Exhibit No.:	
Issue:	Capital Structure; Cost of Debt
Witness:	Kevin E. Bryant
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2016-0285
Date Testimony Prepared:	December 30, 2016

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

REBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
December 2016

REBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2016-0285

Q: Please state your name and business address.

A: My name is Kevin E. Bryant. My business address is 1200 Main, Kansas City, Missouri 64105.

Q: By whom and in what capacity are you employed?

A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") and serve as Senior Vice President – Finance and Strategy and Chief Financial Officer of Great Plains Energy Incorporated ("GPE"), KCP&L and KCP&L Greater Missouri Operations ("GMO").

Q: Are you the same Kevin E. Bryant who filed Direct Testimony in this proceeding?

A: Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A: I will respond to the Revenue Requirement Cost of Service Report (the "Revenue Requirement Report") submitted in this proceeding by the Missouri Public Service Commission ("Commission") Utility Services Division Staff ("Staff") as it relates to the recommended capital structure and cost of debt for the Company. I will also respond to the direct testimony of Charles R. Hyneman on behalf of the Office of Public Counsel ("OPC"), as his direct testimony relates to the recommended capital structure for the Company.

CAPITAL STRUCTURE AND COST OF DEBT

Q: On pages 23 line 31 through page 24 line 3 of the Revenue Requirement Report, Staff states: "Because GPE has managed its utility finances on a consolidated basis and KCP&L's cost of debt is higher than its weaker affiliate, GMO, it is fair to continue the use of GPE's consolidated capital structure and capital costs for setting KCP&L's rates." Do you agree?

A: No. The unsubstantiated statement that GPE has managed its utility finances on a consolidated basis is false. KCP&L has issued its own debt based on what was best for KCP&L. Upon its acquisition by GPE in 2008, GMO initially required assistance from GPE which issued debt on GMO's behalf. Since 2013 GMO has issued its own debt and will continue to do so in the future. All the debt issued by or on behalf of GMO was issued based on what was best for GMO. GPE has absolutely not managed the finances of KCP&L and GMO on a consolidated basis.

Q: Why is KCP&L's debt cost somewhat higher than GMO's?

A: KCP&L's cost of debt is modestly higher than GMO's due to the specific timing and terms associated with KCP&L's debt financing versus the specific timing and terms associated with GMO's debt financing. Over 90% of the GMO debt that was outstanding when GMO was acquired in 2008 has matured and has been refinanced with new GMO debt at lower interest rates. If the debt issued by each company during 2013 is examined, it is clear that the interest rate for KCP&L's 10 year debt issue is 3.15% and the interest rate for GMO's 12 year debt issue is 3.49%. The difference in the interest rate is due to GMO's tenor being two years longer and the fact that the debt was issued at different points in time during the year (the KCP&L rate was set in March 2013 and the GMO rate was set in May 2013). KCP&L's lower rate on debt issued at roughly the same time also reflects KCP&L's stronger credit profile. The fact that KCP&L's current weighted average cost of debt is higher than GMO's current weighted average cost of debt is not a valid justification for using the GPE consolidated capital structure to establish KCP&L's revenue requirement because KCP&L's higher cost of debt is a result of KCP&L independently managing its financing activity in its own best interest and unrelated to GMO's financing activity. KCP&L has issued debt at market interest rates in the amounts and at the times necessary to fund its own ratebase which has naturally and appropriately resulted in minor differences between KCP&L's and GMO's weighted average cost.

Q: Reference is made to KCP&L's "weaker" affiliate on page 24, line 1 of the Revenue Requirement Report, GMO. What can utilities do to strengthen their credit profiles?

A: One measure of a utility's credit strength is the amount of debt the company has in its capital structure. Companies with less debt and more equity in their capital structure typically have a stronger credit profile. GMO's equity ratio of 54.5% is higher than KCP&L's equity ratio of 49.4% as of June 30, 2016, yet GMO remains a weaker credit profile because GMO's revenue requirement has not been based on its higher equity ratio. The continued use of GPE's consolidated capital structure to establish revenue requirements for both KCP&L and GMO limits their ability to manage their own credit ratings using their own utility-specific capital structure and financing plans.

Q: On page 24 line 12 through line 14 of the Revenue Requirement Report, Staff states that "GPE's and KCP&L's cost of debt of 5.51% is upwardly biased due to their blending of the yield-to-maturity and simple interest/amortization methods. They should use one or the other, but blending them causes a double counting of issuance expenses, discounts and premiums." Do you agree with this statement?

A: No. While I agree that one of the aforementioned methods can and should be used by the Commission to establish KCP&L's cost of debt in this case, I do not agree that the two methods have been blended to cause a double counting of issuance expenses, discounts and premiums.

As of June 30, 2016, KCP&L's cost of debt was 5.51%, but GPE's cost of debt was 5.44%. The cost of capital spreadsheet used by the Company to calculate the cost of debt for this case and prior rate cases includes cost of debt calculations using both the yield-to-maturity method and the simple interest/amortization method. The simple interest/amortization method results in a cost of debt as of June 30, 2016 for KCP&L of 5.49% and 5.42% for GPE, which are both about 2 basis points less than the yield-to-maturity method. Both methods have been provided in the cost of capital spreadsheets requested in data request MPSC_20161004 Question 0276 and in data request MPSC_20160726 Question 0220.5 in the GMO case ER-2016-0156. As summarized in the table below, both methods provide about the same result. The difference between GPE's cost of debt of 5.42% referenced on page 24, line 15 of the Revenue Requirement Report and what Staff refers to as "GPE's and KCP&L's cost of debt of 5.51%" on line 12 is mainly due the difference between GPE's cost of debt and KCP&L's cost of debt.

It has very little to do with methodology differences or alleged errors due to a blending of methods.

Cost of Debt as of June 30, 2016

	KCP&L yield-to-maturity method	KCP&L simple interest/amortization method	Staff revised yield-to-maturity method
KCP&L	5.51%	5.49%	5.48%
GPE Consolidated	5.44%	5.42%	5.42%

Q: Should GPE's cost of debt be used to establish KCP&L's revenue requirements?

A: No. In fact, using GPE's cost of debt and its capital structure would contradict OPC's Mr. Hyneman who at pages 14 and 15 of his Direct Testimony states that efforts should be made under the Commission's Affiliate Transaction Rule "to reduce the opportunity and risk for KCPL to subsidize its affiliate transactions and non-regulated operations," I concur with Mr. Hyneman that the maintenance of separate transactions among affiliates is both prudent and appropriate. Therefore, it is inconsistent for Mr. Hyneman to argue that it is acceptable for KCP&L to benefit from lower cost debt issued by its affiliate GMO.

Q: If KCP&L's actual cost of debt was not used in this case, what would be the revenue requirement impact of a one basis point change in the cost of debt?

A: Assuming a 50/50 capital structure, a one basis point change in the cost of debt results in a one-half basis point (0.005%) change in the return on rate base. The rate base in this case is about $2.576 billion, so a one basis point change in the cost of debt results in a change in revenue requirements of about $129,000 ($2.576 billion times 0.005%).

Q: How much will KCP&L customers be subsidized by customers in other jurisdictions if KCP&L's rates are based on the GPE consolidated cost of debt?

A: The difference between the KCP&L and Consolidated GPE cost of debt as shown in the table above is about 6 to 7 basis points. A seven basis point difference at $129,000 per basis point equals about $900,000 of revenue requirement benefit for KCP&L customers that would be paid by customers in other affiliate jurisdictions that have a cost of debt that is lower than the GPE consolidated cost of debt.

Q: Has the Commission established a true-up date for this case?

A: Yes. As Staff recognized on page 3 of the Revenue Requirement Report, the Commission has established a true-up date of December 31, 2016.

Q: Both the Revenue Requirement Report and Mr. Hyneman recommend using GPE's capital structure to set KCP&L's rates. Do you agree?

A: No. At December 31, 2016, KCP&L's capital structure will be about 50% debt and 50% equity. GPE's capital structure as of the same date will be about 38% debt, 54% equity and 8% mandatory convertible preferred stock. If utilized for the capital structure in this case, the higher GPE consolidated equity ratio would result in a higher revenue requirement of about $24 million at KCP&L. The Company's customers should not be paying higher rates as a result of using this higher GPE equity ratio, offset somewhat by the modestly lower GPE cost of debt of $900,000 (discussed above).

Q: Has the GPE capital structure as of June 30, 2016 recommended by Staff in the Revenue Requirement Report been adjusted from actual results?

A: Yes. Subsequent to the June 30, 2016 date used by Staff for the recommended capital structure, GPE redeemed its preferred stock in August 2016. Staff made an adjustment that reallocated the redeemed preferred stock amounts equally to long-term debt and common equity based on GPE's June 30, 2016 capital structure. This adjustment is arbitrary because it relates to only one of the financing transactions occurring between June 30, 2016 and the December 31, 2016 true-up date. It is also unnecessary given the true-up that will occur as of December 31, 2016. In addition to requiring an adjustment for the preferred stock redemption in August 2016, Staff's method would require an adjustment for GPE's issuance of common stock and mandatory convertible preferred stock on October 3, 2016. The GPE consolidated capital structure based on the December 31, 2016 true-up date reflects this financing activity, resulting in an GPE consolidated capital structure with about 54% common equity, 8% mandatory convertible preferred stock and about 38% long-term debt. This is a significant change in GPE's consolidated capital structure from the June 30, 2016 capital structure shown in Staff's Revenue Requirement Report.

Staff's process of making adjustments to the GPE capital structure demonstrates why using the Company's capital structure is clearly most appropriate. The KCP&L capital structure as of September 30, 2016 is 50% debt and 50% equity, and will not change significantly at the end of the year. For all of these reasons, the appropriate capital structure to use in the setting of rates in this case is that of KCP&L, not GPE, as of December 31, 2016.

Q: Did Mr. Hyneman also recommend an adjustment to the actual GPE consolidated capital structure for setting KCP&L rates like Staff did?

A: Yes. Mr. Hyneman recommends an adjustment to remove an amount equal to the Goodwill shown on the GPE balance sheet attributable to KCP&L's affiliate GMO. This approach should be rejected for two reasons. First, KCP&L has nothing to do with its affiliate's Goodwill, and on that basis alone Mr. Hyneman's adjustment should be rejected. Second, adjusting the actual equity balance in a utility's capital structure because of a non-regulated asset at the holding company level would open the door to future proposals related to any non-regulated asset, disallowed assets or even deferred regulatory assets that are recoverable from customers through an amortization but not included in rate base. All of this can and should be avoided by simply using KCP&L's actual capital structure through the true-up date of December 31, 2016 in this case.

Q: Are you recommending any adjustments to the actual capital structure as of the December 31, 2016 true-up date?

A: No. I believe that KCP&L's actual capital structure based on December 31, 2016 account balances without any adjustments is the appropriate capital structure for establishing the revenue requirements in this case.

Q: Does that conclude your testimony?

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-2016-0285

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 Senior Vice President – Finance and Strategy and Chief Financial Officer.

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 eight (8) 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 30th day of December, 2016.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200