

Exhibit No.:
Issues: Rate of Return, Cost of Capital
Witness: Matthew J. Barnes
Sponsoring Party: MoPSC Staff
Type of Exhibit: True-Up Direct Testimony
Case No.: ER-2006-0314
Date Testimony Prepared: November 7, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

MATTHEW J. BARNES

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

FILED²

NOV 17 2006

Missouri Public
Service Commission

Jefferson City, Missouri
November 2006

Staff Exhibit No. 153
Case No(s) ER-2006-0314
Date 11/16/06 Rptr MV

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City)
Power & Light Company for Approval to Make)
Certain Changes in its Charges for Electric Service)
to Begin the Implementation of Its Regulatory Plan.)

Case No. ER-2006-0314

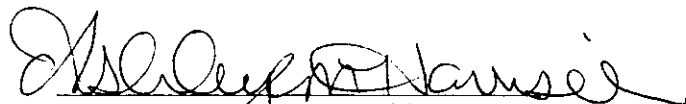
AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Matthew Barnes, 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 3 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.


Matthew J. Barnes

Subscribed and sworn to before me this 6th day of NOVEMBER 2006.


Notary Public



ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Coke County
Commission #06898978

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MATTHEW J. BARNES
CASE NO. ER-2006-0314

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1 **TRUE-UP DIRECT TESTIMONY**

2 **OF**

3 **MATTHEW J. BARNES**

4 **KANSAS CITY POWER AND LIGHT COMPANY**

5 **CASE NO. ER-2006-0314**

6 Q. Please state your name.

7 A. My name is Matthew J. Barnes.

8 Q. Are you the same Matthew J. Barnes who filed direct, rebuttal, and surrebuttal
9 testimony in this proceeding for the Staff of the Missouri Public Service Commission (Staff)?

10 A. Yes, I am.

11 Q. In your direct testimony, did you provide your expert opinion on what you
12 considered to be a fair and reasonable rate-of-return on the Missouri jurisdictional electric
13 utility rate base for Kansas City Power & Light (KCP&L or Company)?

14 A. Yes, I did.

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

16 A. The purpose of my true-up direct testimony is to provide the Commission the
17 updated capital structure, embedded cost of long-term debt and overall rate of return as of
18 September 30, 2006 for KCP&L.

19 **KCP&L'S CAPITAL STRUCTURE AS OF SEPTEMBER 30, 2006**

20 Q. Please explain Staff's updated capital structure.

1 A. As of September 30, 2006, KCP&L's capital structure consisted of
2 53.69 percent equity, 1.53 percent preferred stock, and 44.79 percent long-term debt. Please
3 see Schedule 1.

4 Q. Did the embedded cost of long-term debt change as of September 30, 2006?

5 A. Yes. KCP&L's embedded cost of long-term debt as of September 30, 2006,
6 was calculated by the company to be 6.21 percent. Please see Schedule 2.

7 Q. Why did KCP&L's embedded cost of long-term debt increase since June 30,
8 2006?

9 A. KCP&L's embedded cost of long-term debt increased because of the increase
10 in interest rates associated with their interest rate management products. The increase of the
11 embedded cost of long-term debt caused Staff's rate of return to increase 10 basis points.
12 Staff now recommends a rate of return for KCP&L in the range of 7.85 percent to
13 7.90 percent.

14 Q. Did the embedded cost of preferred stock change as of September 30, 2006?

15 A. No. The embedded cost of preferred stock as of September 30, 2006, remained
16 the same at 4.29 percent.

17 Q. Did Staff change its method of determining the true-up capital structure and
18 long-term debt amounts?

19 A. No. Staff did not change its method of determining the true-up capital
20 structure and long-term debt amounts.

21 Q. Does Staff still recommend a return on equity (ROE) in the range of
22 9.32 percent to 9.42 percent with a mid-point of 9.37 percent?

23 A. Yes. Please see Schedule 3.

1 **SUMMARY AND CONCLUSIONS**

2 Q. Please summarize the conclusions of your true-up direct testimony.

3 A. My recommended cost of common equity, which is in the range of
4 9.32 percent to 9.42 percent, would produce a fair and reasonable rate of return of
5 7.85 percent to 7.90 percent for KCP&L's Missouri jurisdictional electric utility rate base.

6 Q. Does this conclude your true-up direct testimony?

7 A. Yes, it does.

Kansas City Power and Light Company
Case No. ER-2006-0314

Capital Structure as of September 30, 2006
Great Plains Energy

| Capital Component | Dollar Amount (000's) | Percentage of Capital |
|-----------------------------|----------------------------------|----------------------------------|
| Common Stock Equity | \$ 1,372,092 | 53.69% |
| Preferred Stock | \$ 39,000 | 1.53% |
| Long-Term Debt | \$1,144,565 | 44.79% |
| Short-Term Debt | \$ - | 0.00% |
| Total Capitalization | \$ 2,555,657 | 100.00% |

Electric Financial Ratio Benchmark
Total Debt / Total Capital

| | |
|--|--|
| Standard & Poor's Corporation's RatingsDirect, | <u>BBB Credit Rating based on a "6" Business Profile</u> |
| Revised Financial Guidelines as of June 2, 2004 | 48% to 58% |

Notes: 1. Long-term Debt at September 30, 2006 includes current maturities of long-term debt. This balance also includes the amount of non-regulated debt. These balances were provided in KCP&L's response to DR 0552

2. Short-term debt balance net of construction work in progress (CWIP) was negative as of September 30, 2006. Therefore, no short-term debt is included in the capital structure.

Source: Kansas City Power and Light's response to Staff's Data Request No. 0552

**Kansas City Power and Light
ER-2006-0314**

**KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY
Weighted Average Cost of Long-Term Debt Capital
At September 30, 2006**

| Line | Issue | (a) Initial Offering | (b) Date of Offering | (c) Date of Maturity | (d) Price to Public | (e) Underwriters Discounts & Commissions | (f) Issuance Expense | (g) Net Proceeds to Company | (h) Cost to Company | (i) Long-term Debt Capital Outstanding | (j) Annual Cost of Long-term Debt Capital |
|--|--|----------------------------|----------------------------|----------------------------|---------------------------|---|----------------------------|-----------------------------------|---------------------------|---|--|
| KANSAS CITY POWER & LIGHT ONLY | | | | | | | | | | | |
| General Mortgage Bonds | | | | | | | | | | | |
| 1 | Medium Term Notes - Series C (1) | \$150,000,000 | Various | Various | \$150,000,000 | \$968,050 | \$572,926 | (2) \$148,459,024 | 8.085% | \$500,000 | \$40,427 |
| Pledged General Mortgage Bonds | | | | | | | | | | | |
| 2 | EIRR 1992 Series | \$31,000,000 | 9/15/1992 | 7/1/2017 | | | | | | \$31,000,000 | \$1,142,040 |
| 3 | EIRR Hawthorn 1993 Series - 4.0% Coupon | \$12,366,000 | 10/14/1993 | 1/2/2012 | | | | | | \$12,366,000 | \$519,619 |
| 4 | MATES Series 1993-A | \$40,000,000 | 12/7/1993 | 12/1/2023 | | | | | | \$40,000,000 | \$1,446,400 |
| 5 | MATES Series 1993-B | \$39,480,000 | 12/7/1993 | 12/1/2023 | | | | | | \$39,480,000 | \$1,415,358 |
| 6 | EIRR La Cygne 1994 Series - 4.05% Coupon | \$13,982,500 | 2/23/1994 | 3/1/2015 | | | | | | \$13,982,000 | \$593,536 |
| | EIRR La Cygne 1994 Series - 4.85% Coupon | \$21,940,000 | 2/23/1994 | 9/1/2035 | | | | | | \$21,940,000 | \$1,055,972 |
| Unsecured Notes | | | | | | | | | | | |
| 7 | Senior Notes Due 2007 - 6% (3) | \$225,000,000 | 3/13/2002 | 3/15/2007 | \$224,538,750 | \$1,350,000 | \$327,659 | \$222,861,091 | 6.325% | \$225,000,000 | \$14,232,304 |
| 8 | Senior Notes Due 2011 - 6.5% Coupon (4) | \$150,000,000 | 3/20/2001 | 11/15/2011 | \$150,000,000 | \$1,188,500 | \$50,000 | \$148,751,500 | 6.697% | \$150,000,000 | \$10,045,902 |
| 9 | Senior Notes Due 2035 - 6.05% Coupon (5) | \$250,000,000 | 11/17/2005 | 11/15/2035 | \$250,000,000 | \$2,187,500 | \$150,000 | \$247,662,500 | 6.146% | \$250,000,000 | \$15,365,776 |
| Environmental Improvement Revenue Refunding Bonds | | | | | | | | | | | |
| 11 | Series 1998-A Due 2015-4.75% Coupon | \$56,500,000 | 8/11/1998 | 9/1/2015 | | | | | | \$56,500,000 | \$2,698,440 |
| 13 | Series 1998-B Due 2015-4.75% Coupon | \$50,000,000 | 8/11/1998 | 9/1/2015 | | | | | | \$50,000,000 | \$2,387,000 |
| 14 | Series 1998-C Due 2035-4.65% Coupon | \$50,000,000 | 8/11/1998 | 9/1/2035 | | | | | | \$50,000,000 | \$2,418,500 |
| 15 | Series 1998-D Due 2017-4.75% Coupon | \$40,000,000 | 8/11/1998 | 10/1/2017 | | | | | | \$40,000,000 | \$1,909,744 |
| Other Long-Term Debt | | | | | | | | | | | |
| 17 | Unamortized Discount on Senior Notes | | | | | | | | | (1,461,104.12) | \$0 |
| 19 | Loss/(Gain) on Required Debt | | | | | | | | | \$0 | \$ 815,805 |
| 20 | Weighted Cost of Interest Rate Management Products | | | | | | | | | \$0 | \$991,236 |
| 21 | | | | | | | | | | | |
| 22 | Total KCP&L Long-Term Debt Capital | | | | At September 30, 2006 | | | | | <u>\$979,306,896</u> | <u>\$57,078,059</u> |
| 23 | | | | | | | | | | | |
| 24 | KCP&L Weighted Avg. Cost of Long-Term Debt Capital | | | | At September 30, 2006 | | | <u>5.828%</u> | | | |

**Kansas City Power and Light
ER-2006-0314**

KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY

Weighted Average Cost of Long-Term Debt Capital

At September 30, 2006

| Line | Issue | (a) Initial Offering | (b) Date of Offering | (c) Date of Maturity | (d) Price to Public | (e) Underwriters Discounts & Commissions | (f) Issuance Expense | (g) Net Proceeds to Company | (h) Cost to Company | (i) Long-term Debt Capital Outstanding | (j) Annual Cost of Long-term Debt Capital |
|---------------------------------|---|----------------------------|----------------------------|----------------------------|---------------------------|---|----------------------------|-----------------------------------|---------------------------|---|--|
| GREAT PLAINS ENERGY ONLY | | | | | | | | | | | |
| <u>Unsecured Notes</u> | | | | | | | | | | | |
| 1 | FELINE PRIDES | \$163,600,000 | 6/14/2004 | 2/16/2009 | \$163,600,000 | \$1,063,400 | \$129,976 | \$162,406,624 | 8.471% | \$163,600,000 | \$13,858,279 |
| <u>Affordable Housing Notes</u> | | | | | | | | | | | |
| 2 | Missouri Affordable Housing Fund IX - NDH | \$3,907,767 | 3/30/1999 | 10/1/2008 | | | | | | \$1,351,524 | \$102,716 |
| 3 | Boston Financial Tax Credit Fund I - NDH | \$1,481,000 | 3/30/1999 | 10/1/2006 | | | | | | \$306,681 | \$23,308 |
| | | | | | | | | | | \$1,658,205 | \$126,024 |
| 4 | | | | | | | | | | | |
| 5 | Total GPE Only Long-Term Debt Capital | | | | At September 30, 2006 | | | | | \$165,258,205 | \$13,984,303 |
| 6 | | | | | | | | | | | |
| 7 | GPE Only Weighted Avg. Cost of Long-Term Debt Capital | | | | At September 30, 2006 | | | 8.462% | | | |

GREAT PLAINS ENERGY

| | | | |
|--|-----------------------|-----------------|--------------|
| Total GPE Long-Term Debt Capital | At September 30, 2006 | \$1,144,565,101 | \$71,062,362 |
| GPE Weighted Avg. Cost of Long-Term Debt Capital | At September 30, 2006 | 6.209% | |

- (1) Expenses associated with the Series C Medium Term Note issue are being amortized monthly over a 12 year period.
(2) Costs associated with the early issuance of Series C and Series D Medium Term Notes for refunding Series B Medium Term Notes and First Mortgage Bonds in April and May 1993 have been added to Issuance Expenses.
(3) Expenses associated with the Senior Notes, Series A issue are being amortized monthly over a 5 year period.
(4) Expenses associated with the Senior Notes issue are being amortized quarterly over a 10 year period.
(5) Projected - Expenses associated with the Senior Notes issue are being amortized quarterly over a 30 year period.

Kansas City Power and Light Company
Case No. ER-2006-0314

Weighted Cost of Capital as of September 30, 2006
for Kansas City Power and Light Company

| Capital Component | Percentage of Capital | Embedded Cost | Weighted Cost of Capital Using Common Equity Return of: | | |
|---------------------|--------------------------|------------------|--|--------------|--------------|
| | | | 9.32% | 9.37% | 9.42% |
| Common Stock Equity | 53.69% | — | 5.00% | 5.03% | 5.06% |
| Preferred Stock | 1.53% | 4.29% | 0.07% | 0.07% | 0.07% |
| Long-Term Debt | 44.79% | 6.21% | 2.78% | 2.78% | 2.78% |
| Short-Term Debt | 0.00% | | | | |
| Total | <u>100.00%</u> | | <u>7.85%</u> | <u>7.88%</u> | <u>7.90%</u> |

Notes:

Embedded Cost of Long-Term Debt and Embedded Cost of Preferred Stock Taken from Response to DR 0552.