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Service Commission

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-2007-0291
Date Testimony Prepared:	November 2, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

MATTHEW J. BARNES

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2007-0291

Jefferson City, Missouri
November 2007

STATE Exhibit No. 125
Case No(s). ER-2007-0291
Date 11/1/07 Rptr pf

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MATTHEW J. BARNES
CASE NO. ER-2007-0291

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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-2007-0291**

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, 2007 for KCP&L.

19 **KCP&L'S CAPITAL STRUCTURE AS OF SEPTEMBER 30, 2007**

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

True-up Direct Testimony of
Matthew J. Barnes

1 A. As of September 30, 2007, KCP&L's capital structure consisted of
2 57.62 percent equity, 1.45 percent preferred stock, and 40.93 percent long-term debt. Please
3 see Schedule 1.

4 Q. What was KCP&L's previous capital structure that you proposed?

5 A. KCP&L's previous capital structure as of March 31, 2007 that Staff proposed
6 consisted of 66.01 percent equity, 1.67 percent preferred stock, and 32.32 percent long-term
7 debt.

8 Q. Did the embedded cost of long-term debt change as of September 30, 2007?

9 A. Yes. KCP&L's embedded cost of long-term debt as of September 30, 2007,
10 was calculated by the company to be 5.93 percent. Please see Schedule 2.

11 Q. What was KCP&L's previous embedded cost of long-term debt proposed by
12 Staff?

13 A. KCP&L's previous embedded cost of long-term debt as of March 31, 2007 as
14 calculated by the company was 5.77 percent.

15 Q. Why did KCP&L's embedded cost of long-term debt increase from
16 5.77 percent to 5.93 percent?

17 A. KCP&L issued \$250 million of 5.85 percent Senior Notes on June 4, 2007.
18 Great Plains Energy issued \$100 million of 6.88 percent Unsecured Senior Notes on
19 September 25, 2007. These debt issuances increased KCP&L's embedded cost of long-term
20 debt and long-term debt ratio.

21 Q. Why did Staff's rate-of-return decrease when the embedded cost of
22 long-term debt increased?

1 A. The increase in the Company's long-term debt ratio off-set the equity ratio in
2 the capital structure. Equity is more expensive than debt, therefore; in this case the lower
3 equity ratio in the capital structure resulted in a lower rate-of-return for KCP&L.

4 Q. Did the embedded cost of preferred stock change as of September 30, 2007?

5 A. No. The embedded cost of preferred stock as of September 30, 2007 remained
6 the same at 4.29 percent.

7 Q. Does Staff still recommend a return on equity in the range of 9.14 percent to
8 10.30 percent with a mid-point of 9.72 percent?

9 A. Yes. Please see Schedule 3.

10 **SUMMARY AND CONCLUSIONS**

11 Q. Please summarize the conclusions of your True-up Direct testimony.

12 A. My recommended cost of common equity, which is in the range of
13 9.14 percent to 10.30 percent, would produce a fair and reasonable rate-of-return of
14 7.76 percent to 8.42 percent for KCP&L's Missouri jurisdictional electric utility rate base.

15 Q. Does this conclude your True-up Direct testimony?

16 A. Yes, it does.

In the Matter of the Application of)
 Kansas City Power and Light Company for) Case No. ER-2007-0291
 Approval to Make Certain Changes in its)
 Charges for Electric Service To Implement Its)
 Regulatory Plan.)

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Matthew J. Barnes

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

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Notary Public

Kansas City Power and Light Company
Case No. ER-2007-0291

Capital Structure as of September 30, 2007
Great Plains Energy

Capital Component	Dollar Amount	Percentage of Capital
Common Stock Equity	\$ 1,553,527,000	57.62%
Preferred Stock	\$ 39,000,000	1.45%
Long-Term Debt	\$ 1,103,699,000	40.93%
Short-Term Debt	\$ -	0.00%
Total Capitalization	\$ 2,696,226,000	100.00%

Electric Financial Ratio Benchmark
Total Debt / Total Capital

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

Source: Email response from Christine Davidson with Kansas City Power and Light received 10/30/07.

**Kansas City Power and Light
ER-2007-0291**

KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY
Weighted Average Cost of Long-Term Debt Capital
At September 30, 2007

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											
Pledged General Mortgage Bonds											
1	EIRR 1992 Series	\$31,000,000	9/15/1992	7/1/2017					4.080%	\$31,000,000	\$1,264,800
2	EIRR Hawthorn 1993 Series - 4.0% Coup	\$12,366,000	10/14/1993	1/2/2012					4.202%	\$12,366,000	\$519,619
3	MATES Series 1993-A	\$40,000,000	12/7/1993	12/1/2023					3.994%	\$40,000,000	\$1,597,600
4	MATES Series 1993-B	\$39,480,000	12/7/1993	12/1/2023					3.984%	\$39,480,000	\$1,572,883
5	EIRR La Cygne 1994 Series - 4.05% Cou	\$13,982,500	2/23/1994	3/1/2015					4.245%	\$13,982,000	\$593,536
6	EIRR La Cygne 1994 Series - 4.65% Cou	\$21,940,000	2/23/1994	9/1/2035					4.813%	\$21,940,000	\$1,055,972
Unsecured Notes											
7	Senior Notes Due 2017 - 5.85% Coupon (\$250,000,000	6/4/2007	6/15/2017	\$250,000,000	\$1,625,000	\$250,000	\$248,125,000	5.951%	\$250,000,000	\$14,876,484
8	Senior Notes Due 2011 - 6.5% Coupon (2)	\$150,000,000	3/20/2001	11/15/2011	\$150,000,000	\$1,198,500	\$50,000	\$148,751,500	6.615%	\$150,000,000	\$9,922,646
9	Senior Notes Due 2035 - 6.05% Coupon (\$250,000,000	11/17/2005	11/15/2035	\$250,000,000	\$2,187,500	\$150,000	\$247,662,500	6.118%	\$250,000,000	\$15,296,070
Environmental Improvement Revenue Refunding Bonds											
10	Series 1998-A Due 2015-4.75% Coupon	\$56,500,000	8/11/1998	9/1/2015					4.776%	\$56,500,000	\$2,698,440
11	Series 1998-B Due 2015-4.75% Coupon	\$50,000,000	8/11/1998	9/1/2015					4.774%	\$50,000,000	\$2,387,000
12	Series 1998-C Due 2035-4.65% Coupon	\$50,000,000	8/11/1998	9/1/2035					4.837%	\$50,000,000	\$2,418,500
13	Series 1998-D Due 2017-4.75% Coupon	\$40,000,000	8/11/1998	10/1/2017					4.774%	\$40,000,000	\$1,909,744
Other Long-Term Debt											
14	Unamortized Discount on Senior Notes									(1,909,561)	\$0
15	Loss/(Gain) on Reacquired Debt									\$0	\$ 504,094
16	Weighted Cost of Interest Rate Management Products									\$0	\$1,728,954
17	Total KCP&L Long-Term Debt Capital									\$1,003,358,439	\$58,346,344
					At September 30, 2007						
18	KCP&L Weighted Avg. Cost of Long-Term Debt Capital				At September 30, 2007			5.815%			

**Kansas City Power and Light
ER-2007-0291**

KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY
Weighted Average Cost of Long-Term Debt Capital
At September 30, 2007

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	Senior Notes Due 2017 - 6.875% Coupon	\$100,000,000	9/25/2007	9/15/2017	\$100,000,000	\$650,000	\$500,000	\$98,850,000	7.037%	\$100,000,000	\$7,037,102
<u>Affordable Housing Notes</u>											
2	Missouri Affordable Housing Fund IX - NDI	\$3,907,767	3/30/1999	10/1/2008					7.600%	\$856,132	\$65,066
<u>Other Long-Term Debt</u>											
3	Unamortized Discount on Senior Notes									(\$516,000)	
4	Weighted Cost of Interest Rate Management Products										\$7,458
5	Total GPE Only Long-Term Debt Capital				At September 30, 2007					\$100,340,132	\$7,109,627
6	GPE Only Weighted Avg. Cost of Long-Term Debt Capital				At September 30, 2007			7.086%			
GREAT PLAINS ENERGY											
7	Total GPE Long-Term Debt Capital				At September 30, 2007					\$1,103,698,571	\$65,455,970
8	GPE Weighted Avg. Cost of Long-Term Debt Capital				At September 30, 2007			5.931%			

- (1) Expenses associated with the Senior Notes issue are being amortized over a 10 year period.
(2) Expenses associated with the Senior Notes issue are being amortized over a 10 year period.
(3) Expenses associated with the Senior Notes are being amortized over a 30 year period.
(4) Expenses associated with the Senior Notes issue are being amortized over a 10 year period.

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Kansas City Power and Light Company
Case No. ER-2007-0291

Weighted Cost of Capital as of September 30, 2007
for Kansas City Power and Light Company

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
			9.14%	9.72%	10.30%
Common Stock Equity	57.62%	—	5.27%	5.60%	5.93%
Preferred Stock	1.45%	4.29%	0.06%	0.06%	0.06%
Long-Term Debt	40.93%	5.93%	2.43%	2.43%	2.43%
Short-Term Debt	0.00%				
Total	<u>100.00%</u>		<u>7.76%</u>	<u>8.09%</u>	<u>8.42%</u>

Notes:

See Schedule 9 for the Capital Structure Ratios.

Embedded Cost of Long-Term Debt and Embedded Cost of Preferred Stock Taken from Response to DR 0178.1.