Exhibit No.:	
Issue:	Additional Amortizations
Witness:	Michael W. Cline
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2006-0314
Date Testimony Prepared:	September 8, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2006-0314

REBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
September 2006

REBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

Case No. ER-2006-0314

Q: Please state your name and business address.

A: My name is Michael W. Cline. My business address is 1201 Walnut, Kansas City, Missouri 64106.

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

A: I am employed by Great Plains Energy Incorporated as Treasurer and Chief Risk Officer. I hold the same title at Kansas City Power & Light Company ("KCPL" or "Company"), a subsidiary of Great Plains Energy.

Q: Are you the same Michael W. Cline who pre-filed direct testimony in this case?

A: Yes, I am.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to counter the Direct Testimony of witness Steve M. Traxler of the Missouri Public Service Commission ("MPSC" or "Commission") Staff with respect to the appropriate balance between Return on Equity and the Additional Amortizations that are available to KCPL in this case pursuant to Paragraph III(B)(1)(i) of the Stipulation and Agreement ("Stipulation"), which was approved by the Commission in its July 28, 2005 Report and Order in Case No. EO-2005-0329.

Q: What is the essence of Mr. Traxler's testimony on this topic?

A: In his Direct Testimony (Page 20, Line 20 to Page 21, Line 7), Mr. Traxler correctly asserts that, *"Under the Experimental Regulatory Plan Stipulation and Agreement, ratepayers receive a rate base offset for any amortization resulting from the financial ratio benchmark analysis. This lowers KCPL's revenue requirement in future rate cases."* He further states, again correctly, that if KCPL is able to meet the benchmark financial ratios by obtaining rate relief from the Commission under traditional cost of service ratemaking, then "*the additional amortization mechanism is not activated and KCPL's rate base would not be reduced in KCPL's next rate case as a result of this rate case."* Because of the difference in rate base impact, Mr. Traxler concludes, *"KCPL has an incentive to maximize its requested return on equity, for the purpose of avoiding an amortization, resulting from the financial benchmark ratio analysis."*

Q: With what element(s) of Mr. Traxler's testimony do you disagree?

A: Mr. Traxler correctly describes the impact of the Additional Amortizations mechanism on KCPL's rate base. However, I disagree with his conclusion that this mechanism creates an incentive for KCPL to maximize its requested return on equity.

Q: Why do you disagree with Mr. Traxler's conclusion?

A: Mr. Traxler's conclusion assumes that the return on equity granted through traditional cost of service ratemaking and the Additional Amortizations mechanism available to KCPL are interchangeable, i.e., freely substitutable for one another. Based on that erroneous assumption, he further concludes that KCPL will be motivated to request an inflated return on equity in order to avoid triggering the Additional Amortizations mechanism. These conclusions are incorrect. The Additional Amortizations mechanism was not designed as a substitute for fair, traditional cost of service ratemaking.

Determination of an appropriate return on equity commensurate with KCPL's risk profile was a cornerstone of the Stipulation and is an essential element of this rate case. In his Direct and Rebuttal Testimony, KCPL witness Dr. Samuel C. Hadaway has made thorough, compelling and well-supported arguments that an 11.5% return on equity is an appropriate level for the Company. Dr. Hadaway's recommended level of return on equity is independent of the existence of the Additional Amortizations mechanism.

Q: **How was the Additional Amortizations mechanism designed to be used?**

A: The mechanism was developed for a very specific purpose: To provide KCPL with an amount of incremental cash flow needed to attain certain key credit ratio thresholds, *to the extent that cash flow provided through rate relief was otherwise insufficient for this purpose*. The mechanism was not contemplated to be a substitute for an appropriate and fair level of rate relief derived through the traditional ratemaking process. It was negotiated by the parties to Case No. EO-2005-0329 as a compromise to reflect (a) the common recognition of the importance of credit quality to KCPL; and (b) the legal framework which I understand prevents the Commission from setting return on equity levels outside a rate case that would have provided creditor and equity investor comfort.

Q: **What are the consequences to equity investors of over-reliance on Additional Amortizations at the expense of return on equity and other means of rate relief?**

A: As stated above, the sole purpose of the Additional Amortizations mechanism is to ensure that KCPL maintains target levels for certain key credit metrics, thereby increasing the likelihood of maintaining an investment grade credit rating from its rating agencies. As such, it is a mechanism structured primarily for the benefit of bondholders and other creditors. It does not address, however, the fundamental concern of equity investors.

While equity investors are encouraged by a utility's ability to maintain its credit rating, they are much more focused on a utility's ability to earn a fair return over time. During this period when KCPL will be funding a significant level of capital expenditures with contributions from Great Plains Energy's issuance of common stock, it is important that the investment community have confidence in Missouri's regulatory process. A just, fair, and reasonable outcome will improve investor risk perception and ensure KCPL's access to capital on attractive terms.

Q: How would rating agencies and creditors likely view an outcome that favors Additional Amortizations over traditional forms of rate relief?

A: Rating agencies and creditors, while taking a positive view of KCPL's ability to maintain a targeted level of credit metrics through the Additional Amortizations, if needed, would likely view the Company's creditworthiness with considerable concern and caution if the regulatory process were to result in heavy reliance on amortizations at the expense of rate relief. In a July conference call with parties to the Company's case in both Missouri and Kansas, Standard & Poor's ("S&P") indicated that, while they had been encouraged with the tone of regulatory support and focus on credit quality that had pervaded the development of the Regulatory Plan, they would be watching the outcome of the current case for concrete evidence of that continued support as they re-evaluate the Company's Business Risk Profile and its ratings. An outcome consisting of an over-reliance on Additional Amortizations at the expense of return on equity and other means of rate relief would severely taint the credibility of the process to date and we would expect the Company's ratings to reflect that.

Q: What would be the impact on ratepayers?

A: Ratepayers are disadvantaged in the short-run if a high level of cash flow for financing is provided through Additional Amortizations rather than the cash being sourced through traditional ratemaking. This concept is illustrated in the attached Schedule MWC-3. The Schedule illustrates two scenarios for financing a $1 million capital expenditure. The first solves for the mix of equity and debt required to generate the necessary earnings needed to reach an FFO to Total Debt ratio of 25% <u>without Additional Amortizations</u>. The second scenario assumes the expenditure is financed with 100% debt. Since there are no marginal earnings under this scenario, <u>full reliance on Additional Amortizations</u> is required in order to maintain a 25% FFO to Total Debt ratio. The resulting Additional Amortizations amount is $400,000, or 40% of the expenditure amount. *The revenue requirement in the second scenario is over 300% greater than that of the scenario with no Additional Amortizations.*

Q: Does that conclude your testimony?

A: Yes, it does.

Schedule MWC-3
Impact of Financing on Revenue Requirements

	Equity Financing	Debt Financing
Capital Investment	1,000,000	1,000,000
Equity Financing	684,932	
Debt Financing	315,068	1,000,000
Total Financing	1,000,000	1,000,000
Return on Equity	11.50%	11.50%
Earnings	78,767	-
Amortization		400,641
Deferred Taxes	-	(150,641)
Funds from Operations	78,767	250,000
FFO / Debt Ratio	25%	25%
Interest Rate	6%	6%
Interest Expense	18,904	60,000
Tax Rate	37.60%	37.60%
Total Income Taxes	47,462	-
Deferred Taxes	-	(150,641)
Current Taxes	47,462	150,641
Revenue Requirement	**145,133**	**460,641**
Proof		
Revenue	145,133	460,641
Amortization	-	400,641
Interest Expense	18,904	60,000
Pre-tax Income	126,229	-
Income Taxes	47,462	-
Earnings	78,767	-

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 Tariff to	)	Case No. ER-2006-0314
Begin 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 Incorporated and Kansas City Power & Light Company as Treasurer and Chief Risk Officer.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of five (5) pages and Schedule MWC-3, 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 8th day of September 2006.

Nicole A. Wehry

Notary Public

My commission expires: Feb. 4, 2007

NICOLE A. WEHRY
Notary Public - Notary Seal
STATE OF MISSOURI
Jackson County
My Commission Expires: Feb. 4, 2007