

Exhibit No.:
Witness: Michael Gorman
Type of Exhibit: True-Up Rebuttal Testimony
Issue: Rate of Return
Sponsoring Party: The Office of Public Counsel
Case No.: ER-2007-0291

**Before the Public Service Commission
of the State of Missouri**

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

True-Up Rebuttal Testimony and Schedule of

Michael Gorman

On behalf of

The Office of Public Counsel

Project 8829
November 6, 2007



In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Implement its Regulatory Plan

AFFIDAVIT OF MICHAEL GORMAN

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) SS

1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by the Office of Public Counsel in this proceeding on its behalf.

3. I hereby swear and affirm that my statements contained in the attached testimony and schedule are true and correct to the best of my knowledge and belief.

Michael Lane

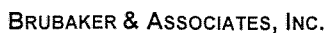
Subscribed and sworn to me this 6th day of November, 2007.

September, 2007.

Maria E. Decker

Maria E. Decker

My commission expires May 5, 2009.



**Before the Public Service Commission
of the State of Missouri**

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Kansas City Power & Light)	
Company for Approval to Make)	
Certain Changes in its Charges for)	Case No. ER-2007-0291
Electric Service to Implement Its)	
Regulatory Plan.)	

True-Up Rebuttal Testimony of Michael Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A My name is Michael Gorman and my business address is 1215 Fern Ridge Parkway,
3 Suite 208, St. Louis, MO 63141-2000.

4 **Q ARE YOU THE SAME MICHAEL GORMAN THAT HAS PREVIOUSLY FILED**
5 **TESTIMONY IN THIS CASE?**

6 A Yes.

7 **Q WHAT IS THE PURPOSE OF YOUR TRUE-UP TESTIMONY?**

8 A I will respond to Staff witness Matthew J. Barnes' proposed capital structure true-up
9 for Kansas City Power & Light (KCPL or Company) to be used to set rates in this
10 proceeding.

1 **Q WHAT CAPITAL STRUCTURE HAS STAFF WITNESS BARNES PROPOSED TO**
2 **BE USED TO SET KCPL'S RATES IN THIS PROCEEDING?**

3 A Mr. Barnes proposes a capital structure shown on his true-up direct testimony dated
4 November 2, 2007 in Schedule 1 Attachment. That capital structure contains a
5 common equity ratio of 57.6%, and long-term and short-term debt ratios of 42.93%
6 and 0%, respectively.

7 **Q IS HIS CAPITAL STRUCTURE REASONABLE FOR SETTING KCPL'S RATE OF**
8 **RETURN IN THIS PROCEEDING?**

9 A No. His capital structure is excessively weighted with common equity and should be
10 rejected. Indeed, Mr. Barnes, like his direct testimony, has performed no analysis to
11 demonstrate that KCPL's actual capital structure is just and reasonable, and
12 appropriate for setting rates. For the reasons set forth in my rebuttal testimony, the
13 capital structure used to set rates should be reasonably weighted with debt and
14 equity so as not to unreasonably inflate the utility's revenue requirement.

15 A utility capital structure too heavily weighted with common equity
16 unnecessarily increases the utility's claimed revenue deficiency because common
17 equity is the most expensive form of capital and is subject to income tax expense.
18 On the other hand, capital structure should not be weighted too heavily with debt,
19 because that would increase the financial risk of the utility to an unreasonable level
20 which would also result in an unnecessarily high cost of capital. Therefore, a capital
21 structure used to set rates should be a reasonable balance of debt and equity.

1 **Q WHAT CAPITAL STRUCTURE DID YOU RECOMMEND BE USED TO SET RATES**
2 **IN THIS PROCEEDING?**

3 A I recommended the Company's capital structure projection for September 30, 2007
4 be used to set rates in this proceeding. That capital structure contained a common
5 equity ratio of 53.43%. I found that capital structure to be reasonable, albeit
6 somewhat overly weighted with common equity.

7 **Q HOW CAN THE COMMISSION DETERMINE WHAT AN APPROPRIATE MIX OF**
8 **DEBT AND EQUITY CAPITAL STRUCTURE SHOULD BE FOR SETTING RATES?**

9 A The appropriate benchmarks to use are those published by credit rating agencies
10 which provide guidelines for utilities as to how much debt and equity they can use to
11 finance utility operations and still maintain an investment grade credit quality. By
12 maintaining investment grade credit quality, the utilities are able to go to the market
13 under reasonable terms and prices to attract capital to fund utility infrastructure
14 improvements and expansions.

15 KCPL has an investment grade bond rating from Standard & Poor's and a
16 business profile score of '6'. A utility with a business profile score of '6' can support
17 an investment grade bond rating with a total debt to total capitalization ratio in the
18 range of 48% to 58%. Indeed, in its own regulatory plan, KCPL agreed that a 51%
19 total debt to total capitalization ratio would be supportive of its credit rating during its
20 major construction program through 2012.

21 This regulatory plan debt ratio of 51% compares to Staff's proposed capital
22 structure to set rates for KCPL in this proceeding which includes a total debt ratio of
23 approximately 41%. Staff's proposed capital structure is a full 10 percentage points
24 lower than the capital structure from the debt ratio KCPL acknowledged is adequate

1 to support its bond rating. For these reasons, Staff's proposed capital structure
2 significantly and unnecessarily increases KCPL's claimed revenue deficiency in this
3 proceeding and its retail rates.

4 **Q HOW MUCH WOULD KCPL'S REVENUE REQUIREMENT BE REDUCED IF**
5 **STAFF PROPOSED A CAPITAL STRUCTURE WITH A 51% DEBT RATIO AS**
6 **OUTLINED IN KCPL'S REGULATORY PLAN?**

7 A As shown on the attached True-Up Schedule MPG-1, Staff's proposed capital
8 structure would increase KCPL's claimed revenue deficiency in this proceeding by
9 \$5.88 million compared to the capital structure I propose to use to set rates. Again,
10 this is a significant revenue increase that is unnecessary to support KCPL's credit
11 rating during its construction period. Therefore, this increase in revenue is not just
12 and reasonable, and should not be used in setting KCPL's rates in this case.

13 **Q DOES THIS CONCLUDE YOUR TRUE-UP REBUTTAL TESTIMONY?**

14 A Yes.

8829/testimony-bai/sdw

Kansas City Power & Light Company

Financial Ratios Adjustments

<u>Line</u>	<u>Description</u>	<u>Amount</u> (1)	<u>Weight</u> (2)	<u>Cost</u> (3)	<u>Weighted</u> <u>Cost</u> (4)	<u>Pre-Tax</u> <u>Interest</u> <u>Coverage</u> (5)
1	Long-Term Debt	\$ 1,103,699,000	40.93%	6.09%	2.49%	2.49%
2	Preferred Stock	\$ 39,000,000	1.45%	4.29%	0.06%	0.06%
3	Common Equity	<u>\$ 1,553,527,000</u>	<u>57.62%</u>	10.10%	<u>5.82%</u>	<u>9.45%</u>
4	Total	\$ 2,696,226,000	100.0%		8.38%	12.01%

<u>Line</u>	<u>Description</u>	<u>Amount</u> (1)	<u>Weight</u> (2)	<u>Cost</u> (3)	<u>Weighted</u> <u>Cost</u> (4)	<u>Pre-Tax</u> <u>Interest</u> <u>Coverage</u> (5)
5	Long-Term Debt	\$ 1,329,620,571	45.24%	6.09%	2.76%	2.76%
6	Preferred Stock	\$ 39,000,000	1.33%	4.29%	0.06%	0.06%
7	Common Equity	<u>\$ 1,570,096,000</u>	<u>53.43%</u>	10.10%	<u>5.40%</u>	<u>8.76%</u>
8	Total	\$ 2,938,716,571	100.0%		8.21%	11.58%
9	Tax Rate					38.39%
10	Pre-Tax ROR Change					0.43%
11	Rate Base					\$ 1,319,388,984
12	Revenue Change					<u>\$ 5,673,373</u>

Source:
Barnes True-up Direct