BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service)))	**File No. ER-2012-0174**

NOTICE REGARDING DECLASSIFICATION OF PORTION OF STAFF REPORT

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission"), and relating to its direct filing states as follows:

1. At the time Staff filed its Cost of Service Report on August 2, 2012, Kansas City Power & Light Company ("KCPL") had not yet made certain financial disclosures. Staff's Cost of Service Report referenced that financial information that had not yet been disclosed publicly by KCPL, and so Staff filed references to that financial information as Highly Confidential pursuant to Commission rule.

2. KCPL has since publicly disclosed all of the then-confidential financial information contained in Staff's Appendix II to its Cost of Service Report, and much of the then-confidential financial information contained in the Rate of Return section of Staff's Cost of Service Report, authored by David Murray.

3. Limited Highly Confidential information remains in the Rate of Return section of Staff's Cost of Service Report, authored by David Murray.

4. Staff submits now the pages that were formerly HC and are now NP.

WHEREFORE, Staff submits this Notice related to its direct filing.

Respectfully Submitted,

/s/ Sarah Kliethermes

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CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing were served electronically to all counsel of record this 28th day of August.

/s/ Sarah L. Kliethermes

Staff then used that cost of common equity, net of any risk adjustments, together with other capital component information as of June 30, 2012, to calculate KCPL's fair rate of return, as follows:

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of: **8.00%**	**8.50%**	**9.00%**
Common Stock Equity	51.82%	-----	4.15%	4.40%	4.66%
Preferred Stock	0.61%	4.291%	0.03%	0.03%	0.03%
Long-Term Debt	47.57%	6.247%	2.97%	2.97%	2.97%
Total	**100.00%**		**7.14%**	**7.40%**	**7.66%**

As contained in the above table, Staff estimates, based upon its expert analysis, a cost of common equity range of 8.00% to 9.00%, mid-point 8.50%, and an overall ROR of 7.14% to 7.66%, mid-point 7.40%. Staff recommends that the Commission authorize a return on common equity of 9.00% based on the high-end of its estimated cost of equity due to past concerns about Staff's estimates being too low. However Staff considers anywhere within its range of 8.00% to 9.00% to be reasonable but for purposes of its revenue requirement Staff used 9.00%. The details of Staff's analysis and recommendations are presented in attached Appendix 2, Schedules 1-23. Staff's workpapers will be provided to the parties at the time of filing Staff's Cost of Service Report. Staff will make any source documents of specific interest available upon the request of any party to this case or upon the Commission's request.

B. Analytical Parameters

The determination of a fair rate of return is guided by principles of economic and financial theory and by certain minimum Constitutional standards. Investor-owned public utilities such as KCPL are private property that the state may not confiscate without appropriate compensation. The Constitution requires, therefore, that utility rates set by the government must allow a reasonable opportunity for the shareholders to earn a fair return on their investment. The United States Supreme Court has described the minimum characteristics known data through at least the true-up period to verify the reasonableness of the current proposed ratemaking capital structure.

Staff believes that the consolidated-basis capital structure of KCPL's publicly-traded parent, GPE, as of June 30, 2012, is most appropriate for use as the rate making capital structure in this rate proceeding (*see* Schedule 6-1). Although this date is beyond the agreed upon updated test year of March 31, 2012, because of unique and significant financing activities occurring within GPE that were scheduled to be completed on or around June 30, 2012, this capital structure seems reasonable. This capital structure is appropriate because it reflects KCPL's actual financing and because the risk embedded in GPE's capital structure affects KCPL's credit rating. Staff's recommended KCPL ratemaking capital structure consists of 51.82% common equity, 47.57% long-term debt, and 0.61% preferred stock.[37]

2. <u>Embedded Cost of Debt and Preferred Stock</u>

In KCPL's most recent rate case, Case No. ER-2010-0355, Staff recommended applying KCPL's embedded cost of long-term debt to GPE's consolidated capital structure in the general rate case. However, after GPE issued debt between the updated test year of June 30, 2010, and the true-up period of December 31, 2010, KCPL and GMO decided to assign the GPE debt to GMO for purposes of updating the ROR recommendations. In response, Staff decided if the Commission accepted the inclusion of the GPE debt for purposes of the true-up, then the Commission should authorize a ROR for KCPL and GMO by applying GPE's consolidated adjusted cost of debt to both KCPL and GMO for purposes of the authorized ROR for each company. Although the Commission ultimately accepted the approach proposed by KCPL and GMO, Staff believes that further GPE financing decisions since the last rate case (explained in Section E. 2. of this Report) provide additional support to apply GPE's adjusted consolidated cost of debt to both KCPL and GMO, especially when considering the fact that the Commission's Report and Order in Case No. EM-2007-0374 required KCPL ratepayers to be held harmless from paying higher capital costs as result of financial effects of credit downgrades due to the acquisition of the GMO properties.

Although Staff has already explained GPE's, KCPL's and GMO's credit ratings and financing activities to some extent, for purposes of relating this information to Staff's position of

37 KCPL's response to Staff DR No. 194 and SEC 2009 10-K Filing.

all likelihood, any subsequent unsecured debt could have been issued at a 'BBB' unsecured debt rating rather than the option GPE used, which was to issue holding company debt. For purposes of its adjustments, Staff simply applied the average 'BBB' utility debt yield for the months in which GPE issued the three notes in question. Staff matched the tenor of the actual debt with the tenor for the month in which the bond was issued. Staff adjusted the 2.75% coupon for the $250 million debt issued on August 13, 2010, to 2.00%. Staff adjusted the 4.85% coupon for the $350 million debt issued on May 16, 2011, to 4.70%. Staff adjusted the 5.292% coupon for the $287.5 million debt issued on March 19, 2012, to 4.25%.[38] After making all these adjustments and consolidating all GPE debt, this results in final consolidated cost of debt estimate of 6.247%. Staff recommends that this cost of debt be applied to GPE's consolidated capital structure for purposes of setting KCPL's allowed ROR in this case (see Schedule 6-1).

3. <u>Cost of Common Equity</u>

Staff determined KCPL's cost of common equity through a comparable company cost-of-equity analysis of a proxy group of 10 companies using the DCF method. Additionally, Staff used a CAPM analysis and a survey of other indicators as a check of the reasonableness of its recommendations.

a. The Proxy Group

First, Staff formed a group of comparable companies for the commensurate return analysis. Starting with 55 market-traded electric utilities, Staff applied a number of criteria to develop a proxy group comparable in risk to KCPL's regulated electric utility operations (*see* Schedule 7). Staff decided to add one additional criterion in this case as compared to KCPL's last rate case. Staff added a criterion to screen out companies that do not have an equivalent S&P business risk profile as KCPL, which is currently 'Excellent.' Staff believes it was important to add this criterion to further screen utility companies that may have non-regulated operations that are impacting the parent company's business risk even though they were classified as "regulated" by EEI. For example, although EEI classifies Ameren as a "regulated" electric utility, many investment analysts, such as Goldman Sachs, consider Ameren to be a diversified company. Staff's criteria is as follows:

38 Staff used BondsOnline for average utility bond yields for the appropriate tenor and rating.

In fact, Staff discovered the valuation analyses GPE and Aquila performed on the current properties known as GMO, used a cost of equity much lower than the allowed ROE.[60]

It is also quite clear from Staff's analysis of equity analysts' reports that analysts do not expect commissions to set the authorized ROE equal to the cost of common equity. Most equity analysts use a cost of equity in the 7% to 8% range, yet when projecting cash flows generated by the utilities through ratemaking, they assume companies will be authorized an ROE of close to 10%. While the Staff does not believe the Commission should allow investors' expectations of the authorized ROE determine what is authorized in a rate case, Staff does recognize that investors have become accustomed to some margin over the cost of equity being allowed in rates. In fact, some would argue that because book ROEs of the S&P 500 (10% to 15% on average) tend to be higher than the market cost of equity, this may justify the decision to allow an ROE higher than the cost of equity. If the Commission accepts this premise, then the issue before it would be what margin is fair and reasonable for purposes of complying with *Hope* and *Bluefield*. This is a matter that could be explored further if the Commission accepts the notion that the cost of equity is lower than that which it chooses to authorize.

I. Conclusion

A just and reasonable rate is one that is fair to the investors and fair to the ratepayers. Fairness to the ratepayers means rates that are not one penny more than is necessary to be fair to the shareholders. Fairness to the shareholders means rates that will produce revenues, on an annual basis, sufficient to cover KCPL's prudent cost of service, which includes its cost of capital. Using widely-accepted methods of financial analysis, Staff has developed a weighted average cost of capital for KCPL in the range of 7.14% to 7.66% (*see* Schedule 23). This rate was calculated by applying an embedded cost of long-term debt of 6.247% and a cost of common equity range of 8.00% to 9.00% to a capital structure consisting of 51.82% common equity, 47.57% long-term debt, and 0.61% preferred stock. Because there appears to be some concern in setting an allowed return on equity based on the cost of equity, Staff recommends the Commission set the allowed ROE at 9.00% in this case. Although this is well-above what Staff believes the true cost of equity to be in the current capital market environment, this allowed ROE would balance the concern about the impact a lower allowed

[60] Staff Cost of Service Report in Case No. ER-2009-0089, p. 39-42.

Kansas City Power & Light Company
Case No. ER-2012-0174

Capital Structure as of June 30, 2012
Great Plains Energy

($ in 000's)

Capital Component		Dollar Amount	Percentage of Capital
Common Stock Equity	$	3,290,582	51.82%
Preferred Stock	$	39,000	0.61%
Long-Term Debt	$	3,020,461	47.57%
Short-Term Debt	$	-	0.00%
Total Capitalization	**$**	**6,350,043**	**100.00%**

Source: KCPL Updated Response to Staff Data Request No. 0251.

Kansas City Power & Light Company
Case No. ER-2012-0174

KANSAS CITY POWER & LIGHT COMPANY, GREAT PLAINS ENERGY and GMO
Weighted Average Cost of Long-Term Debt Capital
June 30, 2012 (Actuals)

Line	Issue	(a) Initial Offering	(b) Date of Offering	(c) Date of Maturity	(d) Price to Public	(e) Discounts & Underwriters 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											
	Pledged General Mortgage Bonds										
1	EIRR 1992 Series	$31,000,000	9/15/1992	7/1/2017					5.686%	$31,000,000	$1,762,660
2	MATES Series 1993-A	$40,000,000	12/7/1993	12/1/2023					5.468%	$40,000,000	$2,187,200
3	MATES Series 1993-B	$39,480,000	12/7/1993	12/1/2023	$39,480,000			$39,480,000	0.331%	$39,480,000	$130,679
4	EIRR La Cygne 2005 Series - 4.05% Coupo	$13,982,500	2/23/1994	3/1/2015					4.254%	$13,982,000	$594,794
5	EIRR La Cygne 2005 Series - 4.65% Coupo	$21,940,000	2/23/1994	9/1/2035					4.731%	$21,940,000	$1,037,981
6	Mortgage Bonds Series 2009A - 7.15% (1)	$400,000,000	3/24/2009	3/24/2019	$400,000,000	$3,032,000	$1,423,316	$395,544,684	7.309%	$400,000,000	$29,235,757
	Unsecured Notes										
8	Senior Notes Due 2017 - 5.85% Coupon (1)	$250,000,000	5/30/2007	6/15/2017	$250,000,000	$2,045,000	$218,906	$247,736,094	5.972%	$250,000,000	$14,928,940
9	Senior Notes Due 2035 - 6.05% Coupon (2)	$250,000,000	11/17/2005	11/15/2035	$250,000,000	$3,692,500	$255,609	$246,051,891	6.166%	$250,000,000	$15,415,411
10	Senior Notes Due 2018 - 6.375% Coupon (1	$350,000,000	3/6/2008	3/1/2018	$350,000,000	$2,275,000	$291,730	$347,433,270	6.476%	$350,000,000	$22,665,182
11	Senior Notes Due 2041 - 5.30% Coupon (2)	$400,000,000	9/20/2011	10/1/2041	$400,000,000	$6,068,000	$376,569	$393,555,431	5.409%	$400,000,000	$21,636,650
	Environmental Improvement Revenue Refunding Bonds										
11	2005 Series Due 2035 - 4.65% Coupon	$50,000,000	9/1/05	9/1/2035					4.747%	$50,000,000	$2,373,500
12	2007 Series A-1 Due 2035	$63,250,000	9/19/07	9/1/2035	$63,250,000			$63,250,000	0.331%	$63,250,000	$209,358
13	2007 Series A-2 Due 2035	$10,000,000	9/19/07	9/1/2035	$10,000,000			$10,000,000	0.331%	$10,000,000	$33,100
14	2007 Series B Due 2035	$73,250,000	9/19/07	9/1/2035					5.572%	$73,250,000	$4,081,219
15	2008 Series Due 2038	$23,400,000	5/28/08	5/1/2038					4.930%	$23,400,000	$1,153,586
	Other Long-Term Debt										
16	Unamortized Discount on Senior Notes									(4,170,079)	
17	Loss/(Gain) on Reacquired Debt										$ 456,996
18	Weighted Cost of Interest Rate Management Products										$8,535,948
19	MTFC 45 HWY Bridge Financing	$6,201,060	9/1/09	9/1/18					5.150%	$2,920,957	$150,429
20	Tax-exemt Bonds Repurchased (line items 3, 12, 13)									($112,730,000)	($373,136)
21	**Total KCP&L Long-Term Debt Capital**				**June 30, 2012 (Actuals)**					**$1,902,322,878**	**$126,216,256**
22	**KCP&L Weighted Avg. Cost of Long-Term Debt Capital**				**June 30, 2012 (Actuals)**			**6.635%**			
GMO ONLY											
	Pledged General Mortgage Bonds										
1	SJLP First Mortgage Bonds - 9.44%	$22,500,000	2/1/91	2/1/21	$22,500,000		$664,653	$21,835,347	9.745%	$10,125,000	$986,729
	Unsecured Notes										
2	Senior Notes Due 2021 - 8.27% Coupon	$131,750,000	3/31/99	11/15/21	$131,750,000		$3,591,143	$128,158,857	8.547%	$80,850,000	$6,910,156
3	Medium Term Notes Due 2013 - 7.16% Cou	$9,000,000	11/30/93	11/30/13	$9,000,000		$490,738	$8,509,262	7.699%	$6,000,000	$461,921
4	Medium Term Notes Due 2023 - 7.33% Cou	$3,000,000	11/30/93	11/30/13	$3,000,000		$163,606	$2,836,394	7.803%	$3,000,000	$234,095
5	Medium Term Notes Due 2023 - 7.17% Cou	$7,000,000	12/6/93	12/1/23	$7,000,000		$382,259	$6,617,741	7.636%	$7,000,000	$534,536
	Environmental Improvement Revenue Refunding Bonds										
6	Wamego 1996 Series - Auction Rate plus L(	$7,300,000	3/1/96	3/1/26	$7,300,000		$422,982	$6,877,018	2.568%	$7,300,000	$187,479
7	SJLP EIERA Bonds - 5.85%	$5,600,000	6/4/95	2/1/13	$5,600,000		$913,838	$4,686,162	7.519%	$5,600,000	$421,066
8	Sibley 1993 Series - Auction Rate plus LOC	$5,000,000	5/26/93	5/1/28	$5,000,000		$111,563	$4,888,437	2.385%	$5,000,000	$119,254
9	Unamortized Discount on Senior Notes										
10	Loss/(Gain) on Reacquired Debt										$ 44,404
11	Weighted Cost of Interest Rate Management Products										
12	**Total GMO Long-Term Debt Capital**				**June 30, 2012 (Actuals)**					**$124,875,000**	**$9,899,639**
13	**GMO Weighted Avg. Cost of Long-Term Debt Capital**				**June 30, 2012 (Actuals)**			**7.928%**			
GREAT PLAINS ENERGY ONLY											
	Unsecured Notes										
1	Senior Notes Due 2017 - 6.875% Coupon (1	$100,000,000	9/20/2007	9/15/2017	$100,000,000	$1,166,000	$87,098	$98,746,902	7.052%	$100,000,000	$7,051,752
2	Senior Notes Due 2013 - 2.75% Coupon (3)	$250,000,000	8/13/2010	8/15/2013	$250,000,000	$1,240,000	$234,095	$248,525,905	2.204%	$250,000,000	$5,510,492
3	Senior Notes Due 2021 - 4.85% Coupon (1)	$350,000,000	5/16/2011	6/1/2021	$350,000,000	$2,611,000	$375,976	$347,013,024	4.809%	$350,000,000	$16,829,754
4	Senior Notes Due 2022 - 5.292% Coupon	$287,500,000	3/19/2012	6/15/2022	$287,500,000	($4,716,004)	$708,292	$291,507,712	4.079%	$287,500,000	$11,726,686
	Other Long-Term Debt										
5	Unamortized Discount on Senior Notes									($608,478)	
6	Unamortized Premium on Senior Notes									$6,371,625	
7	Weighted Cost of Interest Rate Management Products										$11,454,499
8	**Total GPE Only Long-Term Debt Capital**				**June 30, 2012 (Actuals)**					**$993,263,148**	**$52,573,183**
9	**GPE Only Weighted Avg. Cost of Long-Term Debt Capital**				**June 30, 2012 (Actuals)**			**5.293%**			
GREAT PLAINS ENERGY, KANSAS CITY POWER & LIGHT and GMO											
1	**Total GPE, KCP&L and GMO Long-Term Debt Capital**				**June 30, 2012 (Actuals)**					**$3,020,461,026**	**$188,689,077**
2	**GPE, KCP&L and GMO Weighted Avg. Cost of Long-Term Debt Capital**				**June 30, 2012 (Actuals)**			**6.247%**			

(1) Expenses associated with the Senior Notes are being amortized over a 10 year period.
(2) Expenses associated with the Senior Notes are being amortized over a 30 year period.
(3) Expenses associated with the Senior Notes are being amortized over a 3 year period.
P:\TESTIMONY\ER files - cases\ER-2012-0174 & ER-2012-0175 KCP&L GMO\KCP&L ER-2012-0174\Appendices\App 2 - HC\[DECLASSIFIED - KCPL Direct Schedules-ER-2012-0174 - HC.xls]WCLTD 6-30-12 - HC

Kansas City Power & Light Company
Case No. ER-2012-0174

Weighted Cost of Capital as of June 30, 2012 for KCPL

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of: 8.00%	8.50%	9.00%
Common Stock Equity	51.82%	-----	4.15%	4.40%	**4.66%**
Preferred Stock	0.61%	4.291%	0.03%	0.03%	**0.03%**
Long-Term Debt	47.57%	6.247%	2.97%	2.97%	**2.97%**
Total	**100.00%**		**7.14%**	**7.40%**	**7.66%**

Notes:

See Schedule 6-1 for the Capital Structure Ratios.

See Schedule 6-2 for Cost of Preferred Stock and Cost of Long-Term Debt

Kansas City Power & Light Company
Case No. ER-2012-0174
Test Year September 30, 2011
Update at March 31, 2012
Capital Structure Schedule

Line Number	A Description	B Dollar Amount	C Percentage of Total Capital Structure	D Embedded Cost of Capital	E Weighted Cost of Capital 8.00%	F Weighted Cost of Capital 8.50%	G Weighted Cost of Capital 9.00%
1	Common Stock	$3,290,582,000	51.82%		4.146%	4.405%	4.664%
2	Equity Units - Taxable	$0	0.00%	0.00%	0.000%	0.000%	0.000%
3	Preferred Stock	$39,000,000	0.61%	4.29%	0.026%	0.026%	0.026%
4	Long Term Debt	$3,020,461,000	47.57%	6.25%	2.971%	2.971%	2.971%
5	Short Term Debt	$0	0.00%	0.00%	0.000%	0.000%	0.000%
6	Other Security- Tax Deductible	$0	0.00%	0.00%	0.000%	0.000%	0.000%
7	TOTAL CAPITALIZATION	$6,350,043,000	100.00%		7.143%	7.402%	7.661%
8	PreTax Cost of Capital				8.823%	9.187%	9.550%