Exhibit No.: ______
Issues: Capital Allocations
Witness: Gregg N. Clizer
Type of Exhibit: Direct Testimony
Sponsoring Party: KCPL
Case No.: EM-2000-753
Date Testimony Prepared: December 14, 2000

Direct Testimony

of

Gregg N. Clizer

On Behalf of

Kansas City Power & Light Company

DIRECT TESTIMONY
OF
GREGG N. CLIZER
Manager, Financial Planning
Kansas City Power & Light Company

Case No. EM-2000-753

Q. **PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

A. My name is Gregg N. Clizer. I am the Manager of Financial Planning at Kansas City Power & Light Company ("KCPL"). My business address is 1201 Walnut Street, Kansas City, Missouri 64106.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of KCPL.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND BUSINESS EXPERIENCE.

A. I graduated from the University of Missouri in Columbia, Missouri in 1981 with a Bachelor of Science Degree in Industrial Engineering and from the University of Missouri in Kansas City, Missouri in 1987 with a Master of Business Degree in Business Administration. I am a registered Professional Engineer in the State of Missouri. I joined KCPL in 1981 as a Corporate Planning Engineer in the Finance Division and was promoted to Supervisor of Corporate Modeling in 1986. In 1994, I began working for KLT Inc. as a Senior Business Development Analyst. I returned to the KCPL Finance Division in February 2000 as the Manager of Financial Planning.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. To describe the capital allocators used in the KCPL Cost Allocation Manual (CAM) that is attached to the Direct Testimony of Ruth Ann Dane as Schedule RAD-1 and specifically to describe how the capital allocators were developed and how they are used.

Q. **WOULD YOU DESCRIBE THE CAPITAL ALLOCATORS?**

A. The capital allocators are used to allocate the debt, equity and related costs that are not specifically assigned in order to complete each Delivery, Power and Subsidiary Companies liability section of the balance sheet. Debt and equity are recorded in HoldingCo and the capital allocators are used to allocate these costs "off books." The capital allocators are included in the CAM behind Tab G.

Q. **HOW MANY CAPITAL ALLOCATORS ARE CALCULATED?**

A. There are two capital allocators that are calculated at the end of each period. One capital allocator is for the allocation of Common Equity and Preferred Stock. The other capital allocator is for the allocation of Debt and the company-obligated Mandatorily Redeemable Preferred Securities ("TOPrs").

Q. **HOW ARE THE EXPENSES RELATED TO CAPITAL ALLOCATED FOR EACH PERIOD FOR EACH BUSINESS UNIT'S INCOME STATEMENT?**

A. The average of the beginning of period and end of period capital allocators are used to allocate the capital costs for each period.

Q. **HOW IS THE CAPITAL ALLOCATOR FOR COMMON EQUITY AND PREFERRED STOCK ON THE BALANCE SHEET CALCULATED?**

A. The capital allocator for Common Equity and Preferred Stock was calculated as the ratio of the total capital for each business unit to the total capital for KCPL.

Q. **HOW IS THE TOTAL CAPITAL FOR EACH BUSINESS UNIT DETERMINED?**

A. For the period ending December 31, 1999, the total capital for each of the business units was determined by subtracting the liabilities other than debt that were allocated or assigned to each business unit from the total assets allocated or assigned to each business unit. The allocation or assignment of the assets and the liabilities other than debt was made as described in the Cost Allocation Manual. Some assets and liabilities that were specifically related to preferred stock or debt securities were allocated the same way the preferred stock or debt securities were allocated. Those assets and liabilities include unamortized debt expense, unamortized loss on reacquired debt, commercial paper discounts, accrued interest expense, and preferred dividends declared.

Q. **WAS THE TOTAL CAPITAL FOR EACH BUSINESS UNIT DETERMINED DIFFERENTLY FOR THE PURPOSES OF CALCULATING A BEGINNING OF PERIOD CAPITAL ALLOCATOR?**

A. Yes. Because a balance sheet by business unit has not been prepared for the beginning of the test year period, an estimate of the total capital for each of the business units was made for that point in time.

Q. **HOW WAS THE TOTAL CAPITAL BY BUSINESS UNIT ESTIMATED FOR THE BEGINNING OF THE TEST YEAR?**

The total capital by business unit was estimated for the beginning of the test year by subtracting an estimate of the increase in capital by business unit from the total capital by business unit for the end of the test year.

Q. HOW WAS THE ESTIMATE OF THE INCREASE IN CAPITAL BY BUSINESS UNIT CALCULATED FOR THE TEST YEAR?

A. The increase in capital for the test year was known for KCPL in total and also for the Subsidiary Companies business unit. An estimate of the increase in capital for the Delivery business unit and the Power business unit was calculated by multiplying the ratio of the capital for each business unit at the end of the test year to the sum of the capital for the Delivery and Power business units at the end of the test year by the difference between the total increase in capital for KCPL and the increase in capital for the Subsidiary Companies business unit.

Q. WHY IS THERE A DIFFERENT CAPITAL ALLOCATOR FOR DEBT INCLUDING TOPRS FOR THE BALANCE SHEETS BY BUSINESS UNIT?

A. Unlike the Common Equity and Preferred Stock which cannot be specifically identified with a business unit, some of the long-term debt securities can be specifically identified with a business unit. The long-term debt securities in the form of pollution control bonds and environmental improvement revenue refunding bonds specifically relate to pollution control equipment located at various power plants. These long-term debt securities and the costs associated with them have been specifically assigned to the Power business unit. Because some of the debt has been specifically assigned, a different capital allocator is used to allocate the remaining debt including TOPrs.

Q. HOW IS THE CAPITAL ALLOCATOR FOR DEBT INCLUDING TOPRS CALCULATED?

A. The capital allocator for Debt including TOPrs is calculated as the ratio of remaining allocated debt including TOPrs for each business unit to the total remaining allocated debt including TOPrs for KCPL.

Q. **HOW IS THE REMAINING ALLOCATED DEBT INCLUDING TOPRS FOR EACH BUSINESS UNIT CALCULATED?**

A. The remaining allocated debt including TOPrs for each business unit is calculated by subtracting the specifically assigned debt for each business unit from the total debt including TOPrs for each business unit.

Q. **HOW IS THE TOTAL DEBT INCLUDING TOPRS CALCULATED FOR EACH BUSINESS UNIT?**

A. The total debt including TOPrs for each business unit is calculated by subtracting the allocated Common Equity and Preferred Stock by business unit from the total capital by business unit.

Q. **WILL THE CAPITAL ALLOCATORS CHANGE FOR PERIODS AFTER DECEMBER 31, 1999?**

A. The current plans are to update the capital allocator for Debt including TOPrs at the end of each period. If no changes occur in the balance of Common Stock or Preferred Stock, then the current plans are to keep the capital allocator for Common Equity and Preferred Stock the same.

Q. **WILL THE CAPITAL ALLOCATOR FOR COMMON EQUITY AND PREFERRED STOCK BE USED FOR PERIODS AFTER DECEMBER 31, 1999, THE SAME WAY IT WAS USED FOR THE PERIOD ENDED DECEMBER 31, 1999?**

A. No. The capital allocator for Common Equity and Preferred Stock will not be used to allocate the Common Equity balance for periods after December 31, 1999.

Q. HOW WILL THE COMMON EQUITY BALANCES BE DETERMINED BY BUSINESS UNIT FOR PERIODS AFTER DECEMBER 31, 1999?

A. Current plans are to calculate the Common Equity balances by business unit for periods after December 31, 1999, by starting with the allocated common equity balances as of December 31, 1999, based on the capital allocator for Common Equity and Preferred Stock and add the cumulative net income by business unit since December 31, 1999, then subtract the cumulative common and preferred dividends by business unit since December 31, 1999.

Q. HOW WILL COMMON DIVIDENDS BE CALCULATED BY BUSINESS UNIT?

A. Current plans are to specifically assign each business unit with a portion of the total KCPL dividend. The details regarding the dividend policy by business unit have not yet been determined.

Q. HOW WILL THE PREFERRED DIVIDENDS BE CALCULATED BY BUSINESS UNIT?

A. The preferred dividends will be allocated to the business units using the average of the capital allocators used to allocate the Preferred Stock balance at the beginning and end of each period. As stated earlier, current plans are for this capital allocator to remain the same if no changes occur in the total KCPL Preferred Stock balance.

Q. HOW WILL THE ALLOCATION OF CAPITAL CHANGE AFTER THE HOLDING COMPANY IS FORMED AND THE BUSINESS UNITS ARE SEPARATE LEGAL ENTITIES?

A. Once the business units are separate legal entities, the debt will be held by those separate legal entities thus eliminating the allocation of debt.

Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes it does.

AFFIDAVIT

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

On the 6th day of December, 2000, before me appeared Gregg N. Clizer, to me personally known, who, being by me first duly sworn, states that he is the Manager of Financial Planning for Kansas City Power & Light Company, and that he has participated in the preparation of the foregoing written testimony, in question and answer form, and believes that the statements therein are true and correct to the best of his knowledge, information and belief.

GREGG N. CLIZER

Subscribed and sworn to before me this 6th day of December, 2000.

Notary Public

My Commission Expires:

CAROL S[illegible]ILS
Notary Public - Notary Seal
State of Missouri
Clay County
My Commission Expires Jun 15, 2003

NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSO[illegible]