

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-2014-0370  
A General Rate Increase for Electric Service       §

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REPLY BRIEF OF THE UNITED STATES DEPARTMENT OF ENERGY AND THE  
FEDERAL EXECUTIVE AGENCIES

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COME NOW the United States Department of Energy (“DOE” or “the Department”) and the Federal Executive Agencies (“FEA”), collectively referred to as DOE/FEA, by and through counsel, and for their Reply Brief in the above-captioned proceedings state as follows:

**I. INTRODUCTION**

DOE/FEA responds here to the Initial Post-Hearing Briefs of Commission Staff (“Staff”); Office of the Public Counsel (“OPC”); Midwest Energy Consumer’s Group (“MECG”); Consumer’s Council of Missouri (“CCM”); and the Kansas City Power & Light Company (“KCPL”). As noted in our Initial Brief, the Department adheres to the principle that electric rates should be reasonable and cost based.

As Staff notes, cost of capital is the largest single issue in this case – the difference between Staff’s position and KCPL’s is worth over \$18 million.<sup>1</sup> (Staff Initial Brief, p. 7). The difference between DOE/FEA’s return on equity (ROE) position (9.0%) and KCPL’s position (10.3%) is \$23.2 million as of Staff’s most recent reconciliation. (Tr. 142:16-19 (OPC)). Staff also notes, correctly, that cost of capital is always a large issue in terms of amount of revenue requirement and a contentious issue - this case is no exception. (Staff Initial Brief, p. 7).

In setting the ROE, the Commission should keep in mind that this case represents KCPL’s sixth rate increase request since 2006, and over that time period, ratepayers have seen a cumulative increase of 60.39%. (Staff Initial Brief, p. 32). Adding KCPL’s present request

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<sup>1</sup> The term “cost of capital” refers to the cost of each component of the capital structure. (Staff Initial Brief, p. 7).

would make the cumulative total 85.65% since 2006, the majority of which will be borne by residential customers, who are 88% of KCPL's customer base. (See *id.*)

DOE/FEA recommends that in the setting of rates for KCPL, the Commission (1) use KCPL's actual capital structure rather than the capital structure of KCPL's parent, Great Plains Energy; (2) include short-term debt in its calculation of KCPL's cost of debt; and (3) set KCPL's ROE at 9.00%, a number justified by the historically-low cost of capital environment, the lack of credibility of the growth rate estimates selected by KCPL's ROE witness, and the substantial record evidence.

## II. CAPITAL STRUCTURE/SHORT-TERM DEBT

### A. The Commission Should Use the Company's Actual Capital Structure in Setting Rates.

Staff and KCPL note that Ms. Reno is the only witness in this case to oppose the use of the capital structure of Great Plains Energy, KCPL's parent company, choosing instead to use KCPL's actual capital structure as of December 31, 2014. (Staff Initial Brief, p. 4; KCPL Initial Brief, p. 22). Ms. Reno correctly noted in her Direct Testimony that applying the capital structure of the parent company is akin to applying a hypothetical capital structure, which is typically the practice when the company's capital structure is weighted heavily on either low-cost debt or higher-cost equity and regulatory authorities are concerned that customers will bear the burden of an imbalanced capital structure. (DOE Ex. 701, p. 14).

Contrary to the statements of Staff and KCPL (Staff initial Brief, p. 5; KCPL Initial Brief, p. 22), Ms. Reno did provide a reason to depart from the Commission's regular practice – KCPL's capital structure in this case is neither weighted heavily on low-cost debt or higher-cost equity. Therefore, a hypothetical capital structure is unnecessary and the Commission should

use the actual capital structure of the company. In this Commission's most recent rate order concerning Ameren Missouri, the Commission used Ameren Missouri's actual capital structure as of December 31, 2014. (*Ameren Missouri*, ER-2014-0258. Report and Order, April 29, 2015, p. 61 ("Finding of Fact" ¶2) (hereafter referred to as *Ameren Missouri*). There is no compelling reason to use the capital structure of KCPL's parent company in the place of KCPL's own capital structure in this case.

B. Short-Term Debt Should be Included in the Cost of Capital.

Staff and KCPL also take issue with Ms. Reno's inclusion of KCPL's short-term debt in her calculation of the company's cost of debt. (Staff Initial Brief, pp. 5-6; KCPL Initial Brief, pp. 22-23). But Staff's only argument rebutting Ms. Reno's proposal is a declaratory statement that her explanation is "not sufficient for the Commission to discard its long-established practice." (Staff Initial Brief, p. 6). KCPL argues that short-term debt is first used to fund construction work in progress (CWIP) and as such, "the same debt cannot be included in the regulatory capital structure without double counting that debt." (KCPL Initial Brief, p. 23).

Ms. Reno explained in surrebuttal testimony why KCPL's double-counting argument is unpersuasive, noting that if such logic were to hold, "then the Company would also have to exclude the portion of long-term debt also used to fund CWIP since the amount of CWIP is over three times the amount of short-term debt balances." (DOE Ex. 701, p. 14).

Rather, inclusion of short-term debt in the calculation of cost of capital is an entirely appropriate and well-regarded practice. As Ms. Reno explained, the short-term debt in the cost of capital is the debt used to fund the operations and investments of the firm. (DOE Ex. 700, p. 10). Credit rating analysts incorporate all interest-bearing debt in their ratings, and while some analysts may assume that short-term debt will be refinanced with long-term debt, any trend in the

balance of short-term debt should be reflected in the company's capital structure.<sup>2</sup> (See *id.*) For example, S&P considers ratios, such as Funds from Operations/Total Debt and Total Debt/Capitalization when rating a company. (DOE Ex. 701, p. 15). These ratings, in turn, are used by investors to gauge the risks associated with valuing a utility's assets. (See *id.*)

Recent Commission decisions from other jurisdictions confirm that inclusion of short-term debt in the cost of capital is a well-founded regulatory practice. The Arkansas Public Service Commission included short-term debt in Entergy Arkansas' capital structure stating

We agree with Staff and the AG that short-term debt should be included in the capital structure. It is a normal source of capital used by EAI as well as other utilities to fund ongoing operations. Although short-term debt may fluctuate over time, it is a permanent source of funds used by the companies in the samples used by Staff witness Daniel. Further, this inclusion is consistent with Commission policy in prior rate cases.

(*Entergy Arkansas*, Order No. 21, Arkansas Public Utility Commission Docket No. 13-028-U, December 30, 2013, p. 87).

As Ms. Reno notes, the Commission should be aware that KCPL maintains a constant and significant short-term debt balance. (DOE Ex. 701, p. 15). Ultimately, excluding the known short-term debt from the capital structure in this case will make the capital structure more equity-rich, which will be more expensive, thereby shifting the cost to ratepayers (See *id.*) - a result that should factor heavily into the Commission's decision.<sup>3</sup>

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<sup>2</sup> Since KCPL held a positive short-term debt balance throughout the period December 31, 2013 – December 31, 2014, Ms. Reno appropriately included it in KCPL's capital structure. (DOE Ex. 700, p. 11).

<sup>3</sup> It should be noted that while KCPL is correct that Ms. Reno accepted Mr. Hevert's corrections to her short-term debt rate and proposed long-term debt rate (KCPL Initial Brief, p. 23; see also DOE Ex. 701, pp. 15-16), that these adjustments in no way indicate a retraction of Ms. Reno's view that in this case, short-term debt should be included in the cost of debt.

### III. COST OF COMMON EQUITY

While the costs of both debt and preferred equity can be determined from examining financial data, the cost of common equity is driven by the market and must be estimated through expert analysis and judgment. (Staff Ex. 200, p. 18). It is important to note that while the cost of common equity is the return required by investors, and determined by expert analysis of market data, the allowed ROE is the value selected by the Commission for use in calculating a utility's forward-looking rates for implementation at the end of the rate case. (See *id.*, at fn. 11). The Supreme Court held that

What annual rate will constitute just compensation depends upon many circumstances, and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts.

(Bluefield Waterworks & Improvement Co. v. Public Serv. Comm'n of West Virginia, 262 U.S. 679, 692 (1923)). As such, the Commission will apply its judgment in adjusting the calculated cost of equity for a utility and in setting a return on equity. DOE/FEA's position is that the Commission's judgment in setting KCPL's ROE should be informed by the following important considerations:

- (1) The ROE ordered in this case should fall well below the ROE ordered for Ameren in *Ameren Missouri*, Docket No. ER-2014-0258;
- (2) KCPL's expert witness has a track record of using unreasonable growth rates which necessarily result in excessive ROEs, and his calculations should be rejected due to a lack of witness credibility;
- (3) The substantial evidence, grounded in the evidentiary record in this case, supports an ROE of 9.00% as recommended by DOE/FEA witness Ms. Reno.

These considerations should lead the Commission to set an ROE for KCPL of 9.00%.

(DOE/FEA Initial Brief, p. 3).

A. This Commission's Allowed ROE in its Last Rate Case Argues for an ROE for KCPL Well Below 9.53%.

As Staff notes, it would be highly unusual for the Commission to treat KCPL markedly different from how it treated Ameren Missouri a few months previously (Staff Initial Brief, p. 27), when it ordered an ROE for Ameren Missouri of 9.53%. (*Ameren Missouri*, Report and Order, Docket No. ER-2014-0258, p. 68). Missouri Industrial Energy Consumers/Midwest Energy Consumer's Group (MIEC/MECG) witness Mr. Gorman, who this Commission referred to most recently as "a reliable rate of return expert" (Id., p. 66), testified that while 9.53% was reasonable for Ameren Missouri, it would be unreasonably high for KCPL. (Tr. 9:293 (Gorman)).

KCPL witness Mr. Hevert's very own testimony offers the best support for Mr. Gorman's contention that the Commission-approved ROE for this case should be well below the 9.53% ROE ordered in the *Ameren Missouri* case. First, Mr. Hevert reduced his ROE recommendation in this case by 10 basis points from his recommendation in the *Ameren Missouri* case due to the significant changes in the capital market data he reviewed – all of which indicate a marked decline in the cost of equity. (Staff Initial Brief, pp. 29-30). Second, Mr. Hevert estimated a cost of equity in the 2012 *Ameren Missouri* case that was 20 basis points higher than his recommendation in this case; a fact that itself supports a reduction of KCPL's ROE of 20 basis points. (See id, p. 30).

Third, KCPL requests that the Commission establish a Fuel Adjustment Clause (FAC) and trackers which would ostensibly reduce KCPL's investment risk by shifting it to the ratepayers. (Staff Initial Brief, p. 34). As Mr. Gorman testified in this case,

Implementing regulatory mechanisms in this case that reduce the Company's risk going forward will result in a different assessment of the Company's risk than what I used in my study...If regulatory mechanisms reduce that risk going forward then an adjustment to my recommended rate of return would be appropriate, because my recommended rate of return reflects the risk that exists today...a reduced return on equity would be appropriate to recognize the risk reduction created by the implementation of new regulatory mechanisms.

(Tr. 9:259-260 (Gorman)). In fact, Mr. Gorman testified that if the Commission were to implement the FAC, it would be appropriate for the Commission to set KCPL's ROE toward the lower end of Mr. Gorman's proposed ROE range of reasonableness (8.80% - 9.40%), and in any case, below his mid-point (9.10%). (See Tr. 9:264 (Gorman)). Notably, Mr. Gorman pointed out that in the *Ameren Missouri* case, Ameren Missouri's own witness, Dr. Roger Morin, stated that implementing a fuel adjustment mechanism at that time would have justified a 25-basis point reduction to the ROE. (Tr. 9:292 (Gorman)).

Fourth, the Commission has historically recognized that KCPL is less risky than Ameren (MECG Initial Brief, p. 33). For example, within a span of three months in 2011, this Commission authorized an ROE for KCPL of 10.0% while authorizing an ROE for Ameren of 10.2% indicating that at that time, KCPL was perceived to be less risky than Ameren and was authorized an ROE that was 20 basis lower than Ameren. (See *id.*). As noted above, KCPL's own witness (Mr. Hevert) reflects this perception in his current recommendation (MECG Initial Brief, p. 34).

Finally, the cost of capital has in fact declined over the past two years and persists at historic lows. This Commission's noted in its last rate case order (*Ameren Missouri*)

In its decision regarding Ameren Missouri's last rate case, the Commission established an ROE of 9.8 percent. Since 2012, when that case was decided, interest rates have declined by approximately 37 basis points....As MIEC's witness, Michael



Gorman explained: "Because the price of stock has gone up and the other parameters of the stock have not significantly changed, that's a clear indication that investors have reduced their required cost of capital which has bid up the stock price." This suggests the ROE allowed to Ameren Missouri should also be decreased.

(*Ameren Missouri*, Report and Order, Docket No. ER-2014-0258, April 29, 2015, pp. 65-66).

MECG notes that in the 2 years since the Commission issued its decision in Docket No. ER-2012-0174, capital costs have continued to decrease and since the end of 2012, the national average authorized ROE has declined by 25 basis points. (MECG Initial Brief, p. 31).

Thus, this Commission's decision in *Ameren Missouri* creates a ceiling above which KCPL's ROE cannot reasonably be set due to the fact that market conditions have produced a less risky environment, based on a reduced cost of equity.<sup>4</sup> KCPL witness Hevert himself has indicated that cost of equity is lower for KCPL than it was for Ameren (Staff Initial Brief, pp. 29-30), and the Commission recognized that KCPL is less risky than Ameren (MECG Initial Brief, pp. 33-34). The adoption of an FAC would further reduce KCPL's risk, appropriately placing its ROE on the lower end of Mr. Gorman's reasonableness range, or 9.00% as recommended by Ms. Reno.

**B. KCPL's Witness Uses Unreasonable Growth Rates, Which Inflate His Results and Undermines His Credibility.**

**1. Multiple Jurisdictions Have Called Attention to Mr. Hevert's Tendency to Inflate Growth Rate Estimates.**

Mr. Gorman points out that Mr. Hevert employed "excessive, unsustainable growth rates" in the calculation of his constant growth DCF analysis. (MECG Initial Brief, p. 26). Mr. Hevert's long-term sustainable growth rate is based on a nominal GDP growth rate that is

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<sup>4</sup> It is indisputable that capital costs have continued to decline. As Mr. Gorman explains, over the past four years, "[b]ond yields have gone down, utility stock prices have gone up. Utility dividend yields have come way down with the increase in stock price. Based on that observable market evidence, market costs of equity for Missouri electric utilities is significantly lower today than it was in 2011." (See MECG Initial Brief, p. 30 (citing Tr. 265 (Gorman))).

considerably higher than consensus analysts' projections. (See *id.*, p. 27). Mr. Hevert's use of excessive growth rates in his ROE calculation methodologies reflects a long-standing trend that has been recognized by this Commission and regulatory agencies in other jurisdictions.

For example, this Commission has had to adjust KCPL witness Hevert's growth rates estimates to more reasonable levels on multiple occasions. In *Ameren Missouri*, the Commission noted

Adjusting Hevert's optimistic growth rate outlook to the consensus economist level reduces his multi-stage growth DCF return from 10.02 percent to 8.80 percent for his proxy group. (Internal citation removed).

(*Ameren Missouri*, Docket No. ER-2014-0258. Report and Order, April 29, 2015, p. 66). In an earlier case, this Commission noted

Hevert's recommended return on equity is higher than the other recommendations in large part because he over-estimates future long-term growth in his various DCF analyses, making them too high to be reasonable estimates of long-term sustainable growth.

(*Ameren Missouri*, Docket No. ER-2011-0028, Report and Order, July 13, 2011, p. 23).

Other jurisdictions have directly called Mr. Hevert's credibility into question. The Connecticut Public Utility Rate Authority (PURA) noted in a recent Order

The Authority also contrasts the Company's recommended ROE of 10.20% to the current economic trends and recently awarded ROEs. In reviewing the full list of all utility rate cases, in which, the Company's witness provided expert cost of capital testimony, Mr. Hevert's recommended ROE has been much higher than the actually allowed ROE awarded in every case. CL&P Response to Interrogatory FI-65. Mr. Hevert testified that it is fairly unusual for a commission to adopt any one witness' ROE. Tr. 9/10/14, pp. 1766 – 1769. Upon closer inspection of 16 of the most recent cases where Mr. Hevert provided expert testimony, all of the final authorized ROEs were below Mr. Hevert's recommended ROE ranges. Late Filed Exhibit No. 35. In fact, in this proceeding, the Authority finds that Mr. Hevert's recommended ROE range of 10.20% to 10.70% is well outside even his own results. Out of the

81 total estimates computed by the Company, only 11 of those estimates fell within Mr. Hevert's recommended ROE range for CL&P. Tr. 9/10/14, pp. 1804 – 1808.

(*Decision*, Connecticut Public Utility Regulatory Authority, Docket No. 14-05-06, *Connecticut Power & Light*, December 17, 2014, pp. 136-137) (emphasis added).

In a 2013 case before the Texas Public Utilities Commission concerning Southwestern Electric Power Company (SWEPCO), the Administrative Law Judges noted

Just focusing on the ultimate ROE recommendations, it is clear that there is a fairly tightly grouped range when considering Staff and the intervenors. This ranges from a low of 9.0% to a high of 9.8%. The ALJs believe that the criticisms leveled at Mr. Hevert's ROE recommendation are generally correct, certainly to the point that the ultimate recommendation is so high as to be an outlier.

(*SWEPCO*, Proposal for Decision, Texas PUC Docket No. 40433, May 20, 2013, pp. 140-141).

MECG notes that ultimately, “the problem with Mr. Hevert’s analysis is not in the models that he used....the ongoing problem with the analysis is found in the assumptions employed.” (MECG Initial Brief, p. 29). Staff points out importantly, that the results of the Constant-Growth DCF is produced by simple addition, and as such “the use of a high input *necessarily* results in a high output.”<sup>5</sup> (Staff Initial Brief, p. 22). Placing a fine point on the problem, Staff notes that while the ROE results obtained by the other analysts in this case are closely clustered and corroborate one another, “Mr. Hevert’s are isolated and suspiciously high.” (Staff Initial Brief, p. 36).

Given Mr. Hevert’s long track record of using excessive and inflated growth rates, which necessarily and mathematically produce excessive and inflated results, the Commission should

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<sup>5</sup> In both versions of the DCF, high inputs will *always* result in high outputs. (Staff initial Brief, p. 22).

reject Mr. Hevert's ROE recommendation and authorize an ROE in line with the other three expert witnesses in this case.

2. In its Initial Brief, KCPL Mischaracterizes DOE/FEA Witness Reno's Reliance on Certain Exhibits Entered into the Record.

KCPL argues in its Initial Brief that Ms. Reno agreed with Mr. Hevert's inflated growth rates, stating that an exhibit on which she relies provides growth rates in line with Mr. Hevert's growth rates. (KCPL Initial Brief, p. 19, ¶52). In fact, Ms. Reno relied on the McKinsey article, titled "Equity Analysts: Still Too Bullish," to support her argument that analysts provide optimistic earnings forecasts and that investors also rely on other information in making investment decisions. (DOE Ex., 701, p. 9). She did not rely on the article's estimates of nominal growth provided by the report, which was published in 2010, a year when growth estimates were inarguably higher than they are today. In fact, Ms. Reno used recent forecasts provided by *Blue Chip Economic Indicators* (4.8%) and *Ibbotson* (5.5%) in her Multi-Stage DCF analysis. (DOE Ex. 700, p.9).

Furthermore, KCPL suggests that Ms. Reno supported a long-term growth rate as high as 5.9% by referencing Schedule MLR-5a of her direct testimony (KCPL Initial Brief, pp. 19-20, ¶53) when, in fact, the table in that Schedule shows company-specific growth rates, not economy-wide growth rates. Although Ms. Reno applies a growth rate of 5.5% in the final stage of her Multi-stage DCF sensitivities, which is close to Mr. Hevert's growth rate, her estimated ROE using earning growth rates in the first stage is 9.18%. Her results are lower than Mr. Hevert's estimates because Mr. Hevert assumes that the payout ratio in the transition period converges to an industry average ratio of 67.23% in his terminal stage. (KCPL Ex. 115, p. 25). His model also yields high results because he chooses the highest earning growth estimates in lieu of using average earnings growth rates that Ms. Reno uses. Therefore, contrary to

arguments made in its Initial Brief, KCPL finds no support for its inflated growth rates in the testimony of Ms. Reno.

KCPL's critique of Witness Reno's CAPM analysis is also inaccurate. Specifically, the Company's states that if Ms. Reno used more current historical information and a projected yield on the 30-year Treasury bond, her CAPM result would increase to 9.88%. (KCPL Initial Brief, p. 17, ¶49). However, when Ms. Reno applied the most recent Duff & Phelps Large Stock Arithmetic Average Return from 2014 and the forecasted risk-free rate on 30-year Treasury bond provided by Witness Gorman of 3.7%, her calculation yielded a negligible change in her CAPM estimates of ROE, in no way increasing her recommended upper range of 9.6%. (DOE Ex. 701, p. 11 and 13). KCPL simply fails to acknowledge that Ms. Reno updated her calculation with the most recent data because the update had a negligible effect on her ROE range of reasonableness.

C. The Substantial Evidence Contained in the Evidentiary Record in this Case Supports an ROE of 9.0% as Reasonable and Warranted.

The Commission's decision must be supported by the substantial evidence of the record.<sup>6</sup> (Staff Initial Brief, p. 37). The substantial evidence in this record clearly demonstrates that capital costs are at and will continue to be at historic lows, necessitating a correspondingly-reduced ROE for KCPL. (DOE/FEA Ex. 700, p. 5).

Somehow, KCPL continues to miss economic trends that are apparent to everyone else. Despite the decline in capital costs, KCPL's witness insists that the Commission should increase KCPL's ROE by 60 basis points from 9.70% to 10.30%. (MECG Initial Brief, p. 32). KCPL

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<sup>6</sup> The record of a case shall stand submitted for consideration by the commission after the recording of all evidence or, if applicable, after the filing of briefs or the presentation of oral argument. 4 CSR 240-2.150 (1). The commission's orders shall be in writing and shall be issued as soon as practicable after the record has been submitted for consideration. 4 CSR 240-2.150 (2).

argued that recent metrics clearly indicate that the economy is picking up and driving up interest rates, particularly treasury yields. (See id). While there are bound to be minor fluctuations up and down over short periods of time, there is not yet a clear upward trend in those bond yields. (See id., p. 33).

Ms. Reno correctly pointed out at hearing that even short-term bond yield increases were not signs that the market was improving, but rather market corrections. (Staff Initial Brief, p. 31). Ms. Reno testified “And so we still haven’t moved from that low interest rate environment where there are low costs of capital.” (Tr. 9:238 (Reno)). She stated further

But what we’re seeing here is the Federal Reserve is stepping away from expansionary policy...these are changes to short-term rates. And investors also consider – in addition to what’s going on in the short-term rates...what’s going on in long-term rates, and they’re making their assessments.

(Tr. 9:239 (Reno)).

As noted above, the Commission sets the Company’s ROE based on expert witness testimony regarding the cost of equity as well as its judgment which stems from balancing “the investors’ interests against the ratepayers’ interests. (Staff Initial Brief, p. 37) (See also, Federal Power Comm’n v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944), holding that the fixing of just and reasonable rates involves a balancing of investor and consumer interests.) Regarding the ratepayers’ interest, the Commission should consider, as noted in the introduction to this brief, that this is KCPL’s sixth rate case since 2006; that the Company’s cumulative rate increases since that time is 60.39%; and that adding the preset requested increase of 15.75% brings the cumulative total to 85.65% over that time span. (Staff Initial Brief, p. 32). Furthermore, 88% of KCPL’s customers are residential customers and they will bear the brunt of any rate increase. (See id.)

Against these impacts, the Commission should balance the fact that Mr. Gorman offered testimony indicating that at his recommended ROE of 9.10% and the Company's proposed embedded debt cost and capital structure, "KCPL's financial credit metrics are supportive of its investment grade utility bond rating." (MECG Initial Brief, p. 25). Thus, if Mr. Gorman is to be believed, KCPL's credit will not suffer from an appropriately-lower ROE. This contention is further supported by a Moody's Investment Report that was introduced at hearing which explains that investors should not be troubled in the near term by declining awarded ROEs because of "persistently low interest rates and a comprehensive suite of cost recovery mechanisms." (Staff Initial Brief, fn. 169; see also Ex. 141).

The Commission should also note that both the Consumers Council of Missouri and the Office of the Public Counsel support an ROE no higher than the 9.00% recommended by Ms. Reno. (Initial Brief of Consumers Council of Missouri, p. 1; Initial Brief of the Office of the Public Counsel, p. 8).

Taken together, the Commission is well-positioned, due to the sufficiency of and substantial evidence in the record in this case, to order an ROE for KCPL that reflects current and foreseeable market conditions, including a historically low cost of capital environment. DOE/FEA recommends that the Commission adopt an ROE no higher than 9.00% for KCPL as the best reflection of the record evidence.

#### **IV. CONCLUSION**

WHEREFORE, based upon the testimony of DOE/FEA witness Reno and the arguments contained herein, DOE/FEA respectfully requests that the Commission, in setting rates in this case,

- (1) use KCPL's actual capital structure;

- (2) include short-term debt in KCPL's capital structure; and
- (3) set KCPL's ROE of 9.00%, a figure well-supported by recent Commission precedent, the company Witness' questionable reliance on high growth rate estimates, and the substantial evidence presented in the record in this case.

Respectfully submitted,



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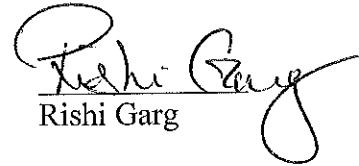
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Dated: August 3, 2015



CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 3<sup>rd</sup> day of August, 2015, filed the foregoing Reply Brief of the United States Department of Energy and the Federal Executive Agencies via the e-filing system of the Missouri Public Service Commission in accordance with all applicable procedures, and emailed a copy of the same to the attorneys of record for all of the parties.

  
Rishi Garg