Exhibit No.:	
Issue:	Missouri Energy Efficiency Investment Act of 2009
Witness:	Kevin E. Bryant
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	EO-2014-0095
Date Testimony Prepared:	January 7, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2014-0095

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2014

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

Case No. EO-2014-0095

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") as Vice President, Investor Relations and Strategic Planning 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. 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 of 2011, 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 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 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 (Aquila Acquisition), and the latest rate cases for KCP&L Greater Missouri Operations Company ("GMO") and KCP&L: Case No.'s ER-2012-0175 and ER-2012-0174. I also testified before the Kansas Corporation Commission in Docket No. 11-KCPE-581-PRE (LaCygne Predetermination) and regarding KCP&L's application for its proposed Home Performance with ENERGY STAR® program in Docket No. 08-KCPE-581-TAR.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to:

(1) Provide an overview of the intent of Senate Bill 376 ("SB376") and subsequent Missouri Energy Efficiency Investment Act of 2009 ("MEEIA") rules; and

(2) Discuss the current cost recovery business model from the Company's investors and credit rating agencies' views.

Q: Please explain what you believe to be the intent of SB376.

A: At its foundation, SB376 became law on the principle that greater implementation of cost-effective energy efficiency programs will be beneficial for all Missourians. SB376 specifically recognizes this fact and includes provisions designed to align the interests of electric service providers and their customers in achieving this goal.

Q: Please explain the rationale that cost-effective energy efficiency programs are beneficial for all Missourians.

A: There are several ways that demand-side management ("DSM") is beneficial. To list a few:

- DSM invests in our customers making them more competitive;
- DSM reduces customers' and the region's carbon output;
- KCP&L can target DSM to certain areas which allows us to operate the grid more efficiently and reduce load on stressed circuits; and
- Installing energy efficiency measures provide potential employment for urban and diverse work forces.

Q: Please discuss your involvement with SB376.

A: Prior to the passage of SB376, I was involved in the development of the Energy Efficiency First Coalition, a collection of numerous organizations and individuals working to generate awareness and show support for energy efficiency initiatives. At the time of passage of SB376—July 2009—I was the Vice President, Energy Solutions, for KCP&L. In that role, I was responsible for the Company's DSM programs and strategy. Therefore, my involvement with SB376 was significant and I had constant involvement throughout the MEEIA rulemaking process.

Q: Please explain your involvement in that process.

A: I was active in the MPSC Staff's workshops held in April through June, 2010. These workshops were held in an attempt for parties to reach consensus on the MEEIA draft rules. I was involved in the drafting of comments filed with the Commission after each of the workshops. I also actively participated with the Missouri Energy Development Association in providing comments to Staff's proposed MEEIA rules in an attempt to assist Governor Nixon in reaching his goal in signing the legislation—to encourage Missouri electric utilities to invest in energy efficiency.

Q: Does the DSM program portfolio requested in this filing fit into the Company's overall resource plan?

A: Definitely. KCP&L's proposed DSM program portfolio as outlined in the testimony of Company witness Kimberly Winslow can be an integral part of its plan to meet the electricity needs of its customers now and in the future. The proposed energy and demand reductions that are the subject of this proceeding would be reflected in KCP&L's load and resource requirements. As I stated earlier, there are substantial benefits in DSM and the Company's efforts in this regard are consistent with its focus to meet customers' needs in a balanced, cost-effective and environmentally responsible manner.

Q: Does the Company's current recovery mechanism encourage investment in DSM programs?

A: No, just the opposite. The current method of recovery is inadequate and does not put demand-side programs on a level playing field with generation resources, particularly to shareholders.

Q: Please explain in more detail why the current recovery mechanism is inadequate.

A: As Company witness Tim Rush discusses in his testimony, the current method takes a rearview mirror approach to recovery by waiting until the next rate case before addressing costs incurred between one rate case to the next and then only allowing recovery of past program expenses. The current recovery method does not allow for recovery of all the costs because it does not address recovery on the lost margins incurred by the implementation of energy efficiency programs which results in a detriment to the utility's earnings. The current recovery mechanism is one-sided providing benefits to the customers at the expense of the utility's shareholders.

Q: Why do DSM programs result in reduced revenue?

A: In the current system, the recovery of the required revenue occurs by charging electric customers rates that are multiplied by their kW demand and kWh usage. The rates are established by utilizing the revenue requirement established in a rate case as the numerator in the rate with the current levels of kW demand and kWh usage as the denominators. DSM programs are designed to reduce customer demand and usage. Thus the customer kWs of demand and kWhs of usage that are multiplied by the rate to calculate revenues are less than the kWs and kWhs that were built into establishment of the rate. This results in future revenues received from customers that will be less than the revenue required to recover return of and return on investments in utility assets and the annual operating and maintenance expenses.

Q: Doesn't the reduced customer demand and usage also create a reduction in the costs to serve those customers?

A: Yes. The reduced demand and usage does reduce the variable costs that are directly tied to customer demand and usage. The customer rates, however, are designed to recover both variable and fixed costs. Thus, there is a margin over the variable costs built into the rates to cover fixed costs to serve customers that do not vary with usage. All other factors remaining equal, the lost margins associated with DSM investment results in under-recovery of costs.

Q: What is the magnitude of the lost margins?

A: The lost margins that result from the revenue reductions described above, net of the associated avoided variable costs, are estimated to be approximately $17 million of cumulative lost margins over a two-year period.

Q: Please describe how investors view the current recovery mechanism?

A: The framework of utility regulation in Missouri ties KCP&L's profitability to increasing sales and the current recovery mechanism does not balance the risks of both the customers and the Company. When the Company spends money on DSM programs resulting in regulatory lag to simply recover the costs, without a sufficient return or incentive comparable to that for traditional investments, and with the end result of reducing the Company's revenues, investors view this as detrimental to the goals of earning a return on investment. They understand it's not beneficial to aggressively pursue DSM under the current recovery mechanism as it decreases Company revenues.

This investment framework creates regulatory lag and decreases the Company's ability to earn its authorized return on equity. Investors assess utilities based on their performance in earning their authorized return on equity and utilities that underperform in this area often have stock prices that trade at a discount to respective utility peers. This discount increases the relative cost of equity capital for such utilities. Other investor owned utilities avoid these financial challenges through utilization of riders and trackers that allow for timely recovery of costs, including lost revenues and a performance incentive if certain targets are met. As of the date of this filing, the following utilities have either applied for or have an approved MEEIA filing that includes recovery as described above via a rider or tracker: Ameren Missouri, The Empire District Electric Company, and GMO.

Given the current DSM recovery mechanism, KCP&L may look unattractive to investors, relative to other utilities in Missouri.

Q: When you mention the Company's "investors," to whom are you referring?

A: I'm referring to current and prospective equity and fixed income investors.

Q: What does the Company require when it invests its capital in mechanisms such as the DSM program portfolio?

A: The Company expects to invest its capital and to come as close as possible to earning its authorized return on equity. The Company must make prudent and rational decisions when evaluating and prioritizing its needs for capital investment. KCP&L cannot be expected to choose to spend capital on investments it won't begin recovering until the conclusion of the next general rate case and cause deterioration in earnings due to lost margins. This results in significant regulatory lag with no incentive to make the investment in the DSM program portfolio.

Q: How do the credit rating agencies view the current recovery mechanism?

A: The rating agencies consider many quantitative and qualitative factors when reviewing a company's credit ratings. For example, from the quantitative perspective, the current recovery mechanism has a negative impact to the Company's financial metrics such as Funds from Operations ("FFO") to Debt. Qualitatively, the current recovery mechanism does not balance the risk of both customers and the Company, and the agencies may perceive this as a regulatory environment that is less than supportive to the utility. In Moody's Investors Service rating methodology, as much as half of the weighting is based on the qualitative analysis of the company's regulatory framework and ability to recover costs and earn returns. Their view of relative credit supportiveness considers the prevalence of automatic cost recovery provisions and reduced regulatory lag. Standard & Poor's rating methodology also relies on qualitative analysis of the company's regulatory environment that includes an assessment of the company's ability to recover all operating and capital cost in full and the timeliness of cost recovery to avoid cash flow volatility.

Q: How does the current recovery mechanism have a negative impact to the Company's financial metrics?

A: Cash expenditures for program costs that are not recovered by additional revenue in the same period will have a negative impact on FFO for that period and any lost retail margin will have a further negative impact on FFO. The reduction in FFO also creates an additional financing requirement that results in a higher debt balance and increased interest expense. These factors negatively impact financial metrics, such as FFO to Debt, Debt to Total Capital and Interest Coverage ratios.

Q: What other financial impacts does the current recovery mechanism have on the Company?

A: The adverse financial impacts of the current DSM recovery mechanism exacerbates regulatory lag and discourages potential investors, leading to a discount on the Company's stock price and an increase in the cost of equity capital.

Q: Can you further describe these problems and the adverse financial impacts?

A: The principle of regulated utility rate-making presumes that rates will be set to provide the required revenue to allow a return of and return on long-term investments in the utility's assets and the annual operating and maintenance expenses necessary to provide reliable electric service to customers. The current system, however, was designed for supply-side investments and does not provide for adequate and timely recovery of demand-side investments or the impacts that those demand-side investments have on future revenues. DSM investments under the current system result in current expenditures that are not covered by current revenues and do not adequately recover the financial capital cost of the DSM investment. DSM investments, under the current system, also result in a reduction of future revenues and lost margins, which makes adequate recovery of all other utility costs more difficult.

Q: Why does the current method of recovery for the DSM investments inadequate?

A: The current method does not allow for immediate recovery (through the use of a rider, etc.) or annual recovery in between rate cases, but does allow for the deferral and amortization of DSM programs expenditures. The deferred DSM program costs currently receive rate base treatment which allows the Company to earn a return on the unamortized balance, but you must wait until a rate case before you can begin any recovery. Additionally, the current commission approved method for recovery does not include any recovery for net shared benefits, lost revenues, or performance incentive.

Q: What sort of mechanism would be necessary to improve the DSM cost recovery mechanism where the Company and its investors are subject to lost margins resulting from the DSM programs?

A: The Company is proposing a shared benefits approach. The recovery of the shared benefits will be based on a percent of the overall energy and capacity benefits over 25 years from the programs that are planned to be implemented based on the first two years in the initial filing. Company witness Tim Rush outlines the details of the proposed mechanism in his testimony.

Q: Can you quantify the expected benefits of the overall DSM plan in comparison to doing no DSM?

A: Yes. As a result of the DSM programs proposed by the Company in this case, the 20-year net present value of revenue requirements is anticipated to be reduced by over $571 million as described in the testimony of Company witness Tim Rush. These are net benefits to retail customers, over and above the cost of the proposed programs over this time period.

Q: Does that conclude your testimony?

A: Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Application for Approval of Demand-Side Programs and for Authority to Establish A Demand-Side Programs Investment Mechanism	))))	File No. EO-2014-0095

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 Strategic Planning and Treasurer.

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 ten (10) 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

Kevin E. Bryant

Subscribed and sworn before me this 7th day of January, 2014.

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