Exhibit No.: 106
Issue: Capital Structure; Return on Equity
Witness: Kevin E. Bryant
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2016-0285
Date Testimony Prepared: July 1, 2016

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
July 2016

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2016-0285

Q: Please state your name and business address.

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

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

A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") and serve as Senior Vice President – Finance and Strategy and Chief Financial Officer of Great Plains Energy Incorporated ("GPE"), KCP&L and KCP&L Greater Missouri Operations ("GMO").

Q: What are your responsibilities?

A: My responsibilities include finance, accounting, investor relations, corporate strategy, budgeting and planning, and risk management.

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

A: I received dual undergraduate degrees in finance and real estate from the University of Missouri – Columbia where I graduated cum laude in May 1997. I received my Masters in Business Administration degree with an emphasis in finance and marketing from the Stanford University Graduate School of Business in June 2002.

I joined GPE in 2003 as a Senior Financial Analyst and was promoted to Manager - Corporate Finance in 2005 where I was responsible for contributing to the development and maintenance of the sound financial health of both GPE and KCP&L through the management of company financing activities. In August 2006, I was promoted to Vice President, Energy Solutions for KCP&L and served in that capacity until March 2011, when I became Vice President, Strategy and Risk Management. In August 2011, I became Vice President – Investor Relations and Treasurer, and then became Vice President – Investor Relations and Strategic Planning and Treasurer in 2013. In 2014, I was appointed Vice President – Strategic Planning. In 2015, I assumed my current position.

Prior to joining GPE, I worked for THQ Inc. from 2002 to 2003, a worldwide developer and publisher of interactive entertainment software based in Calabasas, California. I served as Manager - Strategic Planning where I was responsible for establishing corporate goals, and developing and assisting with the execution of the company's strategic plan. From 1998 to 2000, I worked as a Corporate Finance Analyst for what is now UBS in New York, New York. I worked on mergers and acquisitions for medium and large-sized companies. I also worked at Hallmark Cards at their corporate headquarters in Kansas City, Missouri as a Financial Analyst from 1997 to 1998.

Q: Have you previously testified in a proceeding before the Missouri Public Service Commission ("Commission" or "MPSC") or before any other utility regulatory agency?

A: Yes, I have. I testified before the Commission in Case No. EM-2007-0374, where GPE acquired the remaining assets and stock of Aquila, Inc. ("Aquila"). Aquila was later renamed KCP&L Greater Missouri Operations Company, here referred to as GMO. I also testified before the Kansas Corporation Commission in Docket No. 11-KCPE-581-PRE (LaCygne Predetermination) and on KCP&L's application for its proposed Home

Performance with ENERGY STAR® program in Docket No. 08-KCPE-581-TAR. I have also submitted written testimony in GMO's pending rate case (Case No. ER-2016-0156).

Q: What is the purpose of your testimony?

A: To provide the rationale for moving to the KCP&L-specific capital structure and cost of debt for calculating KCP&L's weighted average cost of capital. I am also providing the rationale for the specific Return on Equity ("ROE") rate requested by the Company.

RETURN ON EQUITY

Q: What specific ROE rate is being requested by KCP&L and why was that rate chosen?

A: KCP&L is requesting a ROE of 9.90 percent. This ROE is within the range of 9.75 percent to 10.50 percent recommended in Mr. Hevert's Direct Testimony as representing a reasonable, but conservative range of KCP&L's Cost of Equity. In prior rate cases, KCP&L has used the midpoint of the ROE range recommended by its expert witness for determining its requested change in retail rates. Since both KCP&L and GMO have been authorized a Return on Equity in each of their previous two rate cases that was well below the range recommended by KCP&L and GMO, KCP&L has endeavored to be responsive to these recent Commission decisions and has selected a rate of 9.90 percent which is in the lowest quartile of the range recommended by Mr. Hevert in this case.

CAPITAL STRUCTURE AND COST OF DEBT

Q: In KCP&L's most recently concluded rate case, as well as the most recently concluded GMO rate case, the recommended cost of capital was based on the GPE consolidated capital structure and cost of debt. Why is KCP&L now requesting to

use the KCP&L-specific capital structure and cost of debt for calculating the weighted average cost of capital?

A: The preferred long-term approach to calculating revenue requirements for any utility is to base those revenue requirements on the costs that are specific to that utility. Using a capital structure and cost of capital that is different than the actual capital structure and cost of capital specific to that utility will result in earnings for that utility being somewhat higher or lower than intended for the return on equity that was granted.

Additionally, utilizing the KCP&L-specific capital structure rather than the GPE consolidated capital structure is also a means of insulating utility operations and customers from activities undertaken at the parent or holding company level such as the recently announced transaction through which GPE intends to acquire 100% of the stock of Westar Energy, Inc.

Q: Why didn't KCP&L recommend this approach in previous rate cases?

A: KCP&L's approach in previous rate cases was designed to be consistent with GMO's approach in previous rate cases. After GPE acquired Aquila in 2008, time was needed to transition GMO from the legacy Aquila capital structure and cost of debt that had been under considerable credit strain to one that better reflected its improved credit profile and ratings as part of GPE. The new GMO company was only part of the former Aquila company and initially was unable to access the capital markets to finance its stand-alone financing requirements due to the lack of audited historical financial statements and acceptable credit history. Because of our diligent efforts to establish GMO's stand-alone financial history and to improve its credit profile since the acquisition, GMO's stand-alone financing capability was reinstated in 2013 with an issuance of private placement debt. As a result of these efforts, GMO has been able to refinance the majority of the legacy Aquila debt at more attractive rates. Today, only 9% of GMO's outstanding long-term debt is represented by that legacy Aquila debt, all of which was issued prior to 2000 and prior to the onset of Aquila's credit problems. This credit improvement, one of the benefits realized through the acquisition, has led to a significant decline in GMO's cost of debt. It is now 38 basis points lower than KCP&L's debt. This difference is very reasonable as it is extremely difficult to achieve complete cost of debt parity between the two companies. At the time of the acquisition, the average number of years to final maturity for GMO's long-term debt was less than five years and significantly shorter than KCP&L's long-term debt average final maturity of more than 15 years. This presented GMO with significant liquidity and refinancing risks. Because of our efforts to improve GMO's maturity profile, now both GMO and KCP&L long-term debt has an average time to final maturity of approximately 10 years. This positive transformation of the GMO credit profile, capital structure and cost of debt allows for both GMO's and KCP&L's rates to be set on the basis of their respective individual actual capital structure and cost of debt, consistent with the rate-making construct used previously by KCP&L and with the other Missouri electric utilities.

Q: KCP&L's equity ratio is lower than the GPE consolidated equity ratio and the GMO equity ratio. What accounts for this difference?

A: The credit quality of the two utilities is different and justifies a lower equity ratio for KCP&L. S&P assigns KCP&L an "Excellent" business risk profile based on its "strong" competitive position, whereas GMO is assigned a "Strong" business risk profile based on its "satisfactory" competitive position. Because of the difference in business risk profiles, KCP&L can support more debt than GMO, thus resulting in a higher debt ratio and lower equity ratio. Even with its lower equity ratio, Moody's credit rating for KCP&L remains one notch higher than GMO, in part due to the higher market position rating Moody's assigns to KCP&L. These credit quality differences support a higher debt ratio and lower equity ratio for KCP&L.

Q: Has KCP&L taken any proactive steps to manage its equity ratio?

A: Yes. KCP&L has two ways to manage its equity ratio. First, it can change the level of debt in the capital structure by debt issuances (which result in decreases to the equity ratio) or debt paydowns (which result in increases to the equity ratio). Second, it can change the level of equity in the capital structure through (a) equity contributions from GPE (which result in increases to the equity ratio), (b) return of equity capital to GPE (which result in decreases to the equity ratio) or (c) changes in the level of retained earnings through dividend policy (where increased dividends lower retained earnings and the equity ratio, or where decreased dividends increase retained earnings and the equity ratio). With manageable increases in capital requirements, given its credit profile and cash flow, the Company has chosen to utilize dividend policy as the best way to manage its equity ratio. As a result, KCP&L's capitalization increased by over $400 million during 2015, but by eliminating the annual dividend it paid to GPE and retaining 100% of its earnings, KCP&L's equity ratio only decreased from 49.5% to 48.6% and is projected to be at 49.88% at the December 31, 2016, proposed true-up date in this case. Because of its better credit quality, KCP&L is able to manage the slight decrease in the equity ratio while funding its significant increase in capital requirements.

Q: Will KCP&L continue to prudently manage its equity ratio?

A: Yes. As Mr. Hevert's Direct Testimony demonstrates, KCP&L's proposed equity ratio is within the range of his proxy companies' average common equity ratios (on a company-specific basis), which range from 46.1% to 66.5%. Therefore, KCP&L's proposed capital structure is consistent with industry practice. As a result, KCP&L will continue to manage its current equity ratio through dividend policy if it can do so without negatively impacting KCP&L's credit ratings. While I would prefer GMO to have the same credit rating as KCP&L, because of the differences in credit profiles, KCP&L will be able to finance more of its capital requirements with debt and operate with a lower equity ratio than GMO.

Q: Is KCP&L's recommendation for the capital structure and cost of debt consistent with the approach recommended by GMO in Case No. ER-2016-0156?

A: Yes. GMO recommended using GMO's actual capital structure and cost of debt to determine the cost of capital in Case No. ER-2016-0156, and KCP&L is recommending using KCP&L's actual capital structure and cost of debt in this case.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2016-0285

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 Senior Vice President – Finance and Strategy and Chief Financial 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 Seven (7) 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 1st day of July, 2016.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200