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Witness: Kevin E. Bryant
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Sponsoring Party: KCP&L Greater Missouri Operations Company
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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2012-0175**

# SURREBUTTAL TESTIMONY

**OF**

**KEVIN E. BRYANT**

**ON BEHALF OF**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri**
**October 2012**

GMO Exhibit No. 107
Date 6-23-12 Reporter KF
File No ER-2012-0175

**SURREBUTTAL TESTIMONY**

**OF**

**KEVIN E. BRYANT**

**Case No. ER-2012-0175**

1 **Q: Please state your name and business address.**

2 A: My name is Kevin E. Bryant. My business address is 1200 Main, Kansas City, Missouri
3 64105.

4 **Q: Are you the same Kevin E. Bryant who pre-filed Rebuttal Testimony in this matter?**

5 A: Yes, I am.

6 **Q: On whose behalf are you testifying?**

7 A: I am testifying on behalf of KCP&L Greater Missouri Operations Company ("GMO" or
8 the "Company") for St. Joseph Light & Power ("L&P") and Missouri Public Service
9 ("MPS") territories.

10 **Q: What is the purpose of your Surrebuttal Testimony?**

11 A: The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimony
12 provided by Missouri Public Service Commission Staff ("Staff") witness Mr. David
13 Murray concerning the cost of debt to be used for ratemaking purposes in the case.

14 **Q: Please summarize the main difference between Mr. Murray's recommended cost of**
15 **debt and the Company position.**

16 A: Mr. Murray at page 30 of his Rebuttal Testimony recommends an arbitrary adjustment to
17 the consolidated cost of debt by making adjustments to the interest rate on three long-
18 term debt offerings that were issued by Great Plains Energy Incorporated ("GPE") whose
19 proceeds were loaned to KCP&L Greater Missouri Operations Company ("GMO"). He

1 appears to support a cost of debt figure of 6.142%, although he states that "Staff is open
2 to suggestions to other methodologies for adjustment as long as there is some adjustment
3 considered." The Revenue Requirement/Cost of Service Report ("Staff Report") used
4 one methodology for making the adjustments, and Mr. Murray provides an alternative
5 methodology in his Rebuttal Testimony for an interest rate adjustment on two of the three
6 debt offerings.

7 **Q: What is the Company's position?**

8 A: The Company position is that no adjustments should be made to the actual interest rate
9 for these three long-term debt offerings. It is also the Company's position that given the
10 rationale Mr. Murray provides for making the interest rate adjustments, both of the Staff
11 methodologies are flawed and unreasonable, and result in the calculation of an
12 adjustment that is greatly overstated.

13 **Q: Please summarize the different recommended cost of debt positions.**

14 A: The three different consolidated cost of debt positions and the coupon interest rate on the
15 three debt offerings that have been adjusted by the Staff are summarized in Table 1
16 below.

17 Table 1

| | August 2010 $250 million Debt Offering | May 2011 $350 million Debt Offering | March 2012 $287.5 million Debt Offering | Consolidated Cost of Debt |
|---|---|---|---|---|
| Actual | 2.75% | 4.85% | 5.292% | 6.425% |
| Staff Report | 2.00% | 4.70% | 4.25% | 6.247% |
| Murray Rebuttal | 2.00% | 4.00% | 4.00% | 6.142% |

1 **Q: Has the Company made prudent decisions with regard to the three debt offerings**
2 **with the interest rates that have been adjusted by the Staff?**
3 A: Yes. The rationale for issuing debt at the GPE holding company level and loaning it to
4 GMO is discussed in detail in my Rebuttal Testimony on pages 6 through 10. There I
5 described the fact that prior to each of these offerings, GMO lacked at least three full
6 years of historical financial statements after being acquired by GPE in 2008 and that the
7 March 2012 offering was a remarketing of debt related to the GPE Equity Units. The
8 Company must balance the ability to lower the cost of debt with shorter tenors against the
9 risk of refinancing that debt at higher interest rates in the future. For these three GPE
10 offerings where the proceeds were loaned to GMO and for the Kansas City Power &
11 Light Company ("KCP&L") offering in September 2011, GPE was able to (1) lower the
12 average cost of debt and (2) lower the risk of higher debt cost in the future by increasing
13 the weighted average time to maturity for both KCP&L, GMO and on a GPE
14 consolidated basis.
15 **Q: To support his recommendation to use the consolidated cost of debt, Mr. Murray's**
16 **Rebuttal Testimony includes the statement on page 27 that "GPE is not managing**
17 **GMO and KCPL as stand-alone entities, at least from a financing perspective." He**
18 **also states on pages 27 and 28 that "GPE has issued three separate debt issuances on**
19 **behalf of GMO and each of these debt issuances are of shorter tenors than debt**
20 **KCPL issued during the same period. This causes KCPL to incur higher debt costs**
21 **and GMO to incur lower debt costs, even though KCPL has and is providing credit**
22 **support to allow GPE to issue this debt on behalf of GMO." How do you respond?**

1 A: The Company does not oppose using the 6.425% actual consolidated cost of debt for both
2 GMO and KCP&L ratemaking purposes. This is based on a desire to maintain a
3 consistent methodology for all of GPE's regulatory jurisdictions including the KCP&L
4 Kansas jurisdiction. However, GPE is managing GMO and KCP&L as stand-alone
5 entities from a financing perspective even though some initial financing for GMO after
6 the acquisition needed to be publicly offered at the holding company level with an
7 intercompany loan agreement to GMO as discussed in detail in my Rebuttal Testimony
8 on pages 6 through 10. I also believe that Mr. Murray's statement that KCP&L is
9 providing the credit support to allow GPE to issue debt on behalf of GMO is misleading
10 and erroneous. The credit support for GPE comes from the cash flow and equity capital
11 associated with both of the utility operating companies and not just KCP&L. The credit
12 support to allow GPE to issue debt on behalf of GMO comes primarily from GMO's cash
13 flow and its ability to service the GPE debt through the intercompany loan agreements
14 with GPE.

15 **Q: In Mr. Murray's Rebuttal Testimony at page 29 he gives an affirmative response to**
16 **the question: "If GMO were able to issue debt on its own and continued to have a**
17 **'BBB' credit rating as Aquila did before its non-regulated operations caused a**
18 **deterioration in its credit rating, wouldn't it be reasonable to believe GMO could be**
19 **realizing debt costs similar to that of KCPL?" What is the Company's response?**

20 A: The question is premised on the dubious assumption of the existence of a hypothetical
21 'BBB' credit rating related to a 'BBB' credit rating Aquila once had years prior to GPE's
22 acquisition of Aquila over four years ago in July 2008. Both KCP&L and GMO have
23 been through contested rate cases since the acquisition of Aquila, and the cost of the

1 2.75% August 2010 GPE debt offering was included without adjustment in the cost of
2 debt granted by the Missouri Public Service Commission ("Commission") in its GMO
3 Report and Order dated May 4, 2011 in Case No. ER-2010-0356. Any recommendation
4 to adjust the cost of debt issued after the Aquila acquisition by GPE based on the status of
5 Aquila's operations prior to GPE's acquisition is based on a fictional scenario, is
6 unreasonable, and should be disregarded.

7 **Q: A new approach to adjusting the interest rate for two of the three GPE debt**
8 **offerings is introduced in Mr. Murray's Rebuttal Testimony at pages 28-29. Is this**
9 **new approach reasonable for estimating the difference in cost between the actual**
10 **debt issued with a "BBB-/Baa3" rating and hypothetical debt issuances with a**
11 **"BBB/Baa2" rating?**

12 A: No. Debt offerings are priced on the basis of the spread over the yield on a benchmark
13 U.S. Treasury ("UST") security, so the total debt cost is based on both the spread and the
14 underlying UST rate. Mr. Murray's new approach compares an indicative coupon
15 interest rate of 5.95% received from Scotia Capital in July 2011 for a KCP&L
16 "BBB/Baa2" rated 30-year debt offering to the actual coupon interest rate of 5.30% that
17 KCP&L received in September 2011. He then subtracts the 65 basis point difference
18 from an indicative coupon rate of 4.45% received from Scotia Capital in July 2011 for a
19 KCP&L "BBB/Baa2" rated 10-year debt offering and concludes that KCP&L could have
20 issued 10-year "BBB/Baa2" rated debt at a coupon interest rate of close to 4.00%.

21 Initially, such an approach must be rejected because it is not based on the actual
22 facts related to the debt offerings and is, therefore, simply a speculative hypothesis that is
23 flawed from inception. Moreover, this approach fails to consider the significant changes

1 in the underlying UST rates that occurred between the debt offerings and the indicative
2 price quotes. The yield on the 10-year UST fell by 16 basis points between the May 2011
3 debt offering and the indicative pricing in July 2011, then decreased another 62 basis
4 points by the time of the March 2012 10-year debt offering. The yield on the 30-year
5 UST decreased by 95.7 basis points between the indicative pricing in July 2011 and the
6 September 2011 $400 million 30-year KCP&L debt offering. Mr. Murray's proposed
7 adjustment relies only on changes in interest rates between July 2011 and September
8 2011, without considering the changes in interest rates relative to the May 2011 and
9 March 2012 dates of the actual debt offerings. As such, his recommendation is neither
10 valid nor reasonable, and should be rejected.

11 **Q: Does that conclude your testimony?**

12 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**
**OF THE STATE OF MISSOURI**

| | | |
|---|---|---|
| In the Matter of KCP&L Greater Missouri<br>Operations Company's Request for Authority to<br>Implement General Rate Increase for Electric Service | )<br>)<br>) | Case No. ER-2012-0175 |

**AFFIDAVIT OF KEVIN E. BRYANT**

**STATE OF MISSOURI** )
) **ss**
**COUNTY OF JACKSON** )

Kevin E. Bryant, being first duly sworn on his oath, states:

1. My name is Kevin E. Bryant. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President, Investor Relations and Treasurer.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KC&PL Greater Missouri Operations Company consisting of Six (6) pages, 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.

Kevin E. Bryant

Subscribed and sworn before me this 10th day of October, 2012.

Notary Public

My commission expires: Feb. 4, 2015

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2015
Commission Number: 11391200