Exhibit No.:	
Issue:	Capital Structure; Return on Equity
Witness:	Kevin E. Bryant
Type of Exhibit:	Direct Testimony
Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	ER-2016-0156
Date Testimony Prepared:	February 23, 2016

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0156

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
February 2016

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2016-0156

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

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

8 **Q: What are your responsibilities?**

9 A: My responsibilities include finance, accounting, investor relations, corporate strategy and
10 risk management. I am also responsible for leading the efforts to evaluate and pursue
11 business opportunities that are complementary to the core business.

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

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

17 I joined Great Plains Energy Incorporated ("GPE") in 2003 as a Senior Financial
18 Analyst and was promoted to Manager - Corporate Finance in 2005 where I was
19 responsible for contributing to the development and maintenance of the sound financial

1 health of both GPE and KCP&L through the management of company financing
2 activities. In August 2006, I was promoted to Vice President, Energy Solutions for
3 KCP&L and served in that capacity until March 2011, when I became Vice President,
4 Strategy and Risk Management. In August 2011, I became Vice President – Investor
5 Relations and Treasurer and became Vice President – Investor Relations and Strategic
6 Planning and Treasurer in 2013. In 2014, I was appointed Vice President – Strategic
7 Planning. In 2015, I assumed my current position.
8 Prior to joining GPE, I worked for THQ Inc. from 2002 to 2003, a worldwide
9 developer and publisher of interactive entertainment software based in Calabasas,
10 California. I served as Manager - Strategic Planning where I was responsible for
11 establishing corporate goals and developing and assisting with the execution of the
12 company's strategic plan. From 1998 to 2000, I worked as a Corporate Finance Analyst
13 for what is now UBS Paine Webber. I worked on mergers and acquisitions for medium
14 and large-sized companies. I also worked at Hallmark Cards as a Financial Analyst from
15 1997 to 1998.
16 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
17 **Commission ("Commission" or "MPSC") or before any other utility regulatory**
18 **agency?**
19 A: Yes, I have. I testified before the Commission in Case No. EM-2007-0374, where GPE
20 acquired the remaining assets and stock of Aquila, Inc. ("Aquila"). Aquila was later
21 renamed KCP&L Greater Missouri Operations Company, here referred to as GMO. I
22 also testified before the Kansas Corporation Commission in Docket No. 11-KCPE-581-

1 PRE (LaCygne Predetermination) and on KCP&L's application for its proposed Home
2 Performance with ENERGY STAR® program in Docket No. 08-KCPE-581-TAR.

3 **Q: What is the purpose of your testimony?**

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

7 **RETURN ON EQUITY**

8 **Q: What specific Return on Equity rate is being requested by GMO and why was that**
9 **rate chosen?**

10 A: GMO is requesting a Return on Equity of 9.90 percent. This ROE is within the range of
11 9.75 percent to 10.50 percent recommended in Mr. Hevert's Direct Testimony as
12 representing a reasonable, but conservative range of GMO's Cost of Equity. In prior rate
13 cases, GMO has used the midpoint of the ROE range recommended by its expert witness
14 for determining its requested change in retail rates. Since both GMO and KCP&L have
15 been authorized a Return on Equity in each of their previous two rate cases that was well
16 below the range recommended by GMO and KCP&L, GMO has endeavored to be
17 responsive to these recent Commission decisions and has selected a rate of 9.90 percent
18 which is in the lowest quartile of the range recommended by Mr. Hevert in this case.

CAPITAL STRUCTURE AND COST OF DEBT

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

Q: Why didn't GMO recommend this approach in previous rate cases?

A: 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 credit history. Because of our diligent efforts to establish GMO's stand-alone financial history and improve GMO's credit profile since the acquisition, the Company'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 legacy Aquila 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

1 credit problems. This credit improvement, one of the benefits realized through the
2 acquisition, has led to GMO's cost of debt declining significantly. It is now 38 basis
3 points lower than KCP&L's debt. This difference is very reasonable as it is extremely
4 difficult to manage to complete cost of debt parity. At the time of the acquisition, the
5 average number of years to final maturity for GMO's long-term debt was less than 5
6 years and significantly shorter than KCP&L's long-term debt average final maturity of
7 more than 15 years, which presented GMO with significant liquidity and refinancing
8 risks. Because of our efforts to improve GMO's maturity profile, now both GMO and
9 KCP&L long-term debt has an average time to final maturity of approximately 10 years.
10 This positive transformation of the GMO credit profile, capital structure and cost of debt
11 allows for the Company's rates to be set on the basis of its actual capital structure and
12 cost of debt, consistent with the rate-making construct used with all of the other electric
13 utilities throughout the state.
14 **Q: GMO's equity ratio is higher than the GPE consolidated equity ratio and the**
15 **KCP&L equity ratio. Is there a rationale for this difference?**
16 A: Yes. The credit quality of the two utilities is different and justifies a higher equity ratio
17 for GMO. S&P assigns GMO a "Strong" business risk profile based on its "satisfactory"
18 competitive position, whereas KCP&L is assigned an "Excellent" business risk profile
19 based on its "strong" competitive position. Because of the difference in business risk
20 profiles, GMO cannot support as much debt as KCP&L, thus resulting in a higher equity
21 ratio. Even with its higher equity ratio, Moody's credit rating for GMO, while now
22 investment grade given the improvements since its acquisition by GPE, remains one

1 notch lower than KCP&L, in part due to the lower market position rating Moody's
2 assigns to GMO. These credit quality differences support a higher equity ratio for GMO.

3 **Q: Has GMO taken any proactive steps to manage its equity ratio?**

4 A: Yes. GMO has two ways to manage its equity ratio. First, it can change the level of debt
5 in the capital structure by debt issuances (which result in decreases to the equity ratio) or
6 debt paydowns (which result in increases to the equity ratio). Second, it can change the
7 level of equity in the capital structure through (a) equity contributions from GPE (which
8 result in increases to the equity ratio), (b) return of equity capital to GPE (which result in
9 decreases to the equity ratio) or (c) changes in the level of retained earnings through
10 dividend policy (where increased dividends lower retained earnings and the equity ratio,
11 or where decreased dividends increase retained earnings and the equity ratio). GMO has
12 made significant strides in reducing its equity ratio from a high of 57.7% in October 2012
13 to 56.3% as of September 30, 2015. As GMO believes that its current debt level is
14 appropriate given its credit profile and cash flow, the Company has chosen to utilize a
15 dividend policy as the best way to manage its equity ratio. As a result, GMO reduced its
16 equity ratio during 2015 by increasing the annual dividend it pays to GPE and is
17 projecting a reduction in its equity ratio to 54.8% as of the July 31, 2016 true-up date
18 contemplated in this proceeding by continuing to pay an increased dividend level to GPE.
19 These previous higher levels of equity were appropriate given GMO's previous credit
20 challenges, but an equity ratio in the current range is more appropriate given its
21 improving credit profile.

1 **Q: Will GMO continue to prudently manage its equity ratio?**

2 A: Yes. As Mr. Hevert's testimony demonstrates, GMO believes that an equity ratio in the
3 50-55% range is both appropriate and consistent with precedents across the country. As a
4 result, GMO will continue to manage its current equity ratio through dividend policy if it
5 can do so without negatively impacting GMO's credit ratings. While I would prefer to
6 have the same credit rating as KCP&L, because of the differences in credit profiles,
7 GMO would need to have cash flow, interest coverage and debt level credit metrics that
8 are as good as or better than KCP&L's credit metrics. This reality limits how much
9 additional debt GMO can add without additional cash flow.

10 **Q: If GMO's cost of capital is based on its own capital structure and cost of debt,**
11 **should KCP&L's cost of capital be based on its own capital structure and cost of**
12 **debt?**

13 A: Yes. If the Commission authorizes the use of GMO's actual capital structure and cost of
14 debt to determine the cost of capital in this case, then KCP&L will recommend using its
15 actual capital structure and cost of debt in its next rate case.

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

17 A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2016-0156

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 of Finance & Strategy and Chief Financial Officer.

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 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 23rd day of February, 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