Exhibit No.:	
Issue:	Finance
Witness:	Michael W. Cline
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	HR-2009-0092
Date Testimony Prepared:	March 13, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: HR-2009-0092

REBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS

Kansas City, Missouri
March 2009

"[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.**

REBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

Case No. HR-2009-0092

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 ("Great Plains Energy"), the parent company of KCP&L Greater Missouri Operations Company ("GMO"), as Vice President, Investor Relations and Treasurer.

Q: What are your responsibilities?

A: My responsibilities include financing and investing activities, cash management, bank relations, rating agency relations, financial risk management, and investor relations.

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

A: I graduated from Bradley University in 1983 with a B.S. in Finance, summa cum laude. I earned an MBA from Illinois State University in 1988. From 1984-1991, I was employed by Caterpillar Inc. in Peoria, Illinois and held a number of finance and treasury positions. From 1992-1993, I was Manager, International Treasury at Sara Lee Corporation in Chicago, Illinois. From 1994-2000, I was employed by Sprint Corporation in Overland Park, Kansas, initially as Manager, Financial Risk Management and then as Director, Capital Markets. During most of 2001, I was Assistant Treasurer, Corporate Finance, at Corning Incorporated in Corning, New York. I joined Great Plains Energy in October

2001 as Director, Corporate Finance. I was promoted to Assistant Treasurer in November 2002. During 2004, I was assigned to lead the company's Sarbanes-Oxley Act compliance effort on a full-time basis, though I retained the Assistant Treasurer title during that time. I was promoted to Treasurer in April 2005 and added the title of Chief Risk Officer in July 2005. In February 2008, I was named to my current position as Vice President, Investor Relations and Treasurer.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission or before any other utility regulatory agency?

A: Yes. I have previously testified before the Missouri Public Service Commission ("the Commission") in the Kansas City Power & Light Company ("KCP&L") Regulatory Plan case EO-2005-0329, in KCP&L rate cases ER-2006-0314, ER-2007-0291, and ER-2009-0089, in GMO-MPS and GMO-L&P Electric's rate case ER-2009-0090, and in the case involving Great Plains Energy's acquisition of Aquila, Inc. ("Aquila"), case EM-2007-0374. I have also submitted testimony to the State Corporation Commission of the State of Kansas for KCP&L's cases filed in that jurisdiction with respect to these matters.

Q: What is the purpose of your Rebuttal Testimony?

A: My testimony is in two sections. In Section 1, I address comments in the Staff's February 13, 2009 Cost of Service Report ("Staff's Report") regarding the impact of the adverse economic and financial market conditions on the cost of debt for utility companies. I also address Staff's recommended capital structure in this case, as well as refute Staff's approach to determining the cost of debt for GMO-L&P Steam ("SJLP Steam"). In Section 2, I recommend that the Commission reject Staff's imputation of an accounts receivable ("A/R") sales program for SJLP Steam, as described on pages 80-81 of Staff's Report.

Section 1

Q: What is the purpose of this section of your testimony?

A: In this section, I address statements in Staff's Report concerning the impact of the adverse economic and financial market conditions on the cost of debt for utility companies.

Q: What assertions does Staff make about the cost of debt for utility companies in the midst of the current credit crisis?

A: Staff's Report states the following:

> … it appears that the cost of capital for utility companies is returning to levels prior to the credit crisis. Another issue mentioned in the [January 13, 2009 Wall Street Journal article entitled "Bonds a Bright Spot for Utilities in '08"] article is that, although the spreads over U.S. Treasury's [sic] for recent utility bond issuances have been high, much of these high spreads can be attributed at least in part to the extremely low rates on U.S. Treasury bonds. Consequently, while utility bond risk premiums over U.S. Treasury bonds have increased, because yields on U.S. Treasury bonds have decreased dramatically, this doesn't necessarily mean that the overall cost of capital to utilities has increased that much *[Staff Report, page 17]*.

Q: Do you agree with Staff's position?

A: Definitely not. I will leave the discussion of the impacts of the economic and financial market meltdown on utilities' overall cost of capital largely to Dr. Samuel C. Hadaway, SJLP Steam's cost of capital witness. However, with respect to the debt capital markets, the current findings of SJLP Steam's sister company, KCP&L, as it considers issuance of new long-term debt is a timely and directly relevant indicator of what utility companies generally are experiencing. I can unequivocally say that the cost of new debt for KCP&L

is considerably higher than it has been in recent history. This is true notwithstanding the significant decline in U.S. Treasury rates since the second quarter of 2007.

Q: What is your basis for saying that KCP&L's cost of debt has increased?

A: In Great Plains Energy's February 11, 2009 investor conference call and webcast, the Company indicated that KCP&L expected to issue $400 million of long-term debt in 2009. In light of those plans, the Company is closely monitoring market conditions and will continue to do so until the debt offering is completed, including discussions with debt capital markets participants on indicative costs for newly-issued KCP&L debt. These discussions clearly reflect that KCP&L's debt costs have risen significantly since a year ago and since before the crisis.

Q: Where is this illustrated?

A: Schedule MWC-1 (HC) reflects the collective thoughts on KCP&L's current cost of issuing debt on both a secured and unsecured basis for five, 10, and 30 years from three top debt capital markets underwriters: Bank of America, BNP Paribas, and J.P. Morgan. Because KCP&L completed 10-year unsecured debt issues in March 2008 and June 2007, the figures in the 10-year column under the heading "Assuming Senior Unsecured" are the most relevant in assessing how KCP&L's cost of debt has increased.

Q: What is the market's view of the cost of a 10-year senior unsecured debt issue for KCP&L today, and how does that compare with KCP&L's 10-year senior unsecured debt offerings in March 2008 and June 2007?

A: As shown in Schedule MWC-1 (HC), the underwriters estimate that the coupon rate on a new KCP&L 10-year senior unsecured debt offering would be **[redacted]**. That rate is **[redacted]** basis points, or nearly **[redacted]**, above the rate of 6.375% on KCP&L's $350 million 10-year offering completed in March 2008. The rate is also **[redacted]** basis points, or **[redacted]**, higher than the rate of 5.85% on KCP&L's $250 million 10-year offering completed in June 2007.

Q: Are the pricing indications for KCP&L in Schedule MWC-1 (HC) based on a different credit rating for KCP&L than it had when it completed the 2007 and 2008 offerings?

A: No. At the time Schedule MWC-1 (HC) was prepared on March 4, 2009, KCP&L's senior unsecured debt rating was unchanged from the time of the 2007 and 2008 offerings: A3 at Moody's Investor Service ("Moody's") and BBB at Standard & Poor's ("S&P").

Q: Please summarize your response to Staff's assertion that "the cost of capital is returning to levels prior to the credit crisis."

A: Again, I will defer to Dr. Hadaway for an in-depth discussion of the cost of equity, but since Staff chose to couch its comments concerning cost of capital partly by looking at the cost of debt for utility companies, I can say with certainty that their assessment is incorrect. KCP&L's market discovery currently underway is a particularly timely and relevant data point for SJLP Steam cost of capital issues. As KCP&L considers issuing new long-term debt, it is receiving frequent input from the debt capital markets that is starkly at odds with Staff's assertion. The cost of new debt for KCP&L has risen considerably compared to a year ago, when difficult market conditions had already existed for a number of months, and much more significantly compared to June 2007, which would be the last month that most market participants would consider "prior to" the credit crisis. For Staff to suggest any semblance of a return to normalcy is to suggest a

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profound lack of understanding of how difficult and volatile the markets remain and what the implications of such conditions are. Since judgment weighs heavily in the determination of cost of capital and rate of return, the Commission should keep Staff's incorrect assessment of the debt capital markets in mind as it evaluates other areas of subjective judgment incorporated by Staff into its overall cost of capital and rate of return recommendation for SJLP Steam.

Q: What capital structure is Staff recommending for SJLP Steam in this case?

A: As indicated on page 23 of Staff's Report, Staff is recommending use of the actual GPE capital structure, excluding preferred stock, as of the end of the updated test year in this case, *i.e.*, September 30, 2008. The resulting ratemaking capital structure, according to Staff, consists of 51.03% common stock equity and 48.97% long-term debt.

Q: Does SJLP Steam agree with Staff's recommendation?

A: SJLP Steam accepts the exclusion of preferred stock. However, as shown below in Table 1, once this exclusion is reflected in SJLP Steam's actual capital structure as of September 30, 2008, SJLP Steam calculates an adjusted common stock equity ratio that is higher than Staff's (51.24% compared to 51.03%, respectively) and a debt ratio that is lower (48.76% compared to 48.97%, respectively). The difference results from a different common equity amount used by Staff. Neither Staff's Report nor Staff's Schedule 12 (incorrectly referenced in Staff's Report as Schedule 8) describes what accounts for this difference.

Table 1

GREAT PLAINS ENERGY INCORPORATED
Capitalization
September 30, 2008 (Est.)

($ in 000's)

CAPITAL COMPONENT	AMOUNT	PERCENT
Long-Term Debt (Note 1)	2,510,430	48.76%
Common Equity	2,616,024	
Equity Adj. For All OCI	(22,133)	
Adj. Common Equity	2,638,157	51.24%
	$5,148,587	100.00%

Note 1: Includes amounts classified as current liabilities.
Note 2: Excludes preferred stock

Q: What cost of debt did SJLP Steam request in this proceeding?

A: As shown in the table on page 6 of Dr. Hadaway's Direct Testimony, SJLP Steam requested a capital structure that included a cost of debt of 7.62%. The schedule that supports the weighted average cost of debt is provided in Schedule SCH-4, page 16 in Dr. Hadaway's Direct Testimony.

Q: What was the cost of debt provided to Staff as part of the workpapers from the September Update?

A: The SJLP Steam cost of debt in the September Update was 7.76%. The weighted average cost is provided in schedule MWC-2.

Q: Did Staff agree with SJLP Steam's requested cost of debt?

A: No. As reflected on page 27 of the Staff's Report, Staff recommends an SJLP Steam cost of debt of 6.75%.

Q: What rationale does Staff provide for recommending a different cost of debt than requested by SJLP Steam?

A: This is addressed on pages 26 and 27 of the Staff Report, as follows:

> Aquila's failed non-regulated investments have caused the need for both the company and other parties to make judgments on what the cost of debt might have been if MPS and L&P had been owned by a company with at least an a BBB credit rating. As time has passed and ownership structures have changed, the embedded cost of debt for MPS and L&P has become even less based on reality.
>
> As a result of the above, Staff recommends the use of a hypothetical embedded cost of long-term debt for GMO. Staff proposes the use of The Empire District Electric Company's (Empire) embedded cost of long-term debt from its last rate case, Case No. ER-2008-0093 as of true-up date, February 29, 2008. This embedded cost of long-term debt was 6.75 percent. Staff believes the use of Empire's embedded cost of debt is appropriate because the risk profile of Empire and GMO are fairly similar, Empire's operations are predominately regulated operations, most of which are confined to Missouri, and Empire's most recent ratemaking capital structure is similar to that of GMO's parent company, GPE.

Q: Do you agree with Staff's recommendation?

A: No, I do not.

Q: Please explain.

A: Staff's recommendation is to abandon the cost of debt methodology used by SJLP Steam in preparing its September 2008 filing – which, in turn, was consistent with the approach taken by Aquila (now known as GMO) in its last rate case to generate a cost of debt *that was accepted by Staff* -- in favor of a new approach that uses a hypothetical cost of debt based solely on Empire's embedded cost of long-term debt. Staff's recommendation would result in a cost of debt for SJLP Steam that is 101 basis points below that requested by the Company.

Q: Please briefly describe the methodology used by SJLP Steam in determining its requested cost of debt in this case.

A: Dr. Hadaway outlined the methodology in his Direct Testimony as follows:

> The cost of debt for SJLP was determined based upon the cost of each entity's directly-issued debt, as well as the cost of assigned portions of debt previously issued at the parent-company, i.e., Aquila Inc. level. The amount of such debt assigned to each entity was determined by multiplying the respective projected March 31, 2009 rate bases by the debt percentages shown in the [respective requested capital structures for each entity], then subtracting any directly-issued debt. *[Hadaway Direct Testimony, page 7, lines 8-14]*

Q: What is meant by the "assignment" of debt previously issued at the Aquila parent company level to SJLP?

A: The starting point for the methodology previously established by Aquila, and utilized by SJLP Steam in this filing, is the GMO-L&P (combined electric and steam) rate base and the debt percentage in its capital structure. That leads to an amount of debt appropriate for the entity To the extent this amount of debt exceeds debt actually issued by GMO-L&P, debt previously issued by the parent company is allocated, or "assigned," to GMO-L&P, with the oldest such debt allocated first, then the next oldest, and so on.

Q: At what interest rate are the parent company issues assigned?

A: Generally, the issues are assigned at their effective rate, which incorporates the coupon interest rate as well as issuance costs. A notable exception to this is the $500 million Aquila senior notes issue completed in July 2002. Aquila completed this issue in the midst of mounting credit rating and financial pressures brought about by difficulties in its non-regulated business and therefore paid a very high rate of interest (initially 11.875%, subsequently increased to 14.875% following a credit rating downgrade, and reduced to the original 11.875% rate following Aquila's acquisition by Great Plains Energy in July 2008. In keeping with Aquila's commitment not to pass along the cost of those failed activities to its Missouri customers, as assignments of that debt have been made in past rate cases, the interest rate used has been based on Aquila's estimate of what the effective rate for the assigned amount would be if the debt were issued on an investment-grade equivalent basis. As such, even though the cost of this debt to Aquila has essentially ranged between roughly 12% and 15%, the cost attributed to GMO-L&P has been approximately 6.47%, as shown in Schedule MWC-3.

Q: Is the methodology that Aquila used in past rate cases, and that SJLP Steam used in this proceeding, a reasonable approach to determining cost of debt for SJLP Steam?

A: Yes. The methodology appropriately passes along the cost of debt actually issued by GMO-L&P. Additional debt appropriate to the entity's capital structure has been introduced through the assignment of parent company debt at investment grade equivalent rates. While admittedly still requiring a degree of subjectivity, the methodology is reasonable. Staff appeared to agree with this by accepting the cost of debt for SJLP Steam in Case No. ER-2007-0004.

Q: Is the Staff correct that using Empire's cost of debt is an "appropriate" proxy for the cost of debt for GMO?

A: No. Staff's recommendation appears to imply that regulated utilities operating in the same state will necessarily have the same cost of debt. The factors that dictate an entity's cost of debt go well beyond the areas mentioned by staff and include, among others, the average maturity, the timing and amount of issuance, the terms and conditions of the issuances, the credit profile of the entity at the time of issuance, availability of alternate sources of funding, the entity's market capitalization, and general financial market conditions at the time of issuance. Staff has not attempted to address the comparability of these factors for GMO-L&P and Empire.

Q: Please summarize your thoughts on SJLP Steam's cost of debt.

A: The cost of debt requested by SJLP Steam in this case was developed using a reasonable methodology, the results of which were accepted by Staff in Aquila's last rate case. To set aside this methodology in favor of a hypothetical cost of debt based upon Empire as a proxy is unreasonable and should be rejected by the Commission.

Section 2

Q: What is the purpose of this section of your testimony?

A: In this section, I recommend that the Commission reject Staff's imputation of an accounts receivable ("A/R") sales program for SJLP Steam, as described on pages 80-81 of Staff's Report.

Q: Why does Staff impute an A/R sales program for SJLP Steam?

A: Staff indicates that the 2002 termination of an A/R sales program that had been in place at Aquila occurred because of Aquila's financial difficulties. Staff asserts that because an A/R sales program reduces revenue lag days in the Cash Working Capital ("CWC") calculation, the fact that that program was terminated and not subsequently reinstated creates a detriment for SJLP Steam's customers. Staff therefore proposes cost of service adjustments in this case, as it also attempted to do in Aquila's last three rate cases, which are based upon the existence of a hypothetical A/R sales program.

Q: Do you agree with Staff's approach?

A: No. In my opinion, Staff's approach is inappropriate for a number of reasons.

Q: Please explain.

A: The first question relates to how broadly Staff has taken this approach with other entities under its purview. A/R sales programs operate similarly in terms of the working capital impact for any firm that uses such a program. As such, according to Staff's logic, it would appear that any regulated utility in Missouri that does not utilize an A/R sales program, regardless of the reason, should have such a program imputed for ratemaking purposes. There are, however, a myriad of factors beyond working capital impact alone that an entity must consider before putting such a program in place, and it is certainly possible that different firms will assess the costs and benefits of a program differently. KCP&L employs an A/R sales program, but I am unsure as to whether that is the case with other Missouri utilities and, if not, whether Staff has handled this issue with those companies similarly to its attempts with Aquila and now SJLP Steam.

Q: What other concerns do you have about Staff's approach?

A: Staff incorrectly attempts to make a connection between its imputation of an A/R sales program for GMO and the acquisition of GMO by Great Plains Energy in 2008:

> Based on the Company's past financial problems <u>and the KCP&L acquisition</u> (emphasis added), Staff determined an adjustment should be made for the bank fees had the program been in place. KCP&L currently sells approximately 57% of its account receivables, which include the account receivables of the GMO entities. When calculating an appropriate amount for GMO and L&P, Staff used the same percentage based on the receivable balance from July 31, 2008 and December 31, 2008 *[Staff Report, page 81]*.

Q: Why is Staff's assertion incorrect?

A: Contrary to Staff's statement, KCP&L's A/R sales program includes <u>KCP&L's receivables only</u> - GMO's receivables are not included.

Q: Would it even be possible to include GMO's A/R in KCP&L's A/R sales program today?

A: No. First, GMO's A/R are already pledged as collateral to support a revolving line of credit and therefore cannot be included in an A/R sales program. Second, we expect that a financial institution would be unwilling to offer a combined structure given the differences between KCP&L and GMO in terms of credit rating, service territory, and other attributes.

Q: What is the status of the line of credit collateralized by GMO's A/R?

A: The line matures in April 2009. GMO is currently in the process of arranging a three-month extension to July 2009, which is also when the KCP&L A/R sales program matures. During the extension period, GMO plans to explore the potential of putting an A/R sales program in place similar to KCP&L's. If GMO elects to do so, the coterminous maturities of the GMO and KCP&L facilities will enable the new A/R sales program for GMO and the renewed program for KCP&L to be completed in parallel, which would be optimal from an administrative and market risk perspective.

Q: Please summarize your thoughts with regard to Staff's imputation of an A/R sales program.

A: GMO did not have an A/R sales program in place during the test year and will not have such a program in place by the true-up date in this proceeding. Staff has attempted to support using a hypothetical program for GMO in part by making a connection to KCP&L that does not exist. In addition, Staff has not established the relevance of Aquila's "past financial problems" to GMO's lack of an A/R sales program today, since Staff's logic implies that <u>any</u> entity that does not utilize an A/R sales program, regardless of the reason, should have such a program imputed for purposes of determining cost of service. It is unclear that Staff has taken that approach with other utilities within its purview. Staff's proposal to impute an A/R sales program for SJLP Steam in this case lacks merit and should be rejected by the Commission.

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 Aquila, Inc. dba KCP&L Greater Missouri Operations Company to Modify Its Steam Tariffs to Effectuate a Rate Increase	)))	Case No. HR-2009-0092

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 Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of fourteen (14) pages and Schedule(s) MWC - 1 through MWC 3, all of which 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 13th day of March 2009.

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

SCHEDULE MWC-1

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KCP&L - GREATER MISSOURI OPERATIONS
Weighted Average Cost of Debt: SJLP
September 30, 2008 Adjusted for Known & Measurable Changes through March 31, 2009

Assigned Debt	Effective Rate	SJLP Assigned Debt 3/31/09	Computed Interest on 3/31/09 Assigned Debt	SJLP Weighted Avg Cost of Debt
Poll Cntrl Bonds 5.85%, Due 2/1/13 Effective Rate 6.991%	6.991%	5,600,000	391,496	
20 Yr MTN 7.16%, Due 11/29/13 Effective Rate 7.573%	7.573%	6,000,000	454,380	
30 Yr MTN 7.17%, Due 12/1/23 Effective Rate 7.584%	7.584%	7,000,000	530,880	
30 Yr MTN 7.33%, Due 11/30/23 Effective Rate 7.753%	7.753%	3,000,000	232,590	
Sr 7.625%, Due 11/15/09 Effective Rate 7.742%	7.742%	53,355,087	4,130,751	
Sr 7.95% (downgrade 9.95%), Due 2/1/11 Effective Rate 8.01%	8.010%	19,661,000	1,574,846	
Sr 11.875% (downgrade 14.875%), Due 7/1/12 Effective Rate 6.474% (6/26/06)	6.474%	33,544,913	2,171,698	
UCFC Sr 7.75%, Due 6/15/11 Effective Rate 8.487%	8.487%	27,610,000	2,343,261	
Sub Total		155,771,000	11,829,901	
9.44% FMB, Due 2/1/2021 Effective Rate 9.487%	9.487%	14,625,000	1,387,474	
Total		**$ 170,396,000**	**$ 13,217,375**	**7.757%**

KCP&L - GREATER MISSOURI OPERATIONS
Weighted Average Assigned Cost of $500 Million of 11.875% Senior Notes: SJLP
September 30, 2008 Adjusted for Known & Measurable Changes Through March 31, 2009

Assigned Debt	Effective Rate	SJLP Assigned Debt 3/31/09	Computed Interest on 3/31/09 Assigned Debt	SJLP Weighted Avg Cost of Debt
Sr 11.875% (downgrade 14.875%), Due 7/1/12 Effective Rate 6.474% (6/26/06)	6.474%	33,544,913	2,171,698	
Total		**$ 33,544,913**	**$ 2,171,698**	**6.474%**