Exhibit No.:	
Issue:	Phase-In Carrying Costs
Witness:	Kevin E. Bryant
Type of Exhibit:	Direct Testimony
Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	ER-2012-0024
Date Testimony Prepared:	October 21, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0024

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
October 2011

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2012-0024

Q: Please state your name and business address.

A: My name is Kevin E. Bryant. My business address is 1200 Main Street, 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") as Vice President, Investor Relations and Treasurer.

Q: What are your responsibilities?

A: My responsibilities include financing and investing activities, cash management, bank relations, rating agency relations, financial risk management, investor relations, and acting as a witness with regard to financing and capital markets-related matters in the Company's regulatory proceedings. I am also responsible for strategic planning and insurance.

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 Great Plains Energy Incorporated ("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. I also served as KCP&L's Vice-President, Energy Solutions from 2006-early 2011. 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 Paine Webber. I worked on mergers and acquisitions for medium and large-sized companies. I also worked at Hallmark Cards as a Financial Analyst from 1997 to 1998.

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

A: I testified before the MPSC in File No. EM-2007-0374 (Aquila acquisition case) and also in the GMO 2011 IRP proceeding. Additionally, I have testified before the Kansas Corporation Commission.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to address the carrying cost rate to be used in the phase-in of rates ordered by the Commission in File No. ER-2010-0356 ("356 Case") for KCP&L Greater Missouri Operations Company's ("GMO" or "the Company") Light & Power division.

Q: Why is a carrying cost necessary?

A: Because the MPSC ordered a phase-in of rates in the 356 Case, the Company will recognize a case flow detriment during the period of the phase-in. To illustrate this point, it should be noted that the Commission's *Report And Order* in the 356 Case authorized a revenue increase for the L&P division of $29,772,796. However, the Commission's *Order of Clarification a Modification* issued on May 27, 2011 restricted the first year increase for the L&P division to the amount GMO originally requested of $22,101,088 (Year One), and ordered a two year phase-in, pursuant to Section 393.155.1. As a result, the first year rate increase of $22,101,088 is $7,671,708 less than what GMO would have received absent the phase-in order for the first year following the effective date of the *Report And Order*. By ordering the phase-in, the Commission would have effectively denied the Company the right to earn a full return on investment during the first year on a substantial amount of invested capital, unless appropriate carrying costs are allowed to be recovered during the phase-in plan.

Q: Won't GMO eventually reach the full $29,772,796 level, thereby resulting in the Company fully recovering its costs?

A: No. Merely by allowing GMO to recover during the phase-in period the difference between what GMO would have recovered if the full increase was immediately implemented and the first year rate increase, does not make GMO whole. The fact that the rates will eventually increase over the phase-in period reaching the $29,772,796 level at the conclusion of the phase-in period does not mean that GMO's revenues and earnings will increase by the same amount as if the Commission had allowed the full authorized rate increase of $29,772,796 to go into effect immediately.

Q: Is there a statutory mandate that governs phase-in recovery issues? Please explain.

A: It is important that the Commission approve a phase-in plan that uses the appropriate level of carrying costs to meet the following statuary mandate of Section 393.155.1:

> *Any such phase-in shall allow the electrical corporation to recover the revenue which would have been allowed in the absence of a phase-in and shall make a just and reasonable adjustment thereto to reflect the fact that recovery of a part of such revenue is deferred to future years.*

In other words, the phase-in plan statue requires that the phase-in plan keep the Company whole so that it will *"recover the revenue which [it] would have been allowed in the absence of a phase-in"* plan.

Q: Does the phase-in statue specify the appropriate carrying cost rate?

A: No, it does not. However, The Commission's *Report And Order* in KCP&L's Wolf Creek rate case[1] approved KCP&L's only previously approved phase-in plan, stating: *"The carrying costs on the deferred revenues under the phase-in plan shall be calculated at the overall rate of return."* In the 356 Case, the Company utilized the same method for determining the carrying costs that was approved by the Commission in the Wolf Creek rate case—its overall rate of return on investment, or the same weighted cost of capital (i.e. 8.414%) that was authorized by the Commission in its *Report And Order* in the 356 Case. This method will accomplish the statutory requirement of Section 393.155.1 *"to recover the revenue which would have been allowed in the absence of a phase-in."*

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[1] As explained herein, the phase-in plan for the Wolf Creek case authorized carrying costs at a level equal to the overall rate of return on investment. *Re Kansas City Power & Light Company*, 28 Mo.P.S.C. (N.S.) 228, 418 (1986). The Wolf Creek phase-in plan was shortened by the passage of the Tax Reform Act of 1986. *See* 29 Mo.P.S.C. (N.S.) 51-52 (1987).

Q: Would a short-term borrowing rate accomplish the statutory objective?

A: No, the use of a short-term debt cost in the phase-in tariffs would not recover the same revenues which would be allowed in the absence of a phase-in plan. GMO does not "finance" its investments using short-term debt. In reality, under the phase-in plan GMO will forego those earnings, unless the Commission utilizes the overall return on investment as its carrying cost.

Q: Please elaborate.

A: GMO has three sources of funds to operate its public utility business: 1) revenue, 2) additional equity, and 3) additional debt (primarily long-term). By decreasing one of the sources of funds, (i.e. first year revenue authorized in this case), the Company has to rely on the other two sources for funds (i.e. equity and long-term debt, or the weighted cost of capital). For GMO, there is an opportunity cost in not having available $7,671,708 in cash during the first year of the rate increase. This deferred revenue represent funds the Company does not have available to invest in its business, and as a result, the Company loses the opportunity to earn its overall rate of return of investment of 8.414%. Until the Company finally recovers the full amount of its authorized rare increase of $29,772,796, the Company loses the opportunity to earn 8.414% on this money. This is the reason that the overall rate of return, as recognized by the Wolf Creek decision, is the appropriate carrying cost to be utilized in the phase-in plan.

Q: If the Commission should decide that the carrying cost should be based on a short-term borrowing rate, what short-term rate is appropriate?

A: It should be noted that short-term debt costs vary widely over the course of time. In fact, short-term interest costs can differ on a daily basis. However, over the twelve-month period, June 2010 through May 2011, the Company's short-term debt costs as reflected on its monthly AFUDC calculations, which encompass an all-in cost for short-term borrowings, have averaged 4.473%. This weighted average includes an amortization of up front revolver fees and commitment fees necessary for borrowing capacity. These costs should be included because they are components of the total short-term borrowing costs. That rate would be an appropriate carrying cost rate for the phase-in if the Commission should decide that a short-term borrowing rate should be utilized.

Q: The Company and Staff have agreed that the carrying cost should be 3.25%. Do you support this agreement?

A: Yes. As I have discussed above, the Company's carrying cost is actually higher than the amount agreed to with the settlement with Staff. However, in this proceeding, the Company is willing to settle for a lower amount in order to minimize the litigation regarding this issue and get the phase-in tariffs approved by the Commission.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Determination of Carrying Costs for the Phase-In Tariffs of KCP&L Greater Missouri Operations Company	)))	Case No. ER-2012-0024

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 Direct Testimony on behalf of KCP&L 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 21st day of October, 2011.

Nicole A. Wehry
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