Exhibit No.:

Issue: Capital Structure Witness: Michael W. Cline

Type of Exhibit: True-Up Direct Testimony

Sponsoring Party: KCP&L Greater Missouri Operations Company

Case No.: ER-2010-0356

Date Testimony Prepared: February 22, 2011

## MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

## TRUE-UP DIRECT TESTIMONY

OF

## MICHAEL W. CLINE

## ON BEHALF OF

## KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri February 2011

KCPL Exhibit No. 6Mo 54

Date 3/4/11 Reporter SNR

File No. ER-2010-0356

# TRUE-UP DIRECT 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 testimony in this matter?         |         |        |               |  |  |
| 5  | A: | Yes, I am.  |         |        |               |  |  |
| 6  | Q: | What is the purpose of your true-up direct testimony?                                     |         |        |               |  |  |
| 7  | A: | In my testimony, I will provide updates to the capital structure and cost of capital that |         |        |               |  |  |
| 8  |    | KCP&L Greater Missouri Operations Company ("GMO" or the "Company") is                     |         |        |               |  |  |
| 9  |    | requesting in this proceeding.  |         |        |               |  |  |
| 10 | Q: | Please update the Company's requested capital structure and overall rate of return.       |         |        |               |  |  |
| 11 | A: | The following table identifies the Company's requested capital structure components and   |         |        |               |  |  |
| 12 |    | the resulting overall rate of return:   |         |        |               |  |  |
| 13 |    | Requested Capital Structure   |         |        |               |  |  |
| 14 |    | Capital Components  | Ratio   | Cost   | Weighted Cost |  |  |
| 15 |    | Debt  | 48.58%  | 6.42%  | 3.11%         |  |  |
| 16 |    | Equity-linked convertible debt  | 4.52%   | 13.59% | 0.61%         |  |  |
| 17 |    | Preferred stock   | 0.61%   | 4.29%  | 0.03%         |  |  |
| 18 |    | Common equity   | 46.29%  | 10.75% | 4.98%         |  |  |
| 19 |    | TOTAL   | 100.00% |        | 8.73%         |  |  |

1 Q: What is the basis for the Company's requested capital structure and overall rate of

2 return?

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A: The requested capital structure and cost rates for debt, equity-linked convertible and preferred stock are calculated from Great Plains Energy's actual capital structure as of December 31, 2010. The requested return on equity is the recommendation contained in the rebuttal testimony of GMO witness Dr. Samuel C. Hadaway.

7 Q: How does this capital structure and overall rate of return vary from the original
8 request filed by the Company in this proceeding?

A: The Company's initial overall rate of return and capital structure request, contained in Dr. Hadaway's direct testimony as shown in the table below, was based on Great Plains Energy's *projected* capital structure at December 31, 2010.

#### **Initial Requested Capital Structure**

| 13 | Capital Components             | Ratio   | Cost   | Weighted Cost |
|----|--------------------------------|---------|--------|---------------|
| 14 | Debt                           | 48.69%  | 6.73%  | 3.28%         |
| 15 | Equity-linked convertible debt | 4.53%   | 13.59% | 0.61%         |
| 16 | Preferred stock                | 0.62%   | 4.29%  | 0.03%         |
| 17 | Common equity                  | 46.16%  | 11.00% | 5.08%         |
| 18 | TOTAL                          | 100.00% |        | 9.00%         |

The Company's actual capital structure as of December 31, 2010 reflects a slightly higher common equity component and slightly lower debt, equity-linked convertible debt and preferred stock components. The overall rate of return based on the Company's actual capital structure as of December 31, 2010 reflects a lower cost of debt and the lower requested return on common equity contained in the rebuttal testimony of Dr. Hadaway.

- 1 Q: What accounts for the difference in the capital structure?
- 2 A: The actual GPE consolidated common equity balance as of December 31, 2010 was \$15
- 3 million higher than initially projected due to actual 2010 earnings being \$17 million
- 4 higher than initially projected.
- 5 Q: What accounts for the difference in the cost of debt?
- 6 A: The initial projected cost of debt as of December 31, 2010 included a projected \$250
- 7 million debt issuance with a cost of 5.54%. The actual cost of the \$250 million debt
- 8 issuance completed in August 2010, including the cost of an interest rate forward starting
- 9 swap associated with the issuance, was 3.86%. This reduced the weighted average cost of
- debt as of December 31, 2010 from the projected level of 6.73% to 6.42%.
- 11 Q: Does that conclude your testimony?
- 12 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 )  |
| OUNTY 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 Direct  |
| Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of three   |
| (3) 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   |
| Subscribed and sworn before me this 22 md day of February, 2011.   |
| Notary Public  |
| My commission expires: May 23, 2019  DONNA J. STOWAY Notary Public, Notary Seal State of Missouri Clay County Commission # 10889620 My Commission Expires May 23, 2014 |