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Act of 2009
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Case No.: EO-2012-0009
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2012-0009

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
December 2011**

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

Case No. EO-2012-0009

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 of this year, 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 regarding KCP&L's application for
20 its proposed Home Performance with ENERGY STAR[®] program.

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

22 A: The purpose of my testimony is to:

- 1 (1) Provide an overview of the intent of Senate Bill 376 (“SB376”) and subsequent
2 Missouri Energy Efficiency Investment Act of 2009 (“MEEIA”) rules; and
3 (2) Discuss the current cost recovery business model from the Company’s investors
4 and credit rating agencies’ views.

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

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

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

12 A: There are several ways that DSM is beneficial. To list a few:

- 13 ▪ DSM invests in our customers making them more competitive;
- 14 ▪ DSM reduces customers’ and the region’s carbon output;
- 15 ▪ GMO can target DSM to certain areas which allows us to operate the grid more
16 efficiently and reduce load on stressed circuits; and
- 17 ▪ Installing energy efficiency measures provide potential employment for urban and
18 diverse work forces.

19 **Q: Please discuss your involvement with SB376.**

20 A: Prior to the passage of SB376, I was involved in the development of the Energy
21 Efficiency First Coalition, a collection of numerous organizations and individuals
22 working to generate awareness and show support for energy efficiency initiatives. At the
23 time of passage of SB376—July 2009—I was the Vice President, Energy Solutions, for

1 KCP&L. In that role, I was responsible for the Company's DSM programs and strategy.
2 Therefore, my involvement with SB376 was great. I also had constant involvement
3 throughout the MEEIA rulemaking process.

4 **Q: Please explain your involvement in that process.**

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

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

14 A: Definitely. GMO's proposed DSM program portfolio as outlined in the testimony of
15 Company witness Allen Dennis is an integral part of its plan to meet the electricity needs
16 of its customers now and in the future. The proposed energy and demand reductions that
17 are the subject of this proceeding will be reflected in GMO's load and resource
18 requirements. As I stated earlier, there are substantial benefits in DSM and the
19 Company's efforts in this regard are consistent with its focus to meet customers' needs in
20 a balanced, cost-effective and environmentally responsible manner.

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

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

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

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

15 **Q: Why do DSM programs result in reduced revenue?**

16 A: In the current system, the recovery of the required revenue occurs by charging electric
17 customers rates that are multiplied by their kW demand and kWh usage. The rates are
18 established by utilizing the revenue requirement established in a rate case as the
19 numerator in the rate with the current levels of kW demand and kWh usage as the
20 denominators. DSM programs are designed to reduce customer demand and usage. Thus
21 the customer kW's of demand and kWh's of usage that are multiplied by the rate to
22 calculate revenues are less than the kW's and kWh's that were built into establishment of
23 the rate. This results in future revenues received from customers that will be less than the

1 revenue required to recover return of and return on investments in utility assets and the
2 annual operating and maintenance expenses.

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

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

11 **Q: What is the magnitude of the lost margins?**

12 A: The lost margins that result from the revenue reductions described above, net of the
13 associated avoided variable costs, are \$2.8 million in 2012, \$5.5 million in 2013, and \$8
14 million in 2014 for a total of \$16.3 million of lost margin over a three-year period.

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

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

1 This investment framework creates regulatory lag and decreases the Company's
2 ability to earn its authorized return on equity. Investors assess utilities based on their
3 performance in earning their authorized return on equity and utilities who underperform
4 in this area often have stock prices that trade at a discount to respective utility peers. This
5 discount increases the relative cost of equity capital for such utilities. For these reasons,
6 the current mechanism is unattractive to investors.

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

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

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

11 The Company expects to invest its capital and to come as close as possible to earning its
12 authorized return on equity. The Company must make prudent and rational decisions
13 when evaluating and prioritizing its needs for capital investment. GMO cannot be
14 expected to choose to spend capital on investments they won't recover until the next rate
15 case and cause deterioration in earnings due to lost margins. This results in creating
16 regulatory lag with no incentive to make the investment and earn a return.

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

18 A: The rating agencies consider many quantitative and qualitative factors when reviewing a
19 Company's credit ratings. For example, from the quantitative perspective, the current
20 recovery mechanism has a negative impact to the Company's financial metrics such as
21 Funds from Operations ("FFO") to Debt. Qualitatively, the current recovery mechanism
22 does not balance the risk of both customers and the Company and the agencies may
23 perceive this as a regulatory environment that is less than supportive to the utility.

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 that discourage potential investors, causing investors to discount the Company's stock price and raising the cost of equity capital and puts negative pressure on the Company's credit metrics primarily related to the inadequate and untimely recovery of DSM investments and the revenue reduction created by problems inherent in the current DSM recovery mechanism.

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

1 expenditures that are not covered by current revenues and do not recover the financial
2 capital cost of the DSM investment. DSM investments, under the current system, also
3 result in a reduction of future revenues and lost margins, which makes adequate recovery
4 of all other utility costs more difficult.

5 **Q: Why does the current system not provide adequate or timely recovery of the DSM**
6 **investments?**

7 A: The current system does not allow for immediate recovery (through the use of a rider,
8 etc.) or annual recovery in between rate cases, but does allow for the deferral and
9 amortization of DSM programs expenditures. The deferred DSM program costs currently
10 receive rate base treatment which allows the Company to earn a return on the
11 unamortized balance, but you must wait until a rate case before you can begin any
12 recovery.

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

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

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

3 A: Yes. As a result of the DSM programs proposed by the Company in this case, the 20-
4 year net present value of revenue requirements is anticipated to be reduced by over \$340
5 million as described in the testimony of Company witness Tim Rush. These are net
6 benefits to retail customers, over and above the cost of the proposed programs over this
7 time period.

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

9 A: Yes.

