

Exhibit No.:
Issue: Capital Structure
Witness: Kevin E. Bryant
Type of Exhibit: True-Up Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Case No.: ER-2012-0174 and ER-2012-0175
Date Testimony Prepared: November 13, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174 and ER-2012-0175

TRUE-UP REBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

**KANSAS CITY POWER & LIGHT COMPANY
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri
November 2012**

TRUE-UP REBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2012-0174 and ER-2012-0175

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 Rebuttal and Surrebuttal**
5 **Testimony in both Case No. ER-2012-0174 and ER-2012-0175?**

6 A: Yes, I am.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of Kansas City Power & Light Company (“KCP&L”) and
9 KCP&L Greater Missouri Operations Company (“GMO”) (collectively referred to as the
10 “Companies”).

11 **Q: What is the purpose of your True-Up Rebuttal Testimony?**

12 A: The purpose of this testimony is to respond to the True-Up Direct Testimony of Michael
13 P. Gorman, presented on behalf of the Office of the Public Counsel (“OPC”).

14 **Q: Mr. Gorman is recommending that short-term debt of Great Plains Energy**
15 **Incorporated (“GPE”) be included in and hypothetically allocated to the capital**
16 **structure of the Companies for determining the return on rate base. Do you agree?**

17 A: No. There are two reasons for excluding short-term debt from the regulatory capital
18 structure of the Companies for ratemaking purposes. First, the short-term debt shown on
19 the balance sheet as collateralized note payable relates to the securitization of accounts

1 receivable, not to funding rate base investments. Adjustments are made to the cash
2 working capital calculations to account for the Companies' accounts receivable
3 securitization facilities and, therefore, the short-term debt related to these facilities cannot
4 also be included in the regulatory capital structure without double counting this debt.
5 Second, the Federal Energy Regulatory Commission ("FERC") Order No. 561 formula
6 for the calculation of the Allowance for Funds Used During Construction ("AFUDC")
7 rate is based on short-term debt first being used to fund Construction Work In Progress
8 ("CWIP"). The FERC formula AFUDC rate is calculated as the short-term interest rate
9 times the ratio of short-term debt to CWIP, plus the long-term cost of capital times one
10 minus the ratio of short-term debt to CWIP. Since short-term debt is first used to fund
11 CWIP, then that amount of short-term debt cannot also be included in the regulatory
12 capital structure without double counting that debt.

13 **Q: Did the Missouri Public Service Commission Staff ("Staff") consider the inclusion of**
14 **short-term debt in the true-up capital structure?**

15 A: Yes. Staff recommended that short-term debt be excluded from the capital structure. In
16 Mr. Murray's Surrebuttal Testimony at page 4, he stated: "I evaluated monthly
17 construction work in progress ("CWIP") and short-term debt balances for the 12-months
18 ended through August 31, 2012 and short-term debt balances do not exceed CWIP
19 balances on a consistent basis. Therefore, I do not recommend the inclusion of short-
20 term debt in the ratemaking capital structure."

1 **Q: Did the Mr. Kahal on behalf of the U.S. Department of Energy (“DOE”) object to**
2 **the exclusion of short-term debt?**

3 A: No. In Mr. Kahal’s Direct Testimony at page 6, he responded to this question by
4 answering: “No, I do not, provided that on an ongoing basis the Company directly
5 allocates its actual short-term debt to Construction Work In Progress (“CWIP”) for
6 purposes of calculating its Allowance for Funds Used During Construction (“AFUDC”)
7 rate. This procedure will ensure that customers receive the cost of capital benefit of this
8 extremely low cost source of investor-supplied funds. The Company’s response to DOE
9 1-23 indicates that it does follow this procedure.”

10 **Q: Do Mr. Murray and Mr. Kahal correctly recognize the relationship between the**
11 **CWIP balance and the short-term debt balance in concluding that short-term debt**
12 **should be excluded from the capital structure?**

13 A: Yes. Both Mr. Murray and Mr. Kahal correctly recognize that the cost of capital used to
14 finance CWIP is recovered through AFUDC and that the AFUDC rate is based first on
15 the short-term debt rate. The only way to claim that short-term debt is being used to
16 finance rate base investments is if the short-term debt balance exceeds the CWIP balance.

17 **Q: Does Mr. Gorman consider this relationship between the CWIP balance and the**
18 **short-term debt balance in his recommendation to include short-term debt in the**
19 **capital structure?**

20 A: No. Mr. Gorman attempts to trace funds associated with specific financing transactions
21 and debt maturities in an inappropriate and arbitrary assignment of an inaccurate amount
22 of short-term debt that he contends is being used to fund the Companies’ respective rate
23 base investments. Short-term debt balances change often, sometimes daily. Any attempt

1 to trace funds raised in a general short-term debt transaction by the Companies to a
2 specific use for those funds at the Companies is impossible, given the fluctuating nature
3 of the Companies' short-term debt balances which it uses to manage daily cash needs.
4 The only appropriate way to ascertain if short-term debt is being used to fund rate base
5 investments is to assign the short-term debt balance to the funding of CWIP and then
6 determine if there is any short-term debt in excess of CWIP that would be available to
7 fund rate base. This is the correct way to look at the short-term debt balance, as
8 recognized by FERC in Order No. 561 on the AFUDC rate formula, and by Mr. Murray
9 and Mr. Kahal.

10 **Q: Why is the short-term debt amount Mr. Gorman has included in his capital**
11 **structure inaccurate given his methodology?**

12 A: The \$376 million of short-term debt in the capital structure proposed by Mr. Gorman
13 includes the refinancing of two KCP&L debt issues, a \$150 million senior note that
14 matured November 15, 2011 and a \$12.366 million tax-exempt bond that matured
15 January 2, 2012. In response to OPC Data Request 5003, the Company clearly stated
16 there were no KCP&L debt issuances between the end of the test year and the proposed
17 true-up date to replace the KCP&L debt maturities since KCP&L had prefunded the
18 maturities with a \$400 million debt issuance in September 2011. Mr. Gorman also
19 ignores any internally generated funds in his calculation of long-term debt refinanced
20 with short-term debt. Consolidated GPE cash flow from operating activities between
21 September 30, 2011 and August 31, 2012 was \$460 million and dividends paid during the
22 same time period were \$88 million resulting in a net \$372 million of cash flow available
23 to retire debt, to fund capital expenditures, or to use for other purposes. The use of these

1 internal funds cannot be tied to a specific purpose. This is why comparing the CWIP
2 balance and the short-term debt balance is the only appropriate methodology to use.

3 **Q: Mr. Murray stated that in his review of the past 12 months the short-term debt**
4 **balances did not exceed CWIP balances on a consistent basis. What was the short-**
5 **term debt balance and CWIP balance as of the August 31, 2012 true-up date?**

6 A: As of August 31, 2012, the total CWIP balance for both KCP&L and GMO was \$435
7 million, and the total short-term debt balance for both KCP&L and GMO was \$454
8 million. The \$454 million short-term debt balance excludes securitized accounts
9 receivable financing that is handled through an adjustment to cash working capital in the
10 regulatory process, which is not related to the funding of CWIP or rate base.

11 **Q: Since the short-term debt balance exceeds the CWIP balance as of August 31, 2012**
12 **by \$19 million, should \$19 million of short-term debt be included in the true-up**
13 **capital structure?**

14 A: No. As Mr. Murray noted, short-term debt has not consistently exceeded CWIP. The
15 CWIP balance is expected to continue to increase due to the ongoing large construction
16 project at the La Cygne Station. The CWIP balance for both KCP&L and GMO as of
17 October 31, 2012 had increased to \$501 million and the short-term debt balance had
18 decreased to \$396 million. In addition to CWIP, some deferred regulatory assets also use
19 the AFUDC rate or the short-term debt rate for calculating the carrying cost on those
20 assets that are not included rate base. Since the \$19 million excess short-term debt no
21 longer exists, was temporary, and represented less than 0.3% of the \$6.449 billion of GPE
22 consolidated total capitalization, it should be excluded from the true-up capital structure.

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 Request for Authority to Implement) Case No. ER-2012-0174
 A General Rate Increase for Electric Service)

In the Matter of KCP&L Greater Missouri)
 Operations Company's Request for Authority to) Case No. ER-2012-0175
 Implement General Rate Increase for Electric Service)

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.

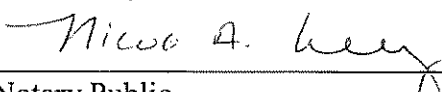
2. Attached hereto and made a part hereof for all purposes is my True-Up Rebuttal Testimony on behalf of Kansas City Power & Light Company and KC&PL Greater Missouri Operations Company consisting of Six (6) pages, having been prepared in written form for introduction into evidence in the above-captioned 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 13th day of November, 2012.



 Notary Public

My commission expires: Feb. 4, 2015

