PUBLIC VERSION

"[redacted]**" Designates
Confidential Information has been Removed.**

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

DIRECT TESTIMONY OF

MICHAEL W. CLINE

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

**IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
TO MODIFY ITS TARIFFS TO BEGIN THE
IMPLEMENTATION OF ITS REGULATORY PLAN**

DOCKET NO. 06-KCPE-828-RTS

Q: Please state your name and business address.

A: My name is Michael W. Cline. My business address is 1201 Walnut, Kansas City, Missouri, 64106-2124.

Q: By whom and in what capacity are you employed?

A: I am employed by Great Plains Energy, the parent company of Kansas City Power & Light Company ("KCPL"), as Treasurer and Chief Risk Officer.

Q: What are your responsibilities?

A: My responsibilities include financing and investing activities, cash management, bank relations, rating agency relations, enterprise risk management, and insurance.

Q: Please describe your education, experience and employment history.

A: I graduated from Bradley University in 1983 with a B.S. in Finance, summa cum laude. I earned an MBA from Illinois State University in 1988. From 1984-1991, I was employed by Caterpillar Inc. in Peoria, Illinois and held a number of finance and treasury positions. From 1992-93, I was Manager, International Treasury at Sara Lee Corporation in Chicago, Illinois. From 1994-2000, I was employed by Sprint Corporation in Overland Park, Kansas, initially as Manager, Financial Risk Management and then as Director, Capital Markets. During most of 2001, I was Assistant Treasurer, Corporate Finance, at Corning Incorporated in Corning, New York. I joined Great Plains Energy in October 2001 as Director, Corporate Finance. I was promoted to Assistant Treasurer in November 2002. During 2004, I was assigned to lead the company's Sarbanes-Oxley compliance effort on a full-time basis, though I retained the Assistant Treasurer title during that time. I was promoted to Treasurer in April 2005 and added the title of Chief Risk Officer in July 2005.

Q: Have you previously testified in a proceeding at the State Corporation Commission for the State of Kansas ("KCC" or "Commission") or before any other utility regulatory agency?

A: Yes. In 2005, I submitted testimony to the Kansas Corporation Commission in Docket No. 04-KCPE-1025-GIE (the "1025 Docket") concerning KCPL's Regulatory Plan, and I also testified before the Missouri Public Service Commission ("MPSC") concerning the Missouri counterpart to the Regulatory Plan. The Regulatory Plan is set forth in the Stipulation and Agreement ("Regulatory Plan Stipulation and Agreement") that was approved by the Commission in the 1025 Docket, which collectively includes, among other things, the Resources Plan (Appendix A), the Demand Response, Efficiency and Affordability Programs (Appendix B), and the Rate Plan (Appendix C). .

Q: What is the purpose of your testimony?

A: My testimony is in two sections. In Section 1, I will do the following: (1) review the conceptual rationale for, and methodology for determining, Contributions in Aid of Construction ("CIAC") amortization amounts to help maintain KCPL's financial ratios as outlined in the Regulatory Plan; and (2) describe the amount of CIAC amortization for which KCPL is filing in this case. Then, in Section 2 of my testimony, I will support an adjustment related to accounts receivable sales fees as discussed in the direct testimony of KCPL witness Don A. Frerking.

SECTION 1

Q: The Regulatory Plan Stipulation and Agreement discussed additional CIAC amortization amounts to help maintain KCPL's financial ratios. Please explain the significance of such amortization amounts and the maintenance of financial ratios for KCPL.

A: The Signatory Parties to the Regulatory Plan Stipulation and Agreement agreed that it is desirable that KCPL maintain its debt at an investment grade rating during the implementation period of its comprehensive Regulatory Plan. For its part, KCPL acknowledged its responsibility and commitment to take prudent and reasonable actions to maintain its investment grade rating during this period. The non-KCPL Signatory Parties, in turn, agreed to support the CIAC accounting mechanism that is described in the Regulatory Plan Stipulation and Agreement to give KCPL an opportunity to maintain its bonds at investment grade during the period when the Regulatory Plan is being implemented. The Signatory Parties agreed that CIAC amortization amounts could be proposed by KCPL in any rate case only when the Kansas jurisdictional revenue requirement in that case fails to satisfy the financial ratios shown in Appendix E of the Regulatory Plan Stipulation and Agreement

Q: **Why is it important for KCPL to maintain investment grade ratings during the implementation of the Regulatory Plan?**

A: Maintaining high credit quality at KCPL is vital to debt and equity investors, banks, and rating agencies for three primary reasons. First, KCPL and its parent, Great Plains Energy, will rely extensively on the capital markets for financing over the next several years. Total capital expenditures (including Plan-related expenditures and "normal course" capital expenditures) over the 2006-2010 period are expected to exceed **[redacted]**. KCPL estimates that approximately **[redacted]** of this amount will need to be raised through issuance of equity and debt. Investors will need to have confidence in KCPL's credit strength and financial wherewithal to feel comfortable making this capital available to KCPL on attractive terms, particularly given the number of investment alternatives otherwise available to them. Second, in addition to new funding required for the Regulatory Plan, KCPL will have a significant amount of debt subject to refinancing during the period of the Regulatory Plan. KCPL has $225 million of senior notes maturing in March 2007; further, KCPL has $257 million of tax-exempt debt that is either subject to remarketing during the Regulatory Plan period or is in a weekly or monthly "auction" mode and essentially refinanced at those intervals. KCPL's ability to refinance its debt efficiently, effectively, and on favorable terms will be heavily dependent on bondholder and rating agency views of KCPL's creditworthiness. Finally, equity investor views of KCPL's financial strength and credit quality will be a major influence on the Great Plains Energy stock (NYSE ticker: GXP) price for the next several years. Clearly, a number of other factors will also impact the performance of GXP; however, because KCPL constituted **[redacted]** of Great Plains Energy's core earnings and approximately **[redacted]** of Great Plains Energy's assets in 2005, assurance of KCPL's continued strength is, and will remain, essential to GXP investors.

Q: **What is the purpose of the CIAC mechanism?**

A: During negotiation of the terms of the Regulatory Plan Stipulation and Agreement, the Signatory Parties had a number of opportunities to gain insight from the rating agency Standard & Poor's ("S&P") into the credit ratios they deemed most important in determining a company's credit quality. These three ratios are: (i) Total Debt to Total Capitalization; (ii) Funds from Operations ("FFO") Interest Coverage; and (iii) FFO as a Percentage of Average Total Debt. The fundamental purpose of the CIAC accounting mechanism is to ensure that KCPL achieves an amount of FFO sufficient to sustain levels of ratios (ii) and (iii) above that are consistent with the low end of the top third of the range for BBB-rated companies, per the guidelines published by S&P in 2004. S&P's ranges for, and definitions of, these ratios are shown in the attached Schedule MWC-1. Schedule MWC-1 is identical to Appendix E of the Regulatory Plan Stipulation and Agreement.

Q: **How does the CIAC mechanism work?**

A: An illustration of the calculation of CIAC mechanism is attached as Schedule MWC-2. The mechanism results in an additional amortization amount being added to KCPL's cost of service in a rate case when the projected cash flows resulting from KCPL's Kansas jurisdictional operations, as determined by the KCC, fail to meet or exceed the Kansas jurisdictional portion of the low end of the top third of the BBB range shown in Schedule MWC-1 for the FFO Interest Coverage and FFO as a Percentage of Average Total Debt ratios. The amount of CIAC amortization is the amount needed to achieve that threshold. Any CIAC amortization granted to KCPL would result in an offset to rate base, which results in lower rates, in any future KCPL rate proceedings, beginning with the first rate case after the 2006 Rate Case.

Q: **What is the actual amount of Additional Amortization for which KCPL is filing in this rate case?**

A: KCPL is not seeking any additional amortization in Kansas or Missouri. Based on the components of KCPL's case, as described in the testimony of numerous witnesses from the Company and experts testifying on the Company's behalf, KCPL estimates that cash flow will be adequate to achieve the thresholds for the two key credit metrics previously discussed without the need for additional amortization.

Q: **Does the fact that KCPL is not filing for additional amortization in this case imply that the CIAC mechanism is no longer needed?**

A: No. As described earlier, maintaining credit quality is of critical importance to KCPL during the period of the Regulatory Plan. The CIAC mechanism is an effective tool to support KCPL in achieving this objective. Though KCPL's current projections do not indicate the need for CIAC amortization amounts in 2007, the company cannot predict whether the same will be true in periods covered by other rate cases during the term of the Regulatory Plan. Therefore, KCPL must preserve the right to deploy the CIAC mechanism in the future as cash flow requirements dictate. Furthermore, a CIAC may be required to achieve the thresholds in this proceeding if the KCC does not approve or substantially modifies KCPL's requested rates.

SECTION 2

Q: What is the purpose of this section of your testimony?

A: In this section of testimony, I will support an adjustment related to accounts receivable sales fees as discussed in the direct testimony of KCPL witness Don A. Frerking

Q: Briefly explain how the sale of KCPL's accounts receivables is structured.

A: The sale of KCPL's receivables is structured as follows: (i) KCPL sells all of its electric receivables at a discount to Kansas City Power & Light Receivables Company ("KCREC"), a wholly-owned subsidiary of KCPL; (ii) KCREC sells the receivables to a bank entity ("Bank"), up to a maximum commitment of $100 million; (iii) the Bank issues commercial paper to generate cash to pay KCREC for the receivables it buys; (iv) KCREC uses the cash it receives from the Bank to pay KCPL for a portion of the receivables it purchased; (v) KCREC issues a note to KCPL for the difference between the cash it pays to KCPL and the total receivables purchased; and (vi) KCREC pays the Bank sales fees on the amount of Commercial Paper it issued and pays KCPL interest on the note.

Q: How are the Accounts Receivable sales fees calculated?

A: KCREC pays (i) the weighted average interest rate on the commercial paper issued by the Bank, plus 30 basis points multiplied by (ii) the average amount of commercial paper outstanding during each calendar month, divided by 360 and then multiplied by the number of days in a month. KCREC also pays 15 basis points on the average of the difference between the maximum commitment by the Bank and the actual amount of receivables purchased by the Bank.

Q: Why is an adjustment necessary?

A: A/R sales fees are recorded on the books of KCREC. Test year expenses in this case were based on nine months of actual and three months of budgeted data for KCPL, excluding KCREC. Therefore, this adjustment is necessary so that these fees can be included in cost of service.

Q: How was the adjustment determined?

A: The adjustment was determined by estimating commercial paper rates by month for 2006, adding 30 basis points, and applying this total rate to the maximum possible advance under the accounts receivable facility for each month. The maximum advance is estimated at $70 million for the months of November through May and $100 million for the months of June through October.

Q: What is the amount of the adjustment?

A: The adjustment is for $3,931,861 and is shown as Adj-54 on the summary of adjustments attached to the direct testimony of KCPL witness Don A. Frerking as Schedule DAF-2.

Q: Does this conclude your testimony?

A: Yes.

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariffs to Begin the Implementation of Its Regulatory Plan	)))	Docket No. 06-KCPE-____-____

AFFIDAVIT OF MICHAEL W. CLINE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Michael W. Cline, being first duly sworn on his oath, states:

1. My name is Michael W. Cline. I work in Kansas City, Missouri, and I am employed by Great Plains Energy, the parent company of Kansas City Power & Light Company, as Treasurer and Chief Risk Officer.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of eight (8) pages and Schedules MWC-1 and MWC-2, all of which 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 Cline
Michael W. Cline

Subscribed and sworn before me this 26th day of January 2006.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2007

NICOLE A. WEHRY
Notary Public - Notary Seal
STATE OF MISSOURI
Jackson County
My Commission Expires: Feb. 4, 2007

Credit Ratio Ranges & Definitions

	AA		A		BBB			BB	
	Min.	Max.	Min.	Max.	Min.	Top 1/3	Max.	Min.	Max.
Total Debt to Total Capitalization (1)	32%	40%	40%	48%	48%	51%	58%	58%	62%
Funds From Operations Interest Coverage (2)	5.2x	6.0x	4.2x	5.2x	3.0x	3.8x	4.2x	2.0x	3.0x
Funds From Operations as a % of Average Total Debt (3)	35%	45%	28%	35%	18%	25%	28%	12%	18%

Ratio Definitions:

(1) "Total Debt to Total Capitalization" is calculated as Total Debt ÷ Total Capitalization where Total Debt and Total Capitalization are defined as below:

- Total Debt is calculated as:
  - Notes Payable + Current Maturities of Long-Term Debt + Current Capitalized Lease Obligations + Long-Term Debt + Capitalized Lease Obligations + Total Off-Balance Sheet Debt
    - "Total Off-Balance Sheet Debt" includes off-balance sheet financings such as:
      - Operating and synthetic leases, accounts receivable securitizations, contingent liabilities and other potential off-balance sheet obligations
- Total Capitalization includes:
  - Total Debt + Minority Interest + Total Preferred and Preference Stock + Common Stock Equity

(2) "Funds From Operations Interest Coverage" is calculated as (Funds From Operations + Gross Interest Expense) ÷ Gross Interest Expense where Funds From Operations and Gross Interest Expense are defined as below:

- Funds From Operations is calculated as:
  - Cash From Operations – Working Capital
- Gross Interest Expense is calculated as:
  - Interest Expense (net) + Allowance For Borrowed Funds Used During Construction + Interest on Off-Balance Sheet Debt

(3) "Funds From Operations as a % of Average Total Debt" is calculated as Funds From Operations ÷ Average Total Debt where Funds From Operations and Average Total Debt are defined as below:

- Funds From Operations
  - As defined above
- Average Total Debt is calculated as:
  - The average total debt over the period subject to analysis

Illustration of the method used in Kansas to determine amortization amounts required through the CIAC mechanism for KCPL to meet investment grade credit guidelines.

Method

An example of the method is shown in the Attachment to this Exhibit. For the purpose of this example, the base financial information in a 2004 surveillance report and other KCPL financial statements was used. KCPL made adjustments to this base financial information to include certain off balance sheet items. These adjustments were made to conform to rating agency methods for balance sheet preparation. KCPL identified these accounting adjustments such as the equivalent debt treatment of operating leases and capacity contracts. The equivalent debt treatment of these off balance sheet items was determined by calculating the net present value of the future stream of lease or contract payments. The base 2004 financial information was adjusted by the equivalent debt balances and the interest expense associated with these off balance sheet items. From this adjusted information, KCPL then applied an allocation factor to calculate the three "guideline" ratios defined in Exhibit MWC-1 allocated to the Kansas jurisdiction. The calculations of the two "guideline" ratios that include Funds From Operations were then compared to the criteria defined in Exhibit MWC-1 and shown in (b) and (c) below. If one or both of the "guideline" metrics, as calculated, had fallen below these criteria, then KCPL would have determined the amount of additional Funds From Operations that would have been required, in the form of additional amortization, through the CIAC mechanism for KCPL to achieve the thresholds listed. In the example, both ratios that include Funds From Operations were above the thresholds, so no additional amortization was required.

Current guidelines for top third of BBB category for company with an S&P Business Profile of 6 (equivalent Business Profile to KCPL):

a. 51% Total debt to total capital
b. 3.8x Funds from operations interest coverage
c. 25% Funds from operations as a percentage of average total debt

Attachment to Schedule MWC-2

Information from the Company's annual Surveillance Report

Line			Total Company	Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
7	Rate Base	Surveillance Report Schedule 1, Column 603 & 604, Line 0260	2,249,487	978,817		
8	Jusrisdictional Allocator for Capital	Jurisdictional Rate Base / Total Company Rate Base		43.5%		
9						
10	Total Capital	Surveillance Report Capitalization Worksheet	2,120,092	922,513	-	922,513
11	Equity	Surveillance Report Capitalization Worksheet	1,139,789	495,955	-	495,955
12	Preferred	Surveillance Report Capitalization Worksheet	0	0		0
13	Long-term Debt	Surveillance Report Capitalization Worksheet	980,303	426,558		426,558
14	Cost of Debt	Surveillance Report Capitalization Worksheet	5.33%	5.33%		5.33%
15	Interest Expense	Line 13 * Line 14	52,273	22,746	-	22,746
16						
17	Retail Sales Revenue	Surveillance Report Schedule 2, Line 0040	873,089	372,478	0	372,478
18	Other Revenue	Line 19 - Line 17	216,978	86,542		86,542
19	Operating Revenue	Surveillance Report Schedule 1, Line 0010	1,090,067	459,020	0	459,020
20						
21	Operating & Maintenance Expenses	Surveillance Report Schedule 1, Line 0040	572,457	246,721		246,721
22	Depreciation	Surveillance Report Schedule 1, Line 0050	137,293	56,684		56,684
23	Amortization	Surveillance Report Schedule 1, Line 0060	9,689	4,095	0	4,095
24	Interest on Customer Deposits	Surveillance Report Schedule 1, Line 0065	0	117		117
25	Taxes other than income taxes	Surveillance Report Schedule 1, Line 0070	98,912	27,786		27,786
26	Federal and State income taxes	Surveillance Report Schedule 1, Line 0080	61,428	38,598	0	38,598
27	Gains on disposition of plant	Surveillance Report Schedule 1, Line 0085	49	0		0
28	Total Electric Operating Expenses	Sum of Lines 21 to 27	879,827	374,001	0	374,001
29						
30	Operating Income	Surveillance Report Schedule 1, Line 0120	210,239	85,019	0	85,019
31	less Interest Expense	- Line 15	(52,273)	(22,746)	-	(22,746)
32	Depreciation	Surveillance Report Schedule 1, Line 0050	137,293	56,684	-	56,684
33	Amortization	Surveillance Report Schedule 1, Line 0060	9,689	4,095	-	4,095
34	Deferred Taxes	Surveillance Report Schedule 7, Column 601, Line 0550	8,171	3,555	-	3,555
35	Funds from Operations (FFO)	Sum of Lines 30 to 34	313,118	126,608	-	126,608
36						
37	Net Income	Line 30 + Line 31 * Line 7 / Line 10	154,776	60,885	-	60,885
38	Return on Equity	Line 37 / (Line 11 * line 7 / Line 10)	12.8%	11.6%	0.0%	11.6%
39	Unadjusted Equity Ratio	Line 11 / Line 10	53.8%	53.8%	0.0%	53.8%

Additional financial information needed for the calculation of ratios

Line			Total Company	Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
43	Capitalized Lease Obligations	KCPL Trial Balance accts 227100 & 243100	2,369	1,031		1,031
44	Short-term Debt Balance	KCPL Trial Balance accts 231xxx	-	-		-
45	Short-term Debt Interest	KCPL T.B. accts 831014, 831015, 831016	480	209		209

Adjustments made by Rating Agencies for Off-Balance Sheet Obligations

Line			Total Company	Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
49	Debt Adjustments for Off-Balance Sheet Obligations					
50	Operating Lease Debt Equivalent	Present Value of Operating Lease Obligations discounted @ 10%	76,800	33,418		33,418
51	Purchase Power Debt Equivalent	Present Value of Purchase Power Obligations discounted @ 10%	25,000	10,878		10,878
52	Accounts Receivable Sale	KCPL Trial Balance account 142011	70,000	30,459		30,459
53	Total OBS Debt Adjustment	Sum of Lines 50 to 52	171,800	74,755	-	74,755
54						
55	Interest Adjustments for Off-Balance Sheet Obligations					
56	Present Value of Operating Leases	Line 50 * 10%	7,680	3,342	-	3,342
57	Purchase Power Debt Equivalent	Line 51 * 10%	2,500	1,088	-	1,088
58	Accounts Receivable Sale	Line 52 * 5%	3,500	1,523	-	1,523
59	Total OBS Interest Adjustment	Sum of Lines 56 to 58	13,680	5,953	-	5,953

Ratio Calculations

Line			Total Company	Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
63	Adjusted Interest Expense	Line 15 + Line 45 + Line 59	66,433	28,907	-	28,907
64	Adjusted Total Debt	Line13 + Line 43 + Line 44 + Line 53	1,154,472	502,344	-	502,344
65	Adjusted Total Capital	Line 10 + Line 43 + Line 44 + Line 53	2,294,261	998,299	-	998,299
66						
67	FFO Interest Coverage	(Line 35 + Line 63) / Line 63	5.71	5.38	-	5.38
68	FFO as a % of Average Total Debt	Line 35 / Line 64	27.1%	25.2%	0.0%	25.2%
69	Total Debt to Total Capital	Line 64 / Line 65	50.3%	50.3%	0.0%	50.3%

Changes required to meet ratio targets

Line			Total Company	Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
73	FFO Interest Coverage Target		3.80	3.80	0.00	3.80
74	FFO adjustment to meet target	(Line 73 - Line 67) * Line 63	(127,105)	(45,668)	-	(45,668)
75	Interest adjustment to meet target	Line 35 * (1 / (Line 73 - 1) - 1 / (Line 67 - 1))	45,395	16,310	-	16,310
76						
77	FFO as a % of Average Total Debt Target		25%	25%	0%	25%
78	FFO adjustment to meet target	(Line 77 - Line 68) * Line 64	(24,500)	(1,022)	-	(1,022)
79	Debt adjustment to meet target	Line 35 * (1 / Line 77 - 1 / Line 68)	98,001	4,088	-	4,088
80						
81	Total Debt to Total Capital Target		51%	51%	0%	51%
82	Debt adjustment to meet target	(Line 81 - Line 69) * Line 65	15,601	6,789	-	6,789
83	Total Capital adjustment to meet target	Line 64 / Line 81 - Line 65	(30,591)	(13,311)	-	(13,311)

Amortization and Revenue needed to meet targeted ratios

Line			Total Company	Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
87	FFO adjustment needed to meet target ratios	Maximum of Line 74 , Line 78 , or Zero	-	-	-	-
88	Effective income tax rate	Surveillance Report Schedule 7, Line 0370 / Line 0160	40.07%	40.01%	40.01%	40.01%
89	Deferred income taxes *	- Line 87 * Line 88 / (1 - Line 88)	-	-	-	-
90	Total amortization required for the FFO adjustment	Line 87 - Line 89	-	-	-	-
91						
92	Retail Sales Revenue Adjustment	Adjustment =Sum(Line 21 to Line 25)+Line 27-Line 18-Line 31+(Line 11*Line 38)/(1-Line 88)		372,478	-	372,478
93	Percent increase in retail sales revenue	Line 92 Jurisdictional Adjustments / Line 92 Jurisdictional			0.0%	

* Adjusted for known and measurable changes including changes related to new plant in-service