

Exhibit No.:  
Issue: Missouri Energy Efficiency  
Investment Act of 2009  
Witness: Kevin E. Bryant  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: Kansas City Power & Light Company  
Case No.: EO-2014-0095  
Date Testimony Prepared: April 14, 2014

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: EO-2014-0095**

**SURREBUTTAL TESTIMONY**

**OF**

**KEVIN E. BRYANT**

**ON BEHALF OF**

**KANSAS CITY POWER & LIGHT COMPANY**

**Kansas City, Missouri  
April 2014**

**SURREBUTTAL TESTIMONY**

**OF**

**KEVIN E. BRYANT**

**Case No. EO-2014-0095**

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: Are you the same Kevin E. Bryant who pre-filed Direct Testimony in this matter?**

5 A: Yes, I am.

6 **Q: What is the purpose of your Surrebuttal Testimony?**

7 A: To respond to the Rebuttal Testimony of Missouri Public Service Commission (“MPSC”)  
8 Staff (“Staff”) witness Zephania Marevangepo.

9 **Q: Would you please summarize the Staff’s position regarding the projected impact of**  
10 **the incentive component of demand-side investment mechanism (“DSIM”) on utility**  
11 **earnings and key credit metrics?**

12 A: Mr. Marevangepo indicated on page 4 lines 22 through page 5 line 2 of his Rebuttal  
13 Testimony, that Staff admits that a recovery mechanism that allows for the recovery of  
14 only program costs generally has a negative impact on Kansas City Power & Light  
15 Company’s (“KCP&L” or “Company”) earnings and key credit metrics, but that the  
16 impact of the incentive component of the DSIM has a *de minimis* impact on KCP&L’s  
17 key credit metrics.

1 **Q: Is the amount of the negative impact on KCP&L's earnings and key metrics**  
2 **relevant?**

3 A: No, it is not. There are many different categories of the costs for providing electric  
4 service to customers and several different recovery mechanisms that are utilized. Any  
5 specific cost looked at by itself may have little impact on the Company's overall earnings  
6 and key credit metrics, but it is the aggregate of all the Company's costs and recovery  
7 mechanisms that result in the total view of the Company's earnings and credit profile. To  
8 minimize the importance of fully recovering the cost of demand-side management  
9 ("DSM") investments based on the magnitude of the impact to Great Plains Energy as a  
10 whole is not appropriate.

11 **Q: Is a utility's credit rating based solely on its key credit metrics?**

12 A: No. The credit rating agencies have different methodologies, but both Moody's and S&P  
13 include an assessment of the regulatory framework as part their process. Moody's  
14 regulated utilities rating methodology has 40% of the analysis based on credit metrics,  
15 but 50% is based on their view of the utility's regulatory framework (25%) and the  
16 utility's ability to recover costs and earn returns (25%). In assessing these qualitative  
17 factors, Moody's considers the track record of regulatory decisions in terms of  
18 consistency, predictability and supportiveness. They also consider the protections that  
19 assure full cost recovery and a reasonable return for the utility on its investments. S&P's  
20 rating methodology for utilities also includes a qualitative regulatory assessment. S&P  
21 states that the regulatory framework is of critical importance when assessing regulated  
22 utilities' credit risk because it defines the environment in which a utility operates and has  
23 a significant bearing on a utility's financial performance. They base their assessment of

1 the regulatory framework's relative credit supportiveness on their view of how regulatory  
2 stability, efficiency of tariff setting procedures, financial stability, and regulatory  
3 independence protect a utility's credit quality and its ability to recover its costs and earn a  
4 timely return.

5 **Q: Why is the qualitative regulatory assessment by the credit rating agencies relevant?**

6 A: It is important to understand how the approval of a recovery mechanism that allows the  
7 company to fully recover all of its cost related to DSM investments could have more of  
8 an impact on the company's credit profile from a qualitative perspective than it does from  
9 the quantitative impact on its credit metrics.

10 **Q: How does the company's business risk impact its credit rating?**

11 A: In S&P's rating methodology, a company's business risk profile is one of the two factors  
12 used to determine the anchor credit rating for the company. A company's financial risk  
13 profile as determined by its credit metrics is the other factor. The anchor credit rating  
14 determined by the business risk profile and financial risk profile can be further modified  
15 by other factors for some companies.

16 **Q: What business risk score did S&P give regulated electric utilities in Missouri?**

17 A: In the S&P publication, North American Corporate Rating Scores By Industry Sector As  
18 Of Feb. 6, 2014, a business risk score of 1 (lowest risk) was given to Ameren Corp.  
19 ("Ameren") and a business risk score of 2 (higher risk) was given to Great Plains Energy  
20 and The Empire District Electric Company.

1 **Q: Will approval of a mechanism that allows for recovery of an incentive component of**  
2 **DSIM result in a better business risk score by S&P?**

3 A: It is doubtful that approval of this one recovery mechanism will result in an upgrade of  
4 the business risk score by S&P, but it would be viewed as a positive move in that  
5 direction.

6 **Q: Do utilities with better business risk as defined by S&P receive a lower allowed**  
7 **return on equity (“ROE”)?**

8 A: No, not necessarily. Ameren, who has a better business risk score by S&P than KCP&L  
9 does, was granted a higher allowed ROE than KCP&L in their latest respective general  
10 rate cases before the MPSC.

11 **Q: How can recovery mechanisms that help the Company earn its allowed return result**  
12 **in lower costs to customers in the long run?**

13 A: By approving recovery mechanisms that are viewed as supportive by the credit rating  
14 agencies because they reduce regulatory lag and improve the utility’s ability to earn its  
15 allowed return, the regulatory assessment by the credit rating agencies of the utility will  
16 improve over time. An improving regulatory assessment combined with improving credit  
17 metrics due to the full and timely recovery of costs will increase the Company’s ability to  
18 use more lower cost debt in its capital structure to fund additional capital investments and  
19 lower its cost of capital to ratepayers over time. A less supportive regulatory framework  
20 requires more higher cost equity in the Company’s capital structure in order to maintain  
21 an investment grade credit profile resulting in a higher cost of capital to ratepayers over  
22 time.

1 Q: Does that conclude your testimony?

2 A: Yes, it does.

**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     )         File No. EO-2014-0095  
Demand-Side Programs Investment Mechanism        )

**AFFIDAVIT OF KEVIN E. BRYANT**

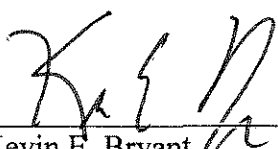
STATE OF MISSOURI     )  
  ) ss  
COUNTY OF JACKSON    )

Kevin E. Bryant, being first duly sworn on his oath, states:

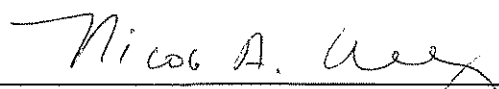
1.     My name is Kevin E. Bryant. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President, Investor Relations and Strategic Planning and Treasurer.

2.     Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of five (5) 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 14<sup>th</sup> day of April, 2014.

  
\_\_\_\_\_  
Notary Public

My commission expires: Feb 04, 2015

