Exhibit No.:	
Issue:	Capital Structure
Witness:	Michael W. Cline
Type of Exhibit:	True-Up Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2010-0355
Date Testimony Prepared:	February 28, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0355

TRUE-UP REBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
February 2011

TRUE-UP REBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

Case No. ER-2010-0355

Q: Please state your name and business address.

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

Q: Are you the same Michael W. Cline who prefiled direct, rebuttal and true-up direct testimony in this matter?

A: Yes.

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

A: The purpose of my testimony is to respond to comments made by Missouri Public Service Commission Staff ("Staff") witness David Murray in his True-Up Direct Testimony with regard to cost of debt for Kansas City Power & Light Company ("KCP&L" or "the Company") in this proceeding.

Q: Did Mr. Murray change his recommended cost of debt for KCP&L as a result of your True-Up Direct Testimony?

A: No. Mr. Murray and the Company are in agreement with respect to a cost of debt of 6.825 percent for KCP&L in this case.

Q: With what element(s) of Mr, Murray's testimony do you take issue?

A: Mr. Murray discusses on page 3 of his True-Up direct testimony a long-term debt offering by Great Plains Energy ("GPE") in the amount of $250 million and a coupon rate of 2.75 percent. The bonds were issued in August 2010, after the updated test year and before the true-up date in this proceeding. This offering was completed by GPE on behalf of KCP&L Greater Missouri Operations ("GMO") and the entire proceeds were loaned on an intercompany basis from GPE to GMO; therefore, KCP&L's cost of debt was not impacted by the transaction. Again, though Mr. Murray accepted this treatment for KCP&L in this case, he implies that GPE could have reduced KCP&L's cost of debt by "assigning" some of the debt to KCP&L rather than completing the offering fully on GMO's behalf. Citing on page 5 of his True-Up Direct Testimony the "commingling of financing activities [among KCP&L and GMO]," he puts the Commission on notice that Staff may consider using a consolidated cost of debt for ratemaking purposes for KCP&L and GMO in future cases. Mr. Murray also appears to suggest that, but for the impact of GMO on the GPE credit rating, the offering could have been completed at a more attractive rate, providing further support for a reevaluation of Staff's approach to cost of debt in future cases.

Q: Do you agree with Mr. Murray that KCP&L's and GMO's long-term debt financing activities are "commingled"?

A: No. KCP&L is a registrant with the Securities and Exchange Commission ("SEC"), has its own credit ratings and issues public, registered debt in its own name in the capital markets. GMO's need for long-term debt in August 2010, the first since the July 2008 acquisition by GPE, was met through a bond offering by GPE. The net proceeds received by GPE were loaned in their entirety to GMO on virtually identical terms to the third party parent company debt.

Q: Why did GPE issue the debt on GMO's behalf rather than GMO just issuing debt on its own?

A: GPE has made the decision not to establish GMO as an SEC registrant, which therefore means that GMO cannot issue publicly-registered securities in its own name. While other alternatives are available whereby GMO could be the obligor on externally-issued debt (for example, private placement), GPE to date has not found the indicative terms and cost of these alternatives to be as attractive as the structure utilized last August.

Q: What created "GMO's need for long-term debt" that you referenced earlier?

A: GMO's short-term borrowing levels early in the third quarter were approximately 70 percent of GMO's $400 million capacity under its revolving credit facility. Based on cash flow projections, GMO saw little opportunity for a reduction in short-term balances based upon available cash from operations over a reasonable planning horizon; in fact, GMO's cash forecast indicated that its availability under its revolving credit facility would be exhausted by early 2011, absent other actions. As such, a long-term offering to enable GMO to repay short-term debt in the third quarter 2010 was deemed appropriate.

Q: Was a long-term debt offering to repay short-term debt contemplated in the projected capital structure and cost of debt GMO requested in Case No. ER-2010-0356 ("the 356 Docket")?

A: Yes.

Q: Did KCP&L face similar pressure on its liquidity in this timeframe?

A: No. KCP&L's total revolving credit capacity is $600 million. KCP&L's short-term debt outstanding during the third quarter of 2010 ranged between 35 percent and 54 percent of its total revolving credit capacity.

Q: Were there refinancing needs or any other factors at KCP&L that would have warranted issuance of long-term debt at that time?

A: No.

Q: Beginning on page 4, line 8 of his True-Up Direct Testimony, Mr. Murray mentions funding received by KCP&L through the GPE money pool during the third quarter 2010, implying that this would have supported allocation by GPE of a portion of the long-term debt offering completed on GMO's behalf. How do you respond?

A: The money pool borrowings by KCP&L are irrelevant to this argument, as evidenced by a brief discussion of the operation of the money pool. GMO's short-term borrowings are of a fixed term, typically 30 days in duration. Once those borrowings are made, GMO incurs a cost (a "breakage fee") if it elects to repay the debt before the due date. As such, excess cash generated by GMO on any given day cannot necessarily be used to reduce its short-term debt on a real-time basis. The money pool was established primarily to enable GMO to lend temporary excess cash to the pool, at an "arm's length" rate, and for those funds to be available to KCP&L in lieu of external borrowings for a short period of time, i.e., until GMO needs the cash to be returned to repay short-term debt on a maturity date or for other purposes.

Q: Are there other elements of Mr. Murray's testimony with which you take issue?

A: Yes. Beginning on page 4, line 18 and extending through page 5, line 5, Mr. Murray comments on the impact of the "financially strained GMO operations" on the cost of the debt issued by GPE in August 2010, and states that this debt "could have been issued at an even lower cost" if GPE's credit rating were higher. It is unclear to me why Mr.

Murray elected to discuss this in the current KCP&L case rather than in the 356 Docket. Nonetheless, I strongly object to his premise and will respond here.

Q: Why is Mr. Murray's approach not appropriate?

A: Mr. Murray's propensity has been to assert that financing costs incurred by KCP&L, GMO and GPE are higher because of "financially-strained" GMO operations. He used this as a basis to recommend a lower recovery for the cost of GPE's Equity Units in this proceeding. My previous testimony in this case demonstrated that Mr. Murray's arguments were not relevant in that context by providing strong evidence that the cost of Equity Units is a function of the issuer's dividend yield, not the issuer's credit rating. In that testimony, I expressed disagreement with Mr. Murray's assertions regarding the credit impact of GMO but did not elaborate since credit was not relevant to the issue. However, his comments with regard to the Equity Units and again with regard to cost of debt for KCP&L foreshadow an approach to cost of debt that would be inappropriate and not in keeping with the spirit of the Commission's decision in Case No. EM-2007-0374 ("the Merger Case") to authorize GPE's acquisition of Aquila, Inc. If the Commission were to move in the direction to which Mr. Murray alludes in future cases, KCP&L and GMO could be prevented from recovering their actual financing costs as long as GMO's credit rating is different from the subjective level Staff determines is correct, whether based on a past credit rating of Aquila or compared to its sister company, KCP&L. KCP&L and GMO would strongly object to adoption of such an approach.

Q: Why would Staff's approach be inconsistent with the spirit of the Commission's decision in the Merger Case?

A: The expected credit implications of GPE's acquisition of GMO were well-documented in the Merger Case. The Commission approved the transaction with the expectation and understanding that GMO would be investment grade but that its ratings, at least initially, would be lower than KCP&L's. See Report and Order, Merger Case at pp. 128-38, 242-243, 248-50. These are the exact results that have, in fact, transpired as a result of GPE's effective management of GMO's credit profile (in the midst of the most challenging economic conditions in three generations). GMO is investment grade at both rating agencies and GMO's ratings at S&P and Moody's are exactly the same as they were on the acquisition date. Accordingly, it would be inappropriate for Staff to base its cost of capital recommendations on a credit profile that "was" or "could be." GPE's coupon rate for the August 2010 offering on behalf of GMO was 2.75 percent based on investors' view of its current credit profile and that is the coupon rate GMO is seeking to recover in the 356 Docket. Similarly, KCP&L seeks in this proceeding to recover the actual cost of the debt it has issued (or in one unique circumstance, received funding through a parent company issuance). KCP&L and GMO would strongly oppose, and would ask the Commission to reject, any approach going forward that would deviate from ratemaking based upon recovery of actual long-term debt cost incurred by the Companies.

Q: Is it not true that a hypothetical cost of debt is used for GMO for ratemaking purposes at the present time?

A: Yes, that is true. However, that treatment is necessitated by a past commitment by Aquila management and relates only to a single outstanding debt issue. This will no longer be applicable when the debt in question matures in 2012. I discuss this in greater detail in my True-Up Rebuttal Testimony in the 356 Docket.

Q: What final thoughts do you have regarding a potential reevaluation by Staff of its approach to cost of debt in future cases?

A: KCP&L and GMO are separate legal entities, do not commingle their respective long-term debt financing activities and will not commingle these activities as long as they remain separate entities. The Companies will therefore oppose any methodology for cost of debt that is inconsistent with the actual cost incurred by the Companies.

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 Application of Kansas City)
Power & Light Company to Modify Its Tariffs to) Docket No. ER-2010-0355
Continue the Implementation of Its Regulatory Plan)

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, the parent company of Kansas City Power & Light Company as Vice President-Investor Relations and Treasurer.

2. Attached hereto and made a part hereof for all purposes is my True-Up Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of Seven (7) 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 28th day of February, 2011.

ANNETTE G. CARTER
Notary Public - Notary Seal
Comm. Number 09779753
STATE OF MISSOURI
Jackson County
My Commission Expires: Oct. 6, 2013

Annette G Carter
Notary Public

My commission expires: Oct 6, 2013