

Exhibit No.:
Issue: Accounts Receivable
Witness: Michael W. Cline
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2010-____
Date Testimony Prepared: June 4, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-____

DIRECT TESTIMONY

OF

MICHAEL W. CLINE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
June 2010**

DIRECT TESTIMONY

OF

MICHAEL W. CLINE

Case No. ER-2010-_____

1 **Q: Please state your name and business address.**

2 A: My name is Michael W. Cline. My business address is 1200 Main Street, Kansas City,
3 Missouri 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am Vice President-Investor Relations and Treasurer of Great Plains Energy
6 Incorporated (“Great Plains Energy”), the parent company of Kansas City Power & Light
7 Company (“KCP&L” or the “Company”).

8 **Q: What are your responsibilities?**

9 A: My responsibilities include financing and investing activities, cash management, bank
10 relations, rating agency relations, financial risk management, investor relations, and
11 serving as a witness with regard to financing and capital markets-related matters in the
12 Company’s regulatory proceedings.

13 **Q: Please describe your education, experience and employment history.**

14 A: I graduated from Bradley University in 1983 with a B.S. in Finance, summa cum laude. I
15 earned an M.B.A. from Illinois State University in 1988. From 1984-1991, I was
16 employed by Caterpillar Inc. in Peoria, Illinois and held a number of finance and treasury
17 positions. From 1992-1993, I was Manager, International Treasury at Sara Lee
18 Corporation in Chicago, Illinois. From 1994-2000, I was employed by Sprint
19 Corporation in Overland Park, Kansas, initially as Manager, Financial Risk Management

1 and then as Director, Capital Markets. During most of 2001, I was Assistant Treasurer,
2 Corporate Finance, at Corning Incorporated in Corning, New York. I joined Great Plains
3 Energy in October 2001 as Director, Corporate Finance. I was promoted to Assistant
4 Treasurer in November 2002. During 2004, I was assigned to lead the Company's
5 Sarbanes-Oxley Act compliance effort on a full-time basis, though I retained the
6 Assistant Treasurer title during that time. I was promoted to Treasurer in April 2005 and
7 added the title of Chief Risk Officer in July 2005. In February 2008, I was named to my
8 current position as Vice President-Investor Relations and Treasurer. I am also a Level I
9 candidate for the Chartered Financial Analyst designation from the CFA Institute.

10 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
11 **Commission ("MPSC" or "Commission") or before any other utility regulatory**
12 **agency?**

13 A: Yes, I have previously provided testimony to the MPSC in Docket No. EO-2010-0259; in
14 the KCP&L Regulatory Plan, Docket No. EO-2005-0329 (the "Regulatory Plan"); in
15 KCP&L rate cases, Docket Nos. ER-2006-0314, ER-2007-0291, and ER-2009-0089; in
16 KCP&L Greater Missouri Operations rate cases, Docket Nos. ER-2009-0090, and HR-
17 2009-0092; and in the case involving Great Plains Energy's acquisition of Aquila, Docket
18 No. EM-2007-0374. I have also testified before the Kansas Corporation Commission in
19 KCP&L's cases filed in that jurisdiction with respect to these same matters.

20 **Q: What is the purpose of your testimony?**

21 A: In my testimony, I will support an adjustment related to accounts receivable sales fees as
22 referenced in the Summary of Adjustments attached as Schedule JPW2010-2 to the
23 Direct Testimony of KCP&L witness John P. Weisensee.

1 **Q: Briefly explain the structure of the sale of KCP&L's accounts receivable.**

2 A: The sale of KCP&L's receivables is structured as follows: (i) KCP&L sells all of its
3 electric receivables at a discount to Kansas City Power & Light Receivables Company
4 ("KCREC"), a wholly-owned subsidiary of KCP&L; (ii) KCREC then sells an undivided
5 interest in the receivables it purchased from KCP&L to a wholly-owned bankruptcy-
6 remote subsidiary of a bank ("Bank Conduit"), up to a maximum commitment of \$95
7 million; (iii) the Bank Conduit sells commercial paper to generate cash to pay KCREC
8 for the receivables it buys; (iv) KCREC uses the cash it receives from the Bank Conduit
9 to partially pay KCP&L for the receivables it purchased; (v) KCREC gives a promissory
10 note to KCP&L for an amount equal to the difference between the cash paid to KCP&L
11 and the total receivables it purchased from KCP&L; (vi) KCREC pays the Bank Conduit
12 (a) interest, *i.e.*, the Bank Conduit's cost of issuing commercial paper; (b) a Program Fee;
13 and (c) a Commitment Fee for any part of the facility that is unused; and (vii) KCREC
14 pays KCP&L interest on the promissory note. Currently, the Bank Conduit is Victory
15 Receivables Corporation, a wholly-owned subsidiary of the Bank of Tokyo Mitsubishi.

16 **Q: Why does KCP&L sell its accounts receivable in this manner?**

17 A: Selling accounts receivable in this manner is called an "A/R Securitization." It provides
18 KCP&L an attractive source of borrowing capacity and a means by which to diversify its
19 funding sources. KCP&L's financing cost for an A/R Securitization has traditionally
20 been competitive compared to other sources of funding. Also, because the structure is
21 executed with a single bank, it augments and preserves liquidity available to KCP&L
22 under its revolving credit facility.

1 **Q: How are fees calculated that are paid to the Bank Conduit?**

2 A: As described above, KCREC's monthly fees paid to the Bank Conduit as part of the A/R
3 Securitization are comprised of three components: interest, a Program Fee and a
4 Commitment Fee. Interest is calculated using the weighted average interest rate on the
5 commercial paper issued by the Bank Conduit, multiplied by the average amount of
6 commercial paper outstanding or projected during each calendar month, divided by 360,
7 multiplied by the number of days in the month. The Program Fee is fixed during the
8 stated term of the A/R Securitization and is calculated in the same manner as interest; Mr.
9 Weisensee's adjustments assumed a Program Fee of 105 basis points ("bps" – note that a
10 basis point is 1/100th of a percentage point, or 0.0001). The third component is a
11 Commitment Fee, which is an amount in bps multiplied by the monthly difference, if any,
12 between the \$95 million maximum commitment by the Bank Conduit and the actual
13 amount of receivables purchased by the Bank Conduit, divided by 360 and multiplied by
14 the number of days in the month. Mr. Weisensee's adjustments assumed a Commitment
15 Fee of 50 bps.

16 **Q: Why is the accounts receivable sales fees adjustment necessary?**

17 A: The adjustment is necessary to annualize fees incurred by KCREC based on projected
18 expenses for the 12-month period ending December 31, 2010 and to include those fees in
19 KCP&L's cost of service.

20 **Q: How was the annualized level determined?**

21 A: The annualized amount was determined by projecting 2010 fees, determined by
22 (a) calculating monthly interest, based upon projected rates for January 2010 through
23 December 2010, and a projected monthly advance amount of \$95 million throughout the

1 period; (b) calculating the monthly Program Fee based on a projected monthly advance
2 amount of \$95 million and a Program Fee Rate of 105 bps (the applicable level for the
3 A/R Securitization at the time the adjustments were prepared); and (c) calculating the
4 monthly Commitment Fee based upon a fee rate of 50 bps (again, the applicable level for
5 the A/R Securitization at the time the adjustments were prepared) and the difference, if
6 any, between the monthly Purchase Limit available to KCREC and the actual or projected
7 amount of monthly advances over the 12-month period. The sum of (a), (b), and (c)
8 represents the total projected bank fees for the 12 months ended December 2010.

9 **Q: What is the amount of annualized fees?**

10 A: The annualized fee amount is \$1,381,904, as reflected in adjustments CS-9 and CS-78 on
11 the Summary of Adjustments attached to the direct testimony of KCP&L witness John P.
12 Weisensee as Schedule JPW2010-2.

13 **Q: Does this conclude your testimony?**

14 A: Yes.

