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**Missouri Public
Service Commission**

Exhibit No.:

Issue: Capital Structure;
Additional Amortizations

Witness: Michael W. Cline

Type of Exhibit: True-Up Direct Testimony

Sponsoring Party: Kansas City Power & Light Company

Case No.: ER-2007-0291

Date Testimony Prepared: November 2, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2007-0291

TRUE-UP DIRECT TESTIMONY

OF

MICHAEL W. CLINE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
November 2007**

**** [REDACTED] ** Designates "Highly Confidential" Information
Has Been Removed.
Certain Schedules Attached To This Testimony Designated "HC"
Have Been Removed
Pursuant to 4 CSR 240-2.135.**

Company Exhibit No. 36
Case No(s) ER-2007-0291
Date 11-9-07 **Rptr** PE

TRUE-UP DIRECT TESTIMONY

OF

MICHAEL W. CLINE

Case No. ER-2007-0291

1 **Q: Are you the same Michael Cline who submitted Direct and Rebuttal Testimony in**
2 **this proceeding?**

3 A: Yes, I am.

4 **Q: What is the purpose of your True-Up Direct Testimony?**

5 A: In my testimony, I will provide updates of the capital structure and amount of Additional
6 Amortizations that the Company is requesting in this proceeding

7 **Q: Please update the Company's requested capital structure and overall rate of return.**

8 A: The following table identifies the Company's requested capital structure components and
9 the resulting overall rate of return:

Requested Capital Structure			
<u>Capital Components</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	40.93%	5.93%	2.43%
Preferred Stock	1.45%	4.29%	0.06%
Common Equity	57.62%	11.25%	6.48%
TOTAL	100.00%		8.97%

16 **Q: What is the basis for the Company's requested capital structure and overall rate of**
17 **return?**

18 A: The requested capital structure and cost rates for debt and preferred stock are calculated
19 from Great Plains Energy's actual capital structure at September 30, 2007. The requested

1 return on equity is the recommendation contained in the Direct Testimony of KCPL
2 witness Dr. Samuel C. Hadaway. These data are contained in Schedule MWC-8.

3 **Q: How does this capital structure vary from the original request filed by the Company**
4 **in this proceeding?**

5 A: The Company's initial capital structure request, contained in Dr. Hadaway's Direct
6 Testimony, was based on Great Plains Energy's *projected* capital structure at September
7 30, 2007.

Requested Capital Structure			
Capital Components	Ratio	Cost	Weighted Cost
Debt	45.24%	6.09%	2.76%
Preferred Stock	1.33%	4.29%	0.06%
Common Equity	53.43%	11.25%	6.01%
TOTAL	100.00%		8.83%

14 The Company's actual capital structure as of September 30, 2007 reflected a lower long-
15 term debt component and a higher equity component than the projected levels initially
16 reflected by Dr. Hadaway.

17 **Q: What accounts for this difference?**

18 A: The principal difference is that the initially projected long-term debt component as of
19 September 30, 2007 reflected an issuance of ** [REDACTED] ** of new long-term debt by
20 KCPL in September 2007. That offering was not completed.

21 **Q: What are the Company's current plans with respect to that offering?**

22 A: The Company has, to date, not completed this offering but still plans to do so when
23 market conditions are amenable. As described in my Rebuttal Testimony in this
24 proceeding, rather than issuing long-term debt at KCPL as reflected in Dr. Hadaway's
25 Schedule SCH-2, page 7, the Company now plans to issue hybrid debt at Great Plains

1 Energy, with the entire amount of net proceeds contributed to KCPL as capital. The
2 amount is expected to be increased from **[REDACTED]** to **[REDACTED]**.

3 **Q: Does the Company have a specific target date by which it plans to complete the**
4 **hybrid offering?**

5 A: Great Plains Energy is hopeful to be able to complete the offering **[REDACTED]
6 [REDACTED]**; however, such a target is, at best, uncertain in the current environment. Since
7 June 2007, global credit markets have been highly volatile and accessing the market on
8 attractive terms has been difficult for prospective borrowers. As such, while the offering
9 remains part of Great Plains Energy's financing plans, there can be no assurance that the
10 Company will complete its offering by any particular date.

11 **Q: Does the updated capital structure impact the amount of Additional Amortizations**
12 **for which KCPL is filing in this rate case?**

13 A: Yes. Based on the updated capital structure, and a number of other adjustments to the
14 components of KCPL's case from the initial filing in January 2007, KCPL now estimates
15 that Additional Amortizations in the amount of \$14,155,968 above the \$21.7 million
16 granted in Case No. ER-2006-0314 is needed in this proceeding. Schedule MWC-9
17 contains the supporting calculations for this amount.

18 **Q: Are there any changes to the methodology used by KCPL in calculating the amount**
19 **of the Additional Amortizations requested in the current proceeding?**

20 A: Yes. Line 27b in Schedule MWC-9 has been added to reduce Funds from Operations by
21 the after-tax impact of short-term interest payments. Additionally, Line 38 in Schedule
22 MWC-9 has been adjusted to calculate short-term debt interest based on the weighted
23 average rate for the short-term debt balances shown on Line 37.

1 **Q: Why was this change in methodology necessary?**

2 A: The calculation of Funds from Operations by Standard & Poor's is net of interest
3 payments on both short-term and long-term debt. Previously, in the calculation reflected
4 in Schedule MWC-9, line 27 deducted only the long-term interest from the Operating
5 Income shown on line 26. Consequently, the short-term interest needed to also be
6 deducted from Operating Income for purposes of this calculation. The income taxes
7 included on line 22 in the calculation of Operating Income include the tax impact of the
8 long-term interest only, so the short-term interest deduction shown on line 27b must be
9 made net of income taxes.

10 **Q: Would this change in methodology have changed the amount of Additional**
11 **Amortizations initially requested in the current proceeding?**

12 A: No. The calculation of the amount of Additional Amortizations in the initial filing did
13 not include a projected short-term debt balance or projected short-term interest so there
14 would have been no impact on the Funds from Operations calculation and thus no impact
15 on the amount of Additional Amortizations at the time of the initial filing.

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

17 A: Yes, it does.

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariff to) Case No. ER-2007-0291
Continue the Implementation of Its Regulatory Plan)

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

1. My name is Michael W. Cline. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Treasurer.

2. Attached hereto and made a part hereof for all purposes is my True-Up Direct Testimony on behalf of Kansas City Power & Light 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.

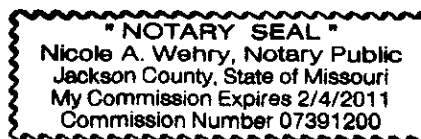
Michael W. Blinn

Michael W. Cline

Subscribed and sworn before me this 2nd day of November 2007.

Nicole H. Wenz
Notary Public

My commission expires: Feb. 4 2011



GREAT PLAINS ENERGY INCORPORATED

Capitalization

At September 30, 2007 (Est.)

(\$ in 000's)

CAPITAL COMPONENT	AMOUNT	PERCENT	REQUIRED RETURN	WEIGHTED RETURN
Long-Term Debt (Note 1)	1,103,699	40.93%	5.93%	2.43%
Preferred Stock	39,000	1.45%	4.29%	0.06%
Common Equity	1,530,176			
Equity Adj. For All OCI	(23,351)			
Adj. Common Equity	1,553,527	57.62%	11.25%	6.48%
	<u>\$2,696,226</u>	<u>100.00%</u>		<u>8.97%</u>

Note 1: Includes amounts classified as current liabilities.

SCHEDULE MWC-8, PAGES 2-4

**THESE DOCUMENTS CONTAIN
HIGHLY CONFIDENTIAL
INFORMATION NOT AVAILABLE
TO THE PUBLIC**

Missouri Jurisdictional Additional Amortization for 2007 Filing

Includes \$21,679,061 Credit Ratio Amortization from ER-2006-0314

Line		Total Company	Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
1	Additional net Assets on KCPL's balance sheet		22,105,884		
2	Rate Base	Rev Req Model Sch 1-055 (COL 604)	1,292,032,868		
3	Net Assets supported by LTD & Equity	NA	1,314,138,752		
4	Jurisdictional Allocator for Capital	Jurisdictional Rate Base (COL 604) / Total Company Rate Base (COL 603)	52.71%		
5					
6	Total Capital	Misc% %-031*1000	2,696,225,541	1,314,138,752	1,314,138,752
7	Equity	Misc% %-030*1000	1,553,526,970	757,188,137	757,188,137
8	Preferred	Misc% %-028*1000	39,000,000	19,008,577	19,008,577
9	Long-term Debt	Misc% %-028*1000	1,103,698,571	537,942,038	537,942,038
10	Cost of Debt	Misc% %-034	5.93%	5.93%	5.93%
11	Interest Expense	Line 9 * Line 10	65,433,265	31,892,135	31,892,135
12					
13	Retail Sales Revenue	Rev Req Model Sch 1-014 plus Revenue Requirement	0	648,237,723	662,393,691
14	Other Revenue	Rev Req Model Sch 1-014 plus Revenue Requirement	0	0	0
15	Operating Revenue	Rev Req Model Sch 1-014 plus Revenue Requirement	0	648,237,723	662,393,691
16					
17	Operating & Maintenance Expenses	Rev Req Model Sch 1-017 through 1-019 plus Rev Req Bad Debt	349,560,690		349,560,690
18	Depreciation	Rev Req Model Sch 1-020	73,388,512		73,388,512
19	Amortization	Rev Req Model Sch 1-021	26,906,519	14,155,968	41,062,487
20	Interest on Customer Deposits	Rev Req Model Sch 1-022 (MO) or 1-023 (KS)	438,857		438,857
21	Taxes other than income taxes	Rev Req Model Sch 1-024 plus Rev Req KCMO Earnings Taxes	39,792,360		39,792,360
22	Federal and State income taxes	Rev Req Model Sch 1-025 plus Rev Req Income Taxes	42,294,020		42,294,020
23	Gains on disposition of plant	Rev Req Model Sch 1-026	0	0	0
24	Total Electric Operating Expenses	Sum of Lines 17 to 23	532,380,958	14,155,968	546,536,926
25					
26	Operating Income	Rev Req Model Sch 1-029	0	115,856,765	115,856,765
27	less Long-term Interest Expense	- Line 11	(31,892,135)	-	(31,892,135)
27b	less Short-term Interest Expense net of tax	- Line 38 * (1 - line 69)	(4,783,218)	-	(4,783,218)
28	Depreciation	Rev Req Model Sch 1-020	73,388,512		73,388,512
29	Amortization	Rev Req Model Sch 1-021	26,906,519	14,155,968	41,062,487
30	Deferred Taxes	Rev Req Model Sch 7-114 (COL 604)	(1,497,974)	(5,488,269)	(6,986,242)
31	Funds from Operations (FFO)	Sum of Lines 26 to 30	177,978,470	8,667,699	186,646,168
32					
33	Net Income	Line 26 + Line 27	83,964,630	-	83,964,630
34	Return on Equity	Line 33 / Line 7	0.0%	11.089%	11.1%
35	Unadjusted Equity Ratio	Line 7 / Line 6	57.6%	57.6%	57.6%

Additional financial information needed for the calculation of ratios

36	Capitalized Lease Obligations	KCPL Trial Balance accts 227100 & 243100	2,263,682	1,193,189	1,193,189
37	Short-term Debt Balance	KCPL Trial Balance accts 231xxx	258,647,000	135,333,088	135,333,088
38	Short-term Debt Interest	KCPL average short-term debt rate * Line 37	14,820,473	7,811,886	7,811,886

Adjustments made by Rating Agencies for Off-Balance Sheet Obligations

39	Debt Adjustments for Off-Balance Sheet Obligations				
40	Operating Lease Debt Equivalent	Present Value of Operating Lease Obligations discounted @ 5.93%	86,659,561	45,678,340	45,678,340
41	Purchase Power Debt Equivalent	Present Value of Purchase Power Obligations discounted @ 5.93%	20,171,391	10,632,360	10,632,360
42	Accounts Receivable Sale	KCPL Trial Balance account 142011	70,000,000	36,897,069	36,897,069
43	Total OBS Debt Adjustment	Sum of Lines 40 to 42	176,830,953	93,207,769	93,207,769
44	Depreciation Adjustment for Operating Leases		10,477,788	5,522,852	5,522,852
45	Interest Adjustments for Off-Balance Sheet Obligations				
46	Present Value of Operating Leases	Line 40 * 5.93%	5,137,551	2,708,061	2,708,061
47	Purchase Power Debt Equivalent	Line 41 * 5.93%	1,195,870	630,344	630,344
48	Accounts Receivable Sale	Line 42 * 5%	3,500,000	1,844,853	1,844,853
49	Total OBS Interest Adjustment	Sum of Lines 46 to 48	9,833,521	5,183,259	5,183,259

Ratio Calculations

50	Adjusted Interest Expense	Line 11 + Line 38 + Line 49	90,087,259	44,887,280	44,887,280
51	Adjusted Total Debt	Line 9 + Line 36 + Line 37 + Line 43	1,541,440,205	768,676,083	768,676,083
52	Adjusted Total Capital	Line 6 + Line 38 + Line 37 + Line 43	3,133,967,175	1,544,872,797	1,544,872,797
53					
54	FFO Interest Coverage	(Line 31 + Line 50) / Line 50	1.00	4.97	0.19
55	FFO as a % of Average Total Debt	Line 31 + line 44 / Line 51	0.7%	23.9%	1.1%
56	Total Debt to Total Capital	Line 51 / Line 52	49.2%	49.8%	49.8%

Changes required to meet ratio targets

57	FFO Interest Coverage Target		3.80	3.80	0.00
58	FFO adjustment to meet target	(Line 57 - Line 54) * Line 50	252,244,326	(52,294,086)	(8,667,699)
59	Interest adjustment to meet target	Line 31 * (1 / (Line 57 - 1) - 1 / (Line 54 - 1))	-	-	21,772,066
60					
61	FFO as a % of Average Total Debt Target		25%	25%	0%
62	FFO adjustment to meet target	(Line 61 - Line 55) * Line 51	374,882,263	8,667,699	(8,667,699)
63	Debt adjustment to meet target	Line 31 * (1 / Line 61 - 1 / Line 55)	-	(33,627,306)	33,627,306
64					
65	Total Debt to Total Capital Target		51%	51%	0%
66	Debt adjustment to meet target	(Line 65 - Line 56) * Line 52	56,883,054	19,209,043	-
67	Total Capital adjustment to meet target	Line 51 / Line 65 - Line 52	(111,535,400)	(37,664,791)	-

Amortization and Revenue needed to meet targeted ratios

68	FFO adjustment needed to meet target ratios	Maximum of Line 58, Line 62, or Zero	374,882,263	8,667,699	(8,667,699)
69	Effective income tax rate	Accounting Schedule 11	38.77%	38.77%	38.77%
70	Deferred income taxes *	- Line 68 * Line 69 / (1 - Line 69)	(237,370,331)	(5,488,269)	5,488,269
71	Total amortization required for the FFO adjustment	Line 68 - Line 70	612,252,594	14,155,968	(14,155,968)
72					
73	Retail Sales Revenue Adjustment	Adjustment = Line 13	648,237,723	14,155,968	662,393,691
74	Percent increase in retail sales revenue	Line 73 Jurisdictional Adjustments / Line 73 Jurisdictional		2.2%	
* Adjusted for known and measurable changes including changes related to new plant in-service					