

Exhibit No.:
Issue: Capital Structure
Witness: Michael W. Cline
Type of Exhibit: True-Up Rebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
Date Testimony Prepared: February 28, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

TRUE-UP REBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
February 2011**

TRUE-UP REBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

Case No. ER-2010-0356

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

6 A: Yes.

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

8 A: The purpose of my testimony is to respond to comments made by Missouri Public
9 Service Commission Staff (“Staff”) witness David Murray in his True-Up Direct
10 Testimony with regard to cost of debt for KCP&L Greater Missouri Operations (“GMO”
11 or “the Company”) in this proceeding.

12 **Q: Did Mr. Murray change his recommended cost of debt for GMO?**

13 A: Yes. As stated on page 3 of his Direct True-Up Testimony, Mr. Murray reduced the
14 GMO cost of debt to 6.36 percent (from the previous level of 6.52 percent). This was
15 based upon Mr. Murray’s continued use of The Empire District Electric Company’s
16 (“Empire”) embedded cost of debt as a proxy for GMO’s cost of long-term debt and the
17 fact that Empire completed a financing transaction between the test year update and true-
18 up dates in this proceeding that reduced Empire’s cost of debt.

1 **Q: Do you agree with this change in Mr. Murray's recommendation?**

2 A: No. As discussed in my earlier testimony, the Company objects to the use of Empire's
3 cost of debt as a proxy for GMO's cost of debt.

4 **Q: Are there other element(s) of Mr, Murray's testimony with which you take issue?**

5 A: Yes, specifically the section entitled "Impact of GPE's Recent Financing Activities" that
6 appears from page 3, line 18 to page 4, line 13. Mr. Murray discusses a long-term debt
7 offering by Great Plains Energy ("GPE") in the amount of \$250 million and a coupon
8 rate of 2.75 percent. The bonds were issued in August 2010, after the updated test year
9 and before the true-up date in this proceeding. This offering was completed by GPE on
10 behalf of GMO and the entire proceeds were loaned on an intercompany basis from GPE
11 to GMO; therefore, Kansas City Power & Light Company's ("KCP&L") cost of debt was
12 not impacted by the transaction. Again, though Mr. Murray accepted this treatment for
13 KCP&L in this case, he implies that GPE could have reduced KCP&L's cost of debt by
14 "assigning" some of the debt to KCP&L rather than completing the offering fully on
15 GMO's behalf. He puts the Commission on notice that Staff may consider using a
16 consolidated cost of debt for ratemaking purposes for KCP&L and GMO in future cases.

17 **Q: How do you respond?**

18 A: Mr. Murray elaborates upon his rationale for suggesting a potential need to "reevaluate its
19 approach" to cost of debt in his True-Up Direct Testimony in KCP&L's rate case No.
20 ER-2010-0355 ("the 355 Docket"); as such, my detailed refutation of that rationale is
21 contained in my True-Up Rebuttal Testimony in that case and I will not repeat it here.
22 The key points from that testimony are as follows: (i) The August 2010 offering was
23 done by GPE on behalf of GMO in order to meet GMO's need to reduce short-term debt;

1 (ii) GPE executed the offering rather than GMO because GMO is not a registrant with the
2 Securities and Exchange Commission and alternatives for GMO to issue debt in its own
3 name were less attractive than a parent company public offering and subsequent
4 intercompany loan; and (iii) KCP&L had no need to issue long-term debt in the third
5 quarter of 2010.

6 **Q: Do you have any other concerns about a potential reevaluation of Staff's approach**
7 **to long-term debt in future cases?**

8 A: Yes. Based on Mr. Murray's comments beginning on page 3, line 19 of his Direct True-
9 Up Testimony, Staff's reevaluated approach would appear to contemplate setting aside
10 KCP&L's and GMO's actual cost of debt for ratemaking in favor of a blended or perhaps
11 even a hypothetical rate. In the current and past cases, GPE and GMO have honored the
12 commitment made by Aquila management not to include in Missouri retail rates the full
13 cost of a \$500 million, 11.875 percent Senior Notes issue ("Senior Notes") executed by
14 Aquila in 2002 when its credit ratings, though still investment grade, were on a clear
15 downward trajectory. Meeting that commitment has therefore necessitated a hypothetical
16 component of GMO's cost of debt. GMO and Staff disagree on how that hypothetical
17 element should be determined, but both parties nonetheless acknowledge that it is
18 necessary in light of the past commitment. However, the Senior Notes mature in mid-
19 2012 and GMO and KCP&L strongly assert that cost of debt for ratemaking in future
20 cases should therefore reflect the actual cost of debt for the respective utility, not a
21 blended or hypothetical rate. GMO and KCP&L are separate legal entities, do not
22 commingle their long-term financing activities and will not commingle these activities as
23 long as they remain separate entities. GMO and KCP&L would therefore strongly

1 oppose, and would ask the Commission to reject, any approach going forward that would
2 deviate from ratemaking based upon recovery of actual long-term debt cost incurred by
3 the Companies.

4 **Q: Does that conclude your testimony?**

5 A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater)
Missouri Operations Company to Modify Its) Docket No. ER-2010-0356
Electric Tariffs to Effectuate a Rate Increase)

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.

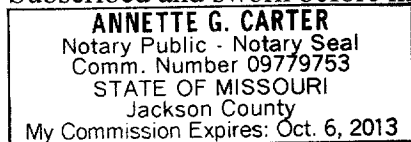
2. Attached hereto and made a part hereof for all purposes is my True-Up Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of four _____ (4) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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

My commission expires: Oct 6, 2013