Exhibit No.:	
Issue:	Capital Structure and Cost of Debt
Witness:	Kevin E. Bryant
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2012-0174
Date Testimony Prepared:	September 5, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

REBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
September 2012

Certain Schedules Attached To This Testimony Designated "(HC)"
Have Been Removed
Pursuant To 4 CSR 240-2.135.

REBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2012-0174

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" or "Company") as
6 Vice President, Investor Relations and Treasurer.

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

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

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

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

18 I joined Great Plains Energy Incorporated ("GPE") in 2003 as a Senior Financial
19 Analyst and was promoted to Manager - Corporate Finance in 2005 where I was

1 responsible for contributing to the development and maintenance of the sound financial
2 health of both GPE and KCP&L through the management of company financing
3 activities. In August 2006, I was promoted to Vice President, Energy Solutions for
4 KCP&L and served in that capacity until March 2011, when I became Vice President,
5 Strategy and Risk Management. In August 2011, I assumed my current position.
6 Prior to joining GPE, I worked for THQ Inc. from 2002 to 2003, a worldwide
7 developer and publisher of interactive entertainment software based in Calabasas,
8 California. I served as Manager - Strategic Planning where I was responsible for
9 establishing corporate goals and developing and assisting with the execution of the
10 company's strategic plan. From 1998 to 2000, I worked as a Corporate Finance Analyst
11 for what is now UBS Paine Webber. I worked on mergers and acquisitions for medium
12 and large-sized companies. I also worked at Hallmark Cards as a Financial Analyst from
13 1997 to 1998.
14 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
15 **Commission ("Commission" or "MPSC") or before any other utility regulatory**
16 **agency?**
17 A: Yes, I have. I testified before the Commission in Case No. EM-2007-0374 (Aquila
18 Acquisition). I also testified before the Kansas Corporation Commission in Docket No.
19 11-KCPE-581-PRE (LaCygne Predetermination) and on KCP&L's application for its
20 proposed Home Performance with ENERGY STAR® program in Docket No. 08-KCPE-
21 581-TAR.

1 **Q: What is the purpose of your Rebuttal Testimony?**

2 A: The purpose of my testimony is to respond to the Direct Testimony provided by Office of
3 the Public Counsel ("OPC") witness Mr. Gorman, U.S. Department of Energy ("DOE")
4 witness Mr. Kahal, and MPSC Staff ("Staff") Report on Revenue Requirement Cost of
5 Service ("Staff Report") concerning the capital structure and cost of debt to be used for
6 ratemaking purposes in the case.

7 **Q: What capital structure is OPC recommending for KCP&L in this case?**

8 A: On page 13 of the Direct Testimony of Michael P. Gorman, he states, "Absent support by
9 the Company, I believe the Company's actual capital structure weight should not be
10 modified and the component costs should simply reflect the March 2012 capital
11 structure." In Table 3 on the same page, he shows the actual capital structure as of March
12 31, 2012 consisting of 45.51% common stock equity, 53.90% long-term debt and 0.60%
13 preferred stock.

14 **Q: Does KCP&L agree with Mr. Gorman's recommendation?**

15 A: No. The significant and material increase in the actual common equity ratio that will be
16 reflected by the true-up date is a result of fulfilling the obligation of GPE to issue and the
17 Equity Unit holders to purchase common stock on June 15, 2012 with GPE using the
18 proceeds from the sale of that common stock to reduce its consolidated long-term debt
19 balance upon maturity of the KCP&L Greater Missouri Operations Company ("GMO")
20 11.875% senior note on July 2, 2012. The June 15, 2012 settlement date for the Equity
21 Units has been known since they were originally issued in 2009. The $287.5 million of
22 Equity Units represented about 4.5% of the capital structure in KCP&L's most recent rate
23 case (Case No. ER-2010-0355). It would not be appropriate to use a March 31, 2012

1 capital structure because it occurs prior to the true-up date for this case and prior to the
2 final execution of the Equity Unit conversion process. While the 10% subordinated note
3 component of the Equity Units were remarketed as senior notes just a few days prior to
4 March 31, 2012, the issuance of common stock to settle the Equity Unit purchase
5 contracts did not occur until June 15, 2012. Additionally, the proceeds from the issuance
6 of common stock were not used to reduce long-term debt until the July 2, 2012 maturity
7 of the GMO 11.875% senior notes.

8 **Q: How do you respond to Mr. Gorman's statement on page 11 that the "increased**
9 **common equity ratio does not appear to be necessary"?**

10 A: Since the issuance of the Equity Units in 2009, the credit rating agencies of Standard &
11 Poor's ("S&P") and Moody's have recognized GPE's contractual obligation to issue
12 common stock on June 15, 2012 and its commitment to reduce long-term debt after the
13 GMO senior notes maturity in July 2012. Since the issuance of the Equity Units in 2009,
14 the rating agencies have made adjustments to their calculations of the GPE's financial
15 metrics and have treated the Equity Units as equity instead of debt, as reported in the
16 GPE's financial statements. This is clearly shown in credit research reports published by
17 S&P for the past three years. In the table titled "Reconciliation of Great Plains Energy
18 Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil.$)" under
19 S&P's adjustments, there is a line item titled "Equity-like hybrids" which shows a $287.5
20 million adjustment to decrease the Company's reported debt and increase the Company's
21 reported equity. See Schedule KEB-1, page 5.

22 This equity treatment for the Equity Units over the past three years was based on
23 the GPE's commitment to the credit rating agencies that common stock issued at Equity

1 Unit conversion in 2012 would be used to pay down long-term debt. The equity
2 treatment of the Equity Units is a significant reason why GPE currently has a stable
3 investment grade rating. It was absolutely necessary for the GPE to increase its equity
4 ratio and decrease its long-term debt ratio by following through on its contractual
5 obligations and plans related to the settlement of the Equity Units as well as to meet its
6 commitment to the credit rating agencies.

7 **Q: What capital structure is the Staff recommending for KCP&L in this case?**

8 A: As stated on page 34 of the MPSC Staff Report, Staff believes that the consolidated-basis
9 capital structure of KCP&L's publicly-traded parent, GPE, as of June 30, 2012 is most
10 appropriate for use as the rate making capital structure in the rate proceeding. The Staff
11 Report goes on to state that "because of unique and significant financing activities
12 occurring within GPE that were scheduled to be completed on or around June 30, 2012,
13 this capital structure seems reasonable" and that it "is appropriate because it reflects
14 KCPL's actual financing and because the risk embedded in GPE's capital structure
15 affects KCPL's credit rating." The Staff's recommended KCP&L ratemaking capital
16 structure consists of 51.82% common stock equity, 47.57% long-term debt and 0.61%
17 preferred stock. The Staff Report also stated that there is a true-up scheduled for the
18 proceeding and that Staff can evaluate all known data through at least the true-up period
19 to verify the reasonableness of the current proposed ratemaking capital structure.

20 **Q: Does KCP&L agree with the Staff's ratemaking capital structure recommendation?**

21 A: Yes. The Staff recommendation appears consistent with the Company's proposal to use
22 the actual GPE consolidated capital structure as trued-up through August 2012 for
23 KCP&L ratemaking purposes. This capital structure will reflect $287.5 million of new

1 equity resulting from the conversion of the Equity Units on June 15, 2012 and the
2 maturity of GMO $500 million 11.875% senior notes on July 2, 2012.

3 **Q: Does KCP&L agree with the MPSC Staff recommendation for the Embedded Cost**
4 **of Debt and Preferred Stock?**

5 A: No. The Company proposal differs from the MPSC Staff recommendation on two main
6 points. Staff recommends: 1) the use of a consolidated cost of debt be applied to both
7 GMO and KCP&L and 2) a downward adjustment to the coupon rates of all three debt
8 issuances that GPE made subsequent to its acquisition of GMO. The Company disagrees
9 with both of these recommendations.

10 **Q: Why does KCP&L believe that the cost of debt should not be adjusted?**

11 A: The Company made prudent decisions related to the three issuances of debt GPE made
12 subsequent to its acquisition of GMO and the cost of these debt issues should not be
13 adjusted from their actual costs. The circumstances surrounding each issuance will be
14 described individually to explain the Company's decision process.

15 **Q: What was the first GPE debt offering and what is Staff's position?**

16 A: The first GPE debt issuance was a $250 million senior note offering on August 15, 2010
17 with a coupon interest rate of 2.75%. This senior note was issued to refinance the short-
18 term debt balance at GMO resulting from the December 2009 maturity of its 7.625%,
19 $68.5 million senior notes and from GMO capital expenditures regarding its share of the
20 expenses related to the Iatan Unit 1 environmental retrofit and the Iatan Unit 2 plant
21 construction. At the time of this debt issuance, GPE selected a tenor of three years so as
22 to provide flexibility to refinance the debt at the utility operating company level once the
23 requisite historical financial statements were available.

1 The Staff suggests that this debt could have been issued at a 'BBB' unsecured
2 debt rating by GMO rather than at the GPE holding company level, and adjusts the
3 interest coupon rate down from 2.75% to 2.00% based on the average 'BBB' utility debt
4 yield for August 2010.

5 **Q: Do you disagree with Staff's position?**

6 A: Yes, there are several flaws with Staff's proposed adjustment. An offering directly by
7 GMO would not have been an U.S. Securities and Exchange Commission ("SEC")
8 registered public offering like the GPE offering. In August 2010, GMO only had post-
9 acquisition financial information for one complete calendar year (2009) instead of the
10 minimum three years of audited financial statements required for public or private
11 offerings. This lack of historical financial information would have resulted in investors
12 requiring a GPE guarantee. A GPE guarantee would have most likely resulted in an
13 interest rate for a GMO offering that would have been equal to the 2.75% interest rate
14 actually received for the SEC-registered public offering by GPE due to investors' reliance
15 on the guarantor's credit rating. This market dynamic has yielded the Company's
16 financing approach whereby holding company debt offerings are made on behalf of
17 GMO's financing needs. This approach has been previously supported by the
18 Commission as evidenced by the inclusion of the 2.75% interest coupon rate for the
19 August 2010 debt offering in the cost of debt approved by the Commission in GMO's
20 most recent rate case, Case No. ER-2010-0356.

21 **Q: Are there also flaws with the application of Staff's own methodology?**

22 A: Yes. While I strongly disagree with the rationale for the cost of debt adjustment, I also
23 disagree with the methodology used to calculate such adjustments. The 'BBB' utility

1 debt yield for August 2010 includes the yields on previously issued outstanding debt, and
2 does not fully incorporate the additional cost known as a "new issue concession" that is
3 incurred when new debt issues are offered to the market. New issue concession can vary,
4 but on recent estimate for a GMO offering was 20-25 basis points. Additionally, GMO
5 has a split rating between the two agencies as GMO only has a 'BBB' unsecured debt
6 rating with S&P and the rating with Moody's is one notch lower at Baa3. Based on
7 information from Bloomberg (Schedule KEB-2), the difference between BBB utility
8 bond yields and BBB- utility bond yields for August 2010 was 58 basis points versus the
9 75 basis point adjustment made by Staff. Given the split GMO credit rating described
10 above, only half of the 58 basis point difference would be attributable to GMO, resulting
11 in a theoretical credit rating adjustment of only 29 basis points. For these reasons, even if
12 it would have been possible to issue debt directly at GMO instead of at GPE, the 75 basis
13 point adjustment is too large.

14 **Q: Please describe the second GPE debt offering and explain why its terms were**
15 **reasonable.**

16 A: The second GPE debt issuance was a $350 million 10-year senior note offering on May
17 16, 2011 with a coupon interest rate of 4.85%. Funds were used at GMO to refinance a
18 $137.3 million senior note with a 7.95% interest rate that matured in February 2011 and a
19 $197 million senior note with a 7.75% interest rate that matured in June 2011. By May
20 2011, the decision was made to issue a longer term note and reduce refinancing risk by
21 issuing the debt with a 10-year tenor. GMO still only had two full calendar years of
22 financial information instead of the aforementioned three years of audited financial
23 statements required for public or private offerings, so a GPE parent guarantee would still

1 have been required by investors. As with the first GPE debt offering discussed
2 previously, this GPE debt offering was prudent.
3 The previous points that I made above regarding GMO having a split BBB/Baa3
4 rating and the fact that new issue concessions are not fully incorporated in the utility debt
5 yields use by Staff apply to this debt issuance, as well. The Staff adjustment for this debt
6 issuance is only 15 basis points from the actual 4.85% coupon rate to the 4.70% average
7 'BBB' utility debt yield for May 2011. A potential GPE guarantee requirement, a split
8 GMO credit rating and new issue concession cost for new issuances could easily account
9 for the 15 basis point difference on which the Staff bases their adjustment for the May
10 2011 debt issuance.
11 **Q: What was the third debt offering and why were its terms reasonable?**
12 A: The third GPE debt issuance was the 5.292% coupon for the $287.5 million senior note
13 issued March 19, 2012. This debt issue is actually not a new issue but rather the
14 remarketing of the previously outstanding 10% subordinated notes that were components
15 of the GPE Equity Units. Because the Equity Units were linked to the issuance of
16 common stock, they had to be issued by the GPE holding company since GMO, as a
17 subsidiary operating company, has no public common stock. Since the subordinated
18 notes were a GPE debt instrument, the remarketing of them as senior notes had to remain
19 at the GPE holding company level. In the Report and Order in GMO's last rate case,
20 Case No. ER-2010-0356, the Commission concluded at page 155: "Overall, the cost of
21 the Equity Units was reasonable and was incurred in the best interest of the ratepayers."
22 As part of the structure of the Equity Units, the Company was required to remarket the
23 $287.5 million of notes at the GPE level. Since issuance of this debt at GMO was not

1 possible, an adjustment to a hypothetical GMO coupon interest rate does not apply.
2 Furthermore, the 104 basis point adjustment the Staff makes is extreme given the
3 difference between BBB utility bond yields and BBB- utility bond yields for March 2012
4 of 32 basis points according to Bloomberg (Schedule KEB-2).

5 **Q: Please summarize your concerns with Staff's recommended adjustments related to**
6 **GPE debt issuances.**

7 A: The Company believes that the decision to issue these three debt offerings at the GPE
8 holding company level was prudent and that no adjustments should be made to the actual
9 cost of that debt. The holding company debt offerings are consistent with the financing
10 approach used by the Company since the acquisition of GMO and previously approved
11 by the Commission in GMO's most recent rate case, Case No. ER-2010-0356. For
12 discussion of Staff's assertion that their cost of debt adjustments are the result of an
13 acquisition detriment, please see the Rebuttal Testimony of Darrin Ives.

14 **Q: Does GPE plan to continue issuing debt at GPE and loaning the proceeds to GMO?**

15 A: While this has been the most cost effective option in the past, the Company, GMO and
16 GPE may have more financing options in the future. Now that GMO has three full
17 calendar years of financial history, future audited financial statements may put GMO in a
18 better position to issue debt offerings itself versus GPE. Three years of audited financial
19 statements may eliminate the need for a GPE parent guarantee on future debt offerings
20 and help support GMO's stand alone credit rating. For these reasons, there may be
21 additional options to finance GMO debt.

1 **Q: The Staff report indicates that KCP&L could have lowered its cost to ratepayers by**
2 **issuing 3-year tenor debt instead of the 30-year tenor debt it issued for the $400**
3 **million offering in September 2011. Why did KCP&L decide on a 30-year tenor for**
4 **that debt offering?**
5 A: With a normal upward sloping yield curve, debt with longer tenors will cost more than
6 debt with shorter tenors. However, with shorter tenors there is additional risk due to the
7 more frequent need to refinance that debt. KCP&L decided to reduce this refinancing
8 risk for the next 30 years since it could be done at a 5.30% coupon interest rate that was
9 both below its weighted average cost of debt and lower than the coupon interest rate of
10 any other outstanding KCP&L taxable senior notes, regardless of tenor. The Company
11 has objectives to both lower the weighted average cost of debt and lengthen the weighted
12 average time to maturity of its debt. Given the aforementioned relationship of cost of
13 debt to tenors mentioned above in the discussion of the upward sloping yield curve, these
14 objectives are often in conflict. With this issuance and given interest rates at the time of
15 issuance, KCP&L was able to accomplish both objectives with a 30 year tenor, but would
16 have only accomplished one of those objectives (lowering its average cost of debt) with a
17 3 year tenor. The Company acted in the best long-term interest of ratepayers by
18 eliminating the risk of higher interest rates on this $400 million of debt for the next 30
19 years while at the same time lowering KCP&L's weighted average cost of long-term debt
20 paid by ratepayers from the 6.82% in the previous KCP&L case to the 6.635% proposed
21 in this case.

1 **Q: Does the Company agree with the statement in the Staff Report that it is "likely that**
2 **KCPL is paying a higher coupon on its debt due to its affiliation with GMO"?**
3 A: No. While the Company does not dispute that KCP&L has slightly better financial credit
4 metrics than GMO, it does not agree that KCP&L would have a better credit rating absent
5 GMO. The one statement made by Moody's in its March 29, 2012 Credit Opinion
6 (Scheduled KEB-3) on KCP&L that "on a stand-alone basis GMO continues to exhibit a
7 more leveraged capital structure than KCPL, which also continues to be a consideration
8 in our ratings since Great Plains provides a downstream guarantee of the unsecured debt
9 at GMO" is not conclusive evidence that absent GMO, KCP&L would have a higher
10 credit rating. In the Credit Opinion published by Moody's for each of the past three
11 years, the report shows how KCP&L scores based on its credit rating methodology. In
12 the 2012 report referenced above and in the 2010 report published March 17, 2010
13 (Schedule KEB-4), the "Indicated Rating from the Grid" was Baa3 versus the "Actual
14 Rating Assigned" of Baa2. In the March 17, 2011 Credit Opinion (Schedule KEB-5), the
15 indicated rating and assigned ratings were both Baa2. These scoring tables shown in
16 Moody's Credit Opinions are based on their "Regulated Electric & Gas Utilities"
17 methodology published in August 2009 and detail parameters around certain qualitative
18 considerations and key credit metrics. The comment in the text of the 2012 Credit
19 Opinion notwithstanding, the scoring in the Credit Opinions for the past three years for
20 KCP&L on a stand-alone basis shows that KCP&L is already assigned a credit rating that
21 is at or higher than what would be implied by the Moody's methodology. Since the
22 KCP&L stand-alone scores would not change absent GMO, the Company does not
23 believe that its credit rating would be even higher than it already is today. Therefore,

1 KCP&L should not be penalized by reducing its cost of debt below the actual cost
2 incurred for that debt either directly or indirectly, through adjustments to GPE issued
3 debt.

4 **Q: Does the Company agree with the use of a consolidated cost of debt for ratemaking**
5 **purposes?**

6 A: Based on the current cost of debt for each company, the use of a consolidated cost of debt
7 for ratemaking purposes would provide less revenue for KCP&L and more revenue for
8 GMO. This would result in a negative impact on KCP&L's financial metrics and an
9 improvement in GMO's financial metrics. While this could impact credit ratings by
10 Moody's, it would not impact consolidated financial metrics or credit ratings by S&P. In
11 general, KCP&L ratepayers should not be paying more because of the GMO acquisition.
12 However, as more of the utility operations are integrated, there may come a time to also
13 consolidate the financing cost of the utility operations either with or without a legal
14 merger of the two utility companies. The Company would not oppose using the 6.425%
15 actual consolidated cost of debt for both KCP&L and GMO ratemaking purposes.

16 **Q: Mr. Kahal points out at pages 6-7 in his Direct Testimony that the Company**
17 **excludes Other Comprehensive Income ("OCI") from the ratemaking common**
18 **equity component of the capital structure. Why is this adjustment proper?**

19 A: About 98% of the balance of Other Comprehensive Income relates to the amount of
20 income or loss on interest rate derivatives. The OCI balance in previous cases would
21 have included both the income or loss on outstanding interest rate derivatives based on
22 current market values as well as any unamortized income or loss on interest rate
23 derivatives that had been settled. Since the Company does not currently have any

1 outstanding interest rate derivatives, the current OCI balance is primarily the unamortized
2 net of tax income or loss on interest rate derivatives that have been settled. The balance
3 includes interest rate derivatives that were settled as early as 2005 and as recently as
4 2011. The use of interest rate derivatives has been authorized by the Commission in
5 previous KCP&L financing authorization orders including the most recent order in Case
6 No. EF-2010-0178. Absent an accounting order to record any income or loss as a
7 deferred regulatory asset, Generally Accepted Accounting Principles ("GAAP") requires
8 that the income or loss be recorded to OCI. However, since the amortization of any
9 income or loss on the interest rate derivatives has been included in the cost of service as
10 part of the cost of debt, there is no impact on net income which results in this OCI
11 accounting entry only having a temporary impact on the equity balance. Due to the
12 temporary nature of the OCI balance resulting from GAAP accounting requirements,
13 even though the income or loss will ultimately not be incurred, the exclusion of the OCI
14 balance from the equity component is both proper and consistent with the equity
15 component of the capital structure that was approved in the Company's last recent rate
16 case.

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

18 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-2012-0174

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 Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of fourteen (14) 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.

[signature]
Kevin E. Bryant

Subscribed and sworn before me this 5th day of September, 2012.

[signature]
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

SCHEDULES KEB-1
THROUGH KEB-5
THESE DOCUMENTS CONTAIN
HIGHLY CONFIDENTIAL
INFORMATION NOT AVAILABLE
TO THE PUBLIC