

Exhibit No.: Issues: Witness: Sponsoring Party: Type of Exhibit: File No.:

Short-Term Debt Rate Matthew J. Barnes MO PSC Staff Direct Testimony ER-2012-0024 October 21, 2011

Missouri Public Date Testimony Prepared: Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

MATTHEW J. BARNES

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2012-0024

Jefferson City, Missouri October 2011

Staff Exhibit No. 6 Date 1512 Reporter R-2012-000 File No

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Determination of) Carrying Costs for the Phase-In Tariffs of) KCP&L Greater Missouri Operations) Company)

File No. ER-2012-0024

AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI)) ss COUNTY OF COLE)

Matthew J. Barnes, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of $\underline{4}$ pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Subscribed and sworn to before me this $\frac{27}{2}$ day of October, 2011.

SUSAN L. SUNDERMEYER Notary Public - Notary Seal State of Missouri Commissioned for Callaway County My Commission Expires: October 03, 2014 Commission Number: 10942086

23 OF 45 MATTHEW J. BARNES 66 KCP&L GREATER MISSOURI OPERATIONS COMPANY 89 FILE NO. ER-2012-0024 10 11 12 Q. What is your name and business address? 13 A. My name is Matthew J. Barnes, and my business address is Missouri Publi 14 Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.	•
5 MATTHEW J. BARNES 6 KCP&L GREATER MISSOURI OPERATIONS COMPANY 8 FILE NO. ER-2012-0024 10 11 12 Q. What is your name and business address? 13 A. My name is Matthew J. Barnes, and my business address is Missouri Publi	
 KCP&L GREATER MISSOURI OPERATIONS COMPANY FILE NO. ER-2012-0024 Q. What is your name and business address? A. My name is Matthew J. Barnes, and my business address is Missouri Public 	
 9 10 11 12 13 14 15 16 17 18 19 19 10 10 11 12 13 14 15 16 17 18 18 19 19 19 10 10 10 10 10 11 12 13 14 15 16 17 18 19 19 10 10 10 11 12 14 15 16 17 18 19 19 10 <l< th=""><th></th></l<>	
111213A.My name is Matthew J. Barnes, and my business address is Missouri Public	
A. My name is Matthew J. Barnes, and my business address is Missouri Publi	
14 Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.	c
Q. What is your present position at the Missouri Public Service Commission	n
16 ("Commission")?	
A. I am a Utility Regulatory Auditor IV in the Regulatory Review Division	ι,
18 Utility Operations Department, Energy Resource Analysis Section.	
Q. What is your education and background experience?	
A. I graduated from William Woods University in May 2005 with a Masters in	n
21 Business Administration with an Emphasis in Accounting. I graduated from Columbia	a
22 College with a Bachelor of Science in Business Administration with an Emphasis in	n
23 Accounting in December 2002. I have been employed by the Missouri Public Service	е
24 Commission since June 2003.	
Q. Would you please summarize the purpose of your direct testimony?	
A. Because KCP&L Greater Missouri Operations Company's ("GMO" or	r
27 "Company") fuel adjustment clause uses "interest at its short-term borrowing rate"—average	e
28 interest paid on short-term debt-to calculate the carrying costs for the under- or over-	-
29 collection of the costs and revenues that flow through that clause, I present recent historica	1
1	

Direct Testimony of Matthew J. Barnes

25 26

1	information about GMO's interest at its short-term borrowing rate that was used for that
2	calculation. Over the past twenty months those rates have ranged from just under two percent
3	to just under four percent per year.
4	Q. Why are you providing this short-term borrowing rate information?
5	A. In its Order Suspending Tariff Sheets and Directing Filing the Commission
6	issued June 2, 2011, in GMO's last general electric rate case, File No. ER-2010-0356, the
7	Commission stated:
8 9 10 11 12	No later than June 8, 2011, the parties shall file a pleading stating KCP&L Greater Missouri Operations Company's short-term debt and any arguments why the "carrying costs" for the phased-in tariffs should not be equal to the short-term debt cost.
13	I understand that an issue in this case is the cost of short-term debt that should be used for
14	determining the "carrying costs" for the phase-in of GMO's rate increase the Commission
15	ordered in File No. ER-2010-0356. Staff witness David Murray is the primary witness
16	sponsoring testimony on the reasonableness of the 3.25 percent rate used as a proxy for
17	GMO's cost of short-term debt and agreed to be used as a "carrying cost" in the Non-
18	Unanimous Stipulation and Agreement between GMO and Staff filed on September 2, 2011.
19	I am providing testimony discussing "carrying costs" because of my familiarity with
20	"carrying costs" in the context of GMO's fuel adjustment clause. I regularly review GMO's
21	"interest at its short-term borrowing rate"-average interest paid on short-term debt-to
22	calculate the "carrying costs" for the under- or over-collection of the costs and revenues that
23	flow through that clause as shown by the portions of Section 386.266, RSMo. Supp. 2011,
24	quoted following:

4. The commission shall have the power to approve, modify, or reject adjustment mechanisms submitted under subsections 1 to 3 of this section

Direct Testimony of Matthew J. Barnes

1 only after providing the opportunity for a full hearing in a general rate 2 3 proceeding, including a general rate proceeding initiated by complaint. The commission may approve such rate schedules after considering all relevant 4 factors which may affect the costs or overall rates and charges of the 5 corporation, provided that it finds that the adjustment mechanism set forth in 6 the schedules: 7 * * * * 8 (2) Includes provisions for an annual true-up which shall accurately and 9 appropriately remedy any over- or under- collections, including *interest at the* utility's short-term borrowing rate, through subsequent rate adjustments or 10 refunds; (Emphasis added.) 11 12 Why are you familiar with the use of average interest paid on short-term debt Q 13 in connection with GMO's fuel adjustment clause? In my work for the Energy Resource Analysis Section, I have reviewed GMO's 14 A. 15 interest at its short-term borrowing rate that has been used for its fuel adjustment clause for 16 purposes of cost adjustment factor ("CAF") and true-up adjustments. Q. How often is GMO's average interest paid on short-term debt used for its fuel 17 18 adjustment clause change? 19 Α. It changes monthly, as the LIBOR (London Inter-bank Offered Rate) changes. 20 How is GMO's average interest paid on short-term debt used for its fuel Q. 21 adjustment clause calculated? 22 It is calculated by adding to a LIBOR as of the closing at the end of each Α. month an investment grade margin based on the Guarantor's (Great Plains Energy's) long-23 term debt credit rating. 24 As annual rates for each month, what was GMO's average 25 Q. interest paid on short-term debt from January 2010 to August 2011 for the three-month 26 LIBOR that was used for its fuel adjustment clause? 27

3

Direct Testimony of Matthew J. Barnes

1	A.	They a	re the rate	s thát app	ear in the t	able that fo	ollows:		
	<u>Jan-10</u> 2.00%	<u>Feb-10</u> 1.90%	<u>Mar-</u> 2.00%	<u>Apr-10</u> 1.90%	<u>Mav-10</u> 2.00%	<u>Jun-10</u> 2.00%	<u>Jul-10</u> 2.10%	<u>Aug-10</u> 3.83%	<u>Sep-10</u> 2.95%
	<u>Oct-10</u> 2.95%	<u>Nov-10</u> 2.95%	<u>Dec-10</u> 2.95%	<u>Jan-11</u>	<u>Feb-11</u> 2.95%	<u>Mar-11</u> 2.95%	<u>Apr-11</u> 2.95%	<u>Mav-11</u> 2.95%	<u>June-11</u> 2.75%
	<u>July-11</u>	<u>Aug-11</u>							
2	2.77%	3.21%							
3	Q.	What w	vas the av	erage of C	GMO's ave	erage inter	est paid o	n short-ter	m debt over
4	the 12-mont	h period e	nding Au	gust 20113	?				
5	А.	It was 2	2.94 perce	nt (See A	ttachment .	A).			
6	Q.	Why a	re you p	resenting	this histo	rical infor	mation a	bout GM	O's average
7	interest paid on short-term debt that was used for purposes of its fuel adjustment clause?								
8	A. Because the interest at the utility's short-term borrowing rate referred to in the								
9	fuel adjustment clause statute, section 386.266, RSMo. Supp. 2011, and the "carrying costs"								
10	provision in the rate phase-in statute, section 393.155, RSMo. 2000, are intended to allow the								
11	recovery of t	the time va	alue of mo	oney. The	erefore, this	s is pertine	ent inform	ation the (Commission
12	may consider when deciding the carrying costs for the phase-in of GMO's rates. Staff witness								
13	David Murray is testifying as to the reasonableness of the use of 3.25 percent as a proxy for								
14	GMO's cost of short-term debt on a going-forward basis.								
15	Q.	Does th	is conclue	le your di	rect testime	ony?			
16	Α.	Yes it d	oes.						

4

OF

MATTHEW J. BARNES

CASE PARTICIPATION

Date Filed	Issue	Case Number.	Exhibit	Case Name
09/08/2004	Merger with TXU Gas	GM20040607	Staff Recommendation	Atmos Energy Corporation
10/15/2004	Rate of Return	TC20021076	Supplemental Direct	BPS Telephone Company
06/28/2005	Finance *	EF20050387	Staff Recommendation	Kansas City Power and Light Company
06/28/2005	Finance *	EF20050388	Staff Recommendation	Kansas City Power and Light Company
08/31/2005	Finance *	EF20050498	Staff Recommendation	Kansas City Power and Light Company
11/15/2005	Spin-off of landline operations	1020060086	Rebuttal	Sprint Nextel Corporation
03/08/2006	Spin-off of landline operations	TM20060272	Rebuttal	Alltel Missouri, Inc.
08/08/2006	Rate of Return	ER20060314	Direct	Kansas City Power & Light Company
09/08/2006	Rate of Return	ER20060314	Rebuttal	Kansas City Power & Light Company
09/13/2006	Rate of Return	GR20060387	Direct	Atmos Energy Corporation

OF

MATTHEW J. BARNES

CASE PARTICIPATION

Date Filed	Issue	Case Number	Exhibit	Case Name
10/06/2006	Rate of Return	ER20060314	Surrebuttal	Kansas City Power & Light Company
11/07/2006	Rate of Return	ER20060314	True-Up Direct	Kansas City Power & Light Company
11/13/2006	Rate of Return	GR20060387	Rebuttal	Atmos Energy Corporation
11/23/2006	Rate of Return	GR20060387	Surrebuttal	Atmos Energy Corporation
12/01/2006	Rate of Return	WR20060425	Direct	Algonquin Water Resources of Missouri LLC
12/28/2006	Rate of Return	WR20060425	Rebuttal	Algonquin Water Resources of Missouri LLC
01/12/2007	Rate of Return	WR20060425	Surrebuttal	Algonquin Water Resources of Missouri LLC
02/07/2007	Finance *	GF20070220	Staff Recommendation	Laclede Gas Company
05/04/2007	Rate of Return	GR20070208	Direct	Laclede Gas Company
07/24/2007	Rate of Return	ER20070291	Direct	Kansas City Power and Light Company

OF

MATTHEW J. BARNES

CASE PARTICIPATION

Date Filed	Issue	Case Number	Exhibit.	Case Name
08/30/2007	Rate of Return	ER20070291	Rebuttal	Kansas City Power and Light Company
09/20/2007	Rate of Return	ER20070291	Surrebuttal	Kansas City Power and Light Company
11/02/2007	Rate of Return	ER20070291	True-up Direct	Kansas City Power and Light Company
02/01/2008	Finance *	EF20080214	Staff Recommendation	Kansas City Power and Light Company
02/22/2008	Rate of Return	ER20080093	Staff Report	The Empire District Electric Company
04/04/2008	Rate of Return	ER20080093	Rebuttal Testimony	The Empire District Electric Company
04/25/2008	Rate of Return	ER20080093	Surrebuttal Testimony	The Empire District Electric Company
08/18/2008	Rate of Return	WR20080311	Staff Report	Missouri-American Water Company
09/30/2008	Rate of Return	WR20080311	Rebuttal Testimony	Missouri-American Water Company
10/16/2008	Rate of Return	WR2008031	Surrebuttal Testimony	Missouri-American Water Company

OF

MATTHEW J. BARNES

CASE PARTICIPATION

Date Filed	Issue	Case Number	Exhibit	Case Name
02/26/2010	Fuel Adjustment Clause	ER20100130	Staff Report	The Empire District Electric Company
04/02/2010	Fuel Adjustment Clause	ER20100130	Rebuttal Testimony	The Empire District Electric Company
04/23/2010	Fuel Adjustment Clause	ER20100130	Surrebuttal Testimony	The Empire District Electric Company
02/23/11	Fuel Adjustment Clause	ER20110004	Staff Report	The Empire District Electric Company
04/22/11	Fuel Adjustment Clause	ER20110004	Rebuttal Testimony	The Empire District Electric Company
04/28/11	Fuel Adjustment Clause	ER20110004	Surrebuttal Testimony	The Empire District Electric Company
05/06/11	Fuel Adjustment Clause	ER20110004	True-up Direct Testimony	The Empire District Electric Company

* The Finance issue involves Staff approval for a utility company to issue debt securities and/or common stock. This includes analyzing a utility company's key credit metric ratios to determine if the issuances will have a detrimental effect on their current credit rating. The key credit metric ratios that Staff analyzes include Total Debt to Total Capital, Funds Flow From Operations as a percent of Total Debt, and Funds Flow From Operations to Interest Coverage.

KCP&L Greater Missouri Operations Company ER-2012-0024

3-Month LIBOR Rate

	3-Month Annual	
	LIBOR	
Jun-09	2.30%	
Jul-09	2.00%	
Aug-09	1.80%	
Sep-09	1.80%	
Oct-09	1.70%	
Nov-09	1.70%	
Dec-09	1.70%	
Jan-10	2.00%	
Feb-10	1.90%	
Mar-10	2.00%	
Apr-10	1.90%	
May-10	2.00%	
Jun-10	2.00%	
Jul-10	2.10%	
·		New revolver
Aug-10	3.83%	8/8/10
Sep-10	2.95%	
Oct-10	2.95%	
Nov-10	2.95%	
Dec-10	2.95%	
Jan-11	2.95%	
Feb-11	2.95%	
Mar-11	2.95%	
Apr-11	2.95%	
May-11	2.95%	
Jun-11	2.75%	
Jul-11	2.77%	
Aug-11	3.21%	
	7 94%	

12-month Average

2.94%