

*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-2006-0314*  
*Date Testimony Prepared:* *November 7, 2006*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**TRUE-UP DIRECT TESTIMONY**

**OF**

**MATTHEW J. BARNES**

**KANSAS CITY POWER AND LIGHT COMPANY**

**CASE NO. ER-2006-0314**

*Jefferson City, Missouri*  
*November 2006*

**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 )  
Certain Changes in its Charges for Electric Service )  
to Begin the Implementation of Its Regulatory Plan. )

Case No. ER-2006-0314

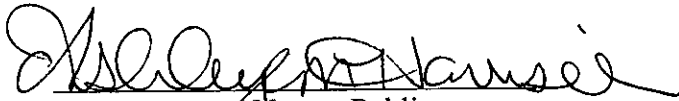
AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Matthew Barnes, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 3 pages to be presented in the above case; that the answers in the foregoing True-Up Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
Matthew J. Barnes

Subscribed and sworn to before me this 6<sup>th</sup> day of NOVEMBER 2006.

  
Notary Public



ASHLEY M. HARRISON  
My Commission Expires  
August 31, 2010  
Cole County  
Commission #06898978

1  
2  
3  
4  
5  
6

**TABLE OF CONTENTS**  
**TRUE-UP DIRECT TESTIMONY OF**  
**MATTHEW J. BARNES**  
**CASE NO. ER-2006-0314**

KCP&L’S CAPITAL STRUCTURE AS OF SEPTEMBER 30, 2006 ..... 1

SUMMARY AND CONCLUSIONS ..... 3

1

2

3

4

5

6

7

8

10

11

14

15

16

19

20

1           A.     As of September 30, 2006, KCP&L's capital structure consisted of  
2 53.69 percent equity, 1.53 percent preferred stock, and 44.79 percent long-term debt. Please  
3 see Schedule 1.

4           Q.     Did the embedded cost of long-term debt change as of September 30, 2006?

5           A.     Yes. KCP&L's embedded cost of long-term debt as of September 30, 2006,  
6 was calculated by the company to be 6.21 percent. Please see Schedule 2.

7           Q.     Why did KCP&L's embedded cost of long-term debt increase since June 30,  
8 2006?

9           A.     KCP&L's embedded cost of long-term debt increased because of the increase  
10 in interest rates associated with their interest rate management products. The increase of the  
11 embedded cost of long-term debt caused Staff's rate of return to increase 10 basis points.  
12 Staff now recommends a rate of return for KCP&L in the range of 7.85 percent to  
13 7.90 percent.

14          Q.     Did the embedded cost of preferred stock change as of September 30, 2006?

15          A.     No. The embedded cost of preferred stock as of September 30, 2006, remained  
16 the same at 4.29 percent.

17          Q.     Did Staff change its method of determining the true-up capital structure and  
18 long-term debt amounts?

19          A.     No. Staff did not change its method of determining the true-up capital  
20 structure and long-term debt amounts.

21          Q.     Does Staff still recommend a return on equity (ROE) in the range of  
22 9.32 percent to 9.42 percent with a mid-point of 9.37 percent?

23          A.     Yes. Please see Schedule 3.

1    **SUMMARY AND CONCLUSIONS**

2           Q.     Please summarize the conclusions of your true-up direct testimony.

3           A.     My recommended cost of common equity, which is in the range of  
4    9.32 percent to 9.42 percent, would produce a fair and reasonable rate of return of  
5    7.85 percent to 7.90 percent for KCP&L's Missouri jurisdictional electric utility rate base.

6           Q.     Does this conclude your true-up direct testimony?

7           A.     Yes, it does.

**Kansas City Power and Light Company  
Case No. ER-2006-0314**

**Capital Structure as of September 30, 2006  
Great Plains Energy**

<b>Capital Component</b>	<b>Dollar Amount (000's)</b>	<b>Percentage of Capital</b>
Common Stock Equity	\$ 1,372,092	53.69%
Preferred Stock	\$ 39,000	1.53%
Long-Term Debt	\$1,144,565	44.79%
Short-Term Debt	\$ -	0.00%
<b>Total Capitalization</b>	<b>\$ 2,555,657</b>	<b>100.00%</b>

**Electric Financial Ratio Benchmark  
Total Debt / Total Capital**

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

Notes: 1. Long-term Debt at September 30, 2006 includes current maturities of long-term debt. This balance also includes the amount of non-regulated debt. These balances were provided in KCP&L's response to DR 0552.

2. Short-term debt balance net of construction work in progress (CWIP) was negative as of September 30, 2006. Therefore, no short-term debt is included in the capital structure.

Source: Kansas City Power and Light's response to Staff's Data Request No. 0552

**Kansas City Power and Light  
ER-2006-0314**

**KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY  
Weighted Average Cost of Long-Term Debt Capital**

At September 30, 2006

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
<b>KANSAS CITY POWER &amp; LIGHT ONLY</b>											
<b>General Mortgage Bonds</b>											
1	Medium Term Notes - Series C (1)	\$150,000,000	Various	Various	\$150,000,000	\$968,050	\$572,926 (2)	\$148,459,024	8.085%	\$500,000	\$40,427
<b>Pledged General Mortgage Bonds</b>											
2	EIRR 1992 Series	\$31,000,000	9/15/1992	7/1/2017					3.684%	\$31,000,000	\$1,142,040
3	EIRR Hawthorn 1993 Series - 4.0% Coupon	\$12,366,000	10/14/1993	1/2/2012					4.202%	\$12,366,000	\$519,619
4	MATES Series 1993-A	\$40,000,000	12/7/1993	12/1/2023					3.616%	\$40,000,000	\$1,446,400
5	MATES Series 1993-B	\$39,480,000	12/7/1993	12/1/2023					3.585%	\$39,480,000	\$1,415,358
6	EIRR La Cygne 1994 Series - 4.05% Coupon	\$13,982,500	2/23/1994	3/1/2015					4.245%	\$13,982,000	\$593,536
	EIRR La Cygne 1994 Series - 4.65% Coupon	\$21,940,000	2/23/1994	9/1/2035					4.813%	\$21,940,000	\$1,055,972
<b>Unsecured Notes</b>											
7	Senior Notes Due 2007 - 6% (3)	\$225,000,000	3/13/2002	3/15/2007	\$224,538,750	\$1,350,000	\$327,659	\$222,861,091	6.325%	\$225,000,000	\$14,232,304
8	Senior Notes Due 2011 - 6.5% Coupon (4)	\$150,000,000	3/20/2001	11/15/2011	\$150,000,000	\$1,198,500	\$50,000	\$148,751,500	6.697%	\$150,000,000	\$10,045,902
9	Senior Notes Due 2035 -6.05% Coupon (5)	\$250,000,000	11/17/2005	11/15/2035	\$250,000,000	\$2,187,500	\$150,000	\$247,662,500	6.146%	\$250,000,000	\$15,365,776
10											
11	<b>Environmental Improvement Revenue Refunding Bonds</b>										
12	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
13	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
14	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
15	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
16											
17	<b>Other Long-Term Debt</b>										
18	Unamortized Discount on Senior Notes									(1,461,104.12)	\$0
19	Loss/(Gain) on Reaquired Debt									\$0	\$ 815,805
20	Weighted Cost of Interest Rate Management Products									\$0	\$991,236
21											
22	<b>Total KCP&amp;L Long-Term Debt Capital</b>									<b>\$979,306,896</b>	<b>\$57,078,059</b>
23											
24	<b>KCP&amp;L Weighted Avg. Cost of Long-Term Debt Capital</b>								<b>5.828%</b>		



**Kansas City Power and Light  
ER-2006-0314**

**KANSAS CITY POWER & LIGHT COMPANY AND GREAT PLAINS ENERGY  
Weighted Average Cost of Long-Term Debt Capital**

**At September 30, 2006**

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
<b>GREAT PLAINS ENERGY ONLY</b>											
<b>Unsecured Notes</b>											
1	FELINE PRIDES	\$163,600,000	6/14/2004	2/16/2009	\$163,600,000	\$1,063,400	\$129,976	\$162,406,624	8.471%	\$163,600,000	\$13,858,279
<b>Affordable Housing Notes</b>											
2	Missouri Affordable Housing Fund IX - NDH	\$3,907,767	3/30/1999	10/1/2008					7.600%	\$1,351,524	\$102,716
3	Boston Financial Tax Credit Fund I - NDH	\$1,481,000	3/30/1999	10/1/2006					7.600%	\$306,681	\$23,308
										<u>\$1,658,205</u>	<u>\$126,024</u>
4											
5	<b>Total GPE Only Long-Term Debt Capital</b>				<b>At September 30, 2006</b>					<b>\$165,258,205</b>	<b>\$13,984,303</b>
6											
7	<b>GPE Only Weighted Avg. Cost of Long-Term Debt Capital</b>				<b>At September 30, 2006</b>			<b>8.462%</b>			

**GREAT PLAINS ENERGY**

<b>Total GPE Long-Term Debt Capital</b>	<b>At September 30, 2006</b>	<b>\$1,144,565,101</b>	<b>\$71,062,362</b>
<b>GPE Weighted Avg. Cost of Long-Term Debt Capital</b>	<b>At September 30, 2006</b>	<b>6.209%</b>	

- (1) Expenses associated with the Series C Medium Term Note issue are being amortized monthly over a 12 year period.  
(2) Costs associated with the early issuance of Series C and Series D Medium Term Notes for refunding Series B Medium Term Notes and First Mortgage Bonds in April and May 1993 have been added to Issuance Expenses.  
(3) Expenses associated with the Senior Notes, Series A issue are being amortized monthly over a 5 year period.  
(4) Expenses associated with the Senior Notes issue are being amortized quarterly over a 10 year period.  
(5) Projected - Expenses associated with the Senior Notes issue are being amortized quarterly over a 30 year period.

**Kansas City Power and Light Company**  
**Case No. ER-2006-0314**

**Weighted Cost of Capital as of September 30, 2006**  
**for Kansas City Power and Light Company**

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
			9.32%	9.37%	9.42%
Common Stock Equity	53.69%	-----	5.00%	5.03%	5.06%
Preferred Stock	1.53%	4.29%	0.07%	0.07%	0.07%
Long-Term Debt	44.79%	6.21%	2.78%	2.78%	2.78%
Short-Term Debt	0.00%				
Total	<u>100.00%</u>		<u>7.85%</u>	<u>7.88%</u>	<u>7.90%</u>

Notes:

Embedded Cost of Long-Term Debt and Embedded Cost of Preferred Stock Taken from Response to DR 0552.