are refinanced by Aquila, which the Joint Applicants expect to be an investment-grade company following the merger, Aquila will file for recovery of actual interest costs of the replacement debt, and other debt it issues, in rates going forward.

Q: Please elaborate on the Joint Applicants' request with respect to recovery of debt repurchase costs.

A: Great Plains Energy's initial plan, as described in my Supplemental Direct Testimony in this proceeding, was to use a combination of cash remaining from the Black Hills sale and new hybrid debt issued by Great Plains Energy to retire all but one of Aquila's currently outstanding long-term debt issues, *i.e.*, the $500 million Senior Notes that mature in July 2012. As described in my testimony, by deploying this strategy, Aquila would have incurred approximately **[redacted]** million[2] in cost to repurchase the debt, of which about **[redacted]** million[3] would have been recognized in the first five years. The Joint Applicants' initial request included this cost in the total actual interest cost they sought to recover in rates; however, a re-evaluation of the Joint Applicants' position with respect to actual interest, as well as the collapse of the hybrid debt market in the last few months of 2007, led Great Plains Energy to reconsider the refinancing strategy previously articulated. Said another way, Great Plains Energy does not plan to move forward with refinancing any of Aquila's existing debt post-closing that would give rise to debt repurchase costs for which it would seek recovery from Missouri customers.

[2] Cline Supplemental Direct Testimony, page 12, line 14 to page 13, line 3.
[3] From response to Praxair Data Request No. 32

Q: Has Great Plains Energy quantified the impact of not recovering actual debt interest on the Aquila debt portfolio under the "no refinancing" assumption you've discussed?

A: Yes, we have. Schedule MWC-17 (HC) indicates that the difference between actual and regulatory debt interest costs, under the "no refinancing" assumption, as well as other assumptions regarding projected rate base growth at Aquila and debt apportionment methodology, is approximately $120 million over the 2008 – 2012 period.

Q: In your Supplemental Direct Testimony, you discussed the recovery of actual interest and the net debt reduction that would have resulted from the refinancing strategy you outlined as being key factors in achieving Great Plains Energy's objective of attaining an investment grade credit rating for Aquila post-closing. With these elements no longer part of your proposal, what is the expected impact on the credit ratings of Great Plains Energy, KCP&L, and Aquila?

A: In January 2008, Great Plains Energy asked Standard & Poor's ("S&P") and Moody's to evaluate, through their Ratings Evaluation Service ("RES") and Ratings Assessment Service ("RAS"), respectively, a regulatory proposal reflecting the revised approach to interest described above, along with other components described in the Additional Supplemental Direct Testimonies of Terry Bassham and Chris Giles. Copies of our presentations to S&P and Moody's are attached as Schedules MWC-18 (HC) and MWC-19 (HC), respectively. **[redacted]**

Q: Does that conclude your testimony?
A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc. for Approval of the Merger of Aquila, Inc. with a Subsidiary of Great Plains Energy Incorporated and for Other Requested Relief	)	**Case No. EM-2007-0374**

AFFIDAVIT OF MICHAEL W. CLINE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Michael W. Cline, being first duly sworn on his oath, states:

1. My name is Michael W. Cline. I work in Kansas City, Missouri, and I am employed by Great Plains Energy Incorporated as Vice President – Treasury and Investor Relations.

2. Attached hereto and made a part hereof for all purposes is my Additional Supplemental Direct Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of five (5) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Michael W Cline
Michael W. Cline

Subscribed and sworn before me this 25th day of February, 2008.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200

SCHEDULES MWC-17
THROUGH MWC-19

THESE DOCUMENTS CONTAIN
HIGHLY CONFIDENTIAL
INFORMATION NOT AVAILABLE
TO THE PUBLIC