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Witness: Maureen L. Reno
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Sponsoring Party: U.S. Department of Energy
Case No.: ER-2014-0370
Date Testimony Prepared: June 5, 2015

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	)	

SURREBUTTAL TESTIMONY

OF

MAUREEN L. RENO

ON BEHALF OF

THE UNITED STATES DEPARTMENT OF ENERGY

AND THE FEDERAL EXECUTIVE AGENCIES

JUNE 5, 2015

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Maureen L. Reno. I am employed as an independent consultant. My business address is 19 Hope Hill Road, Derry, New Hampshire 03038.

Q. ARE YOU THE SAME MAUREEN RENO WHO HAS PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. On April 2, 2015, I submitted direct testimony on a fair rate of return for Kansas City Power & Light ("KCP&L" or "Company"). I submitted that testimony on behalf of the U.S. Department of Energy ("DOE") representing the Federal Executive Agencies ("FEA"), which is comprised of all federal facilities served by KCP&L. In that testimony, I recommended a return on equity ("ROE") of 9.0 percent.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Company witness Robert B. Hevert.

Q. BASED ON YOUR REVIEW OF MR. HEVERT'S REBUTTAL TESTIMONY, ARE YOU REVISING IN ANY WAY YOUR RECOMMENDED 9.0 PERCENT ROE?

A. No, I am not. Mr. Hevert's rebuttal testimony criticisms of my analysis and recommendations are without merit, and I continue to believe that my range of reasonableness of 8.2 percent to 9.6 percent and my midpoint estimate of 9.0 percent ROE recommendation are both reasonable and supported by the evidence. Incorporating Mr. Hevert's updated data in the Capital Asset Pricing Model ("CAPM") calculation does not change the upper bound of my range of reasonableness of 9.6 percent.

Q. BASED ON YOUR REVIEW OF MR. HEVERT'S REBUTTAL TESTIMONY, ARE YOU REVISING YOUR 6.62 PERCENT OVERALL RATE OF RETURN?

A. Yes. As a result of information presented by Mr. Hevert in his rebuttal testimony regarding the Company's short-term debt and long-term debt costs, my recommendation on the overall rate of return increases from 6.62 percent to 7.02 percent.

I. WEIGHT OF MODEL RESULTS IN MY RECOMMENDATION

Q. PLEASE EXPLAIN MR. HEVERT'S CRITICISM OF THE USE OF YOUR MIDPOINT RESULT AS THE BASIS FOR YOUR RECOMMENDATION.

A. My recommendation is based on the median or midpoint of my ROE estimates. Mr. Hevert claims that because seven of my nine estimates are based on Discounted Cash Flow ("DCF") analyses, my midpoint approach gives considerable weight to DCF-based approaches in arriving at my ROE recommendation.

Q. HOW DO YOU RESPOND TO THIS CRITICISM?

A. As I discuss later in this surrebuttal testimony, Mr. Hevert's aversion to the DCF is unsound. The DCF is a common method used by public utility commissions including the Missouri Public Service Commission ("Commission"). In an effort to capture investor-perceived risk, there are many forms of the DCF. As I have explained in my direct testimony, the various DCF models I rely upon incorporate information likely viewed by investors.

It is important to consider measures of growth in DCF analyses other than earnings per share ("EPS"). I examine growth in dividends, book value, and sustainable growth as part of my DCF analyses in addition to projected EPS, thereby producing seven different DCF analyses, three with the Single-Stage DCF and four with the Three-Stage DCF models. I incorporated results from all seven of these DCF analyses along with two CAPM analyses when developing my recommended ROE range.

I chose to use the median result as a basis of my recommendation because it is unaffected by potential outlying ROE estimates resulting from any of my ROE analyses.

Q. IF YOU WERE TO GIVE EQUAL WEIGHT TO YOUR DCF AND CAPM ANALYSES, WOULD YOUR RECOMMENDATION CHANGE?

A. No. Even if, for illustrative purposes, I were to give a 50 percent weight to the DCF-based results and a 50 percent weight to the CAPM-based results, my ROE recommendation would not change. As demonstrated in the following table, after calculating the average of all my DCF-based results to derive 8.68 percent and taking the average of the two CAPM results of 9.43 percent, the average between the two values would still equal about 9.0 percent.

Estimated Return on Equity Summary Table		Average
Methodology	**ROE (%)**	**ROE (%)**
Single-Stage DCF (EPS Growth)	9.00	
Single-Stage DCF (DPS, EPS and BVPS)	8.31	
Single-Stage DCF (Sustainable Growth)	8.20	
Three-Stage DCF (EPS, 4.8% GDP Growth)	8.62	
Three-Stage DCF (DPS, EPS, BVPS, 4.8% GDP Growth)	8.45	
Three-Stage DCF (EPS, 5.5% GDP Growth)	9.18	
Three-Stage DCF (DPS, EPS, BVPS, 5.5% GDP Growth)	9.01	**8.68**
Capital Asset Pricing Model (Current Risk-Free Rate)	9.26	
Capital Asset Pricing Model (Forecast Risk-Free Rate)	9.59	**9.43**
Average	8.85	**9.05**
Median (using all results above)	9.00	
Minimum	8.20	
Maximum	9.59	

II. DISCOUNTED CASH FLOW-BASED MODELS

Q. PLEASE SUMMARIZE MR. HEVERT'S CRITIQUE OF DCF MODELS.

A. Mr. Hevert's principal critique of the DCF-based models is that they depend on recent stock prices as a principal input, and (in the case of the Constant Growth model) assume that Price/Earnings ("P/E") ratios will remain constant in perpetuity. He continues by stating that "A significant analytical issue is that utility sector P/E ratios recently have been well above their historical levels, and appear unsustainable relative [to] other benchmarks, such as the overall market P/E ratio." *See Hevert Rebuttal Testimony, p. 50, lines 9-11.* He further develops his critique that the industry's current valuation levels may not persist and that analysts expect a decline in the P/E ratio in the near future. In short, Mr. Hevert believes that DCF-based methods are unreliable because of the unsustainable nature of the industry's P/E ratios.

Q. DO YOU AGREE WITH MR. HEVERT'S ASSERTION THAT ROE ESTIMATES RESULTING FROM DCF-BASED METHODS ARE UNRELIABLE DUE TO THE NATURE OF THE INDUSTRY'S P/E RATIOS?

A. No, I do not agree. Although Mr. Hevert does not agree with the results of the DCF due to the historically low cost of capital that the results reflect, the DCF has been widely used by regulatory agencies to identify reasonable ROEs for decades, regardless of whether the cost of capital is low or high.[1] In fact, the Commission has expressed preference for the DCF by stating that the Risk Premium and CAPM are useful only as a check on the results from DCF analysis.[2] Moreover, Mr. Hevert also relies on DCF-based models; he just excludes the majority of these results in his recommendation to the Commission.

Mr. Hevert states that *Value Line* analysts anticipate a decline in the P/E ratio for the majority of companies in Mr. Hevert's proxy group. He also claims that the value of electric utility stocks is unsustainable, based on stock value data from January 30 through April 30, 2015. *See Hevert Rebuttal Testimony, p. 50, lines 15-17.*

Current stock price trends show a correction in the market from the high prices from 2013 and 2014 when electricity stocks saw significant gains from investors seeking attractive dividend yields in a low interest rate environment. In 2015, however, the price of almost every electric utility issue has declined, as Mr.

[1] The DCF model is the most commonly used model for estimating the cost of common equity for public utilities. *See The Cost of Capital – A Practitioner's Guide* by David C. Parcell, prepared for the Society of Utility and Regulatory Financial Analysts (2010 edition), page 124.
[2] In the Company's last rate case's *Report and Order* dated January 9, 2013, Case No. ER-2012-0174, findings of fact 11, at 17.

Hevert highlights in his rebuttal testimony. According to *Value Line*, however, "…it would not have been surprising to see a reversion to the mean after two years of significant outperformance."[3] I believe these market trends show a correction in the market as investors move towards higher-risk equities.

To put things into perspective, one must look at the relative strength of electric utility stocks. *Value Line* compares the relative strength of the price of electric utility stocks over time with the price of the Value Line Composite Index of approximately 1,700 stocks. When the relative strength line is rising (falling), it means that the stocks in an industry are stronger (weaker) than the broader market. According to *Value Line*, the electric utility industry's relative strength has remained within a range of 60 to about 80 since 2009.

Investors view utility stocks as a safe harbor. They are aware that traditionally structured utilities are treated as regulated monopolies with a franchised distribution area and are afforded a reasonable opportunity to recover prudently incurred costs. In fact, page 7 of the parent company's Securities and Exchange Commission ("SEC") Form 10-k Report states that "Missouri and Kansas continue on the fully integrated retail utility model. As a result, [the] electric utility does not compete with others to supply and deliver electricity in its franchised service territory, although other sources of energy can provide alternatives to retail electric utility customers."

Therefore, as investors evaluate the opportunity cost of utility stocks, they consider utility industry risks relative to their investment portfolio. As their perception of risk associated with other equities and bonds changes, their valuation,

[3] *Value Line Industry Reports: Electric Utilities (Central)*, March 20, 2015.

as measured here in the P/E ratio, for utility stocks will change as well. As discussed above and addressed in the aforementioned *Value Line* report, this measure of earnings fluctuates over time, as it does for most industries, but it remains within a consistent range. These changes in stock valuations do not negate the use of DCF-based models as Mr. Hevert suggests. As I will discuss later, applying other types of growth rates in addition to earnings growth in the DCF model leads to more accurate ROE estimates.

Q. WHAT OTHER COMPONENTS OF YOUR DCF MODELS DOES MR. HEVERT BELIEVE ARE PROBLEMATIC?

A. Mr. Hevert believes that my reliance on earnings, dividends, and book value are problematic because earnings enable dividend and book value growth. He avers that numerous published articles support his reliance of analysts' earnings growth projections in the DCF model. He also states that, "Given that investors tend to value common equity on the basis of P/E ratios, Cost of Equity is a function of the expected growth in earnings, not dividends or book value." *See Hevert Rebuttal Testimony, p. 52, lines 14-16.*

Q. DO YOU BELIEVE THAT INVESTORS WOULD RELY ON SOME INFORMATION AND CHOOSE TO IGNORE OTHER INFORMATION WHEN ESTIMATING THEIR COST OF CAPITAL OR THE OPPORTUNITY COST OF THEIR INVESTMENT?

A. No. Before purchasing, selling, or even choosing to hold a stock of a company, investors consider all available information regarding the future cash flows of that investment, which include the value of the asset and dividends to be received.

Therefore, at a minimum, investors consider other pertinent financial information in addition to expected earnings growth, such as expected dividend growth and book value growth.

Q. HOW DOES MR. HEVERT INCORPORATE GROWTH IN EARNINGS INTO HIS DCF ESTIMATES?

A. He makes use of three types of forecasts that all reflect projected earnings: growth in earnings per share, the P/E ratio, and the Price/Earnings to Growth ("PEG") ratio. Earnings growth, the P/E ratio, and the PEG ratio are all related. The P/E ratio is simply the stock price divided by earnings, and the PEG ratio is the forward-looking P/E ratio divided by earnings growth.

Q. IS MR. HEVERT'S RELIANCE ON THESE MEASURES OF GROWTH A PROBLEM?

A. Yes. Mr. Hevert's supposed alternative measures to earnings growth are merely derivatives of earnings. His reliance on one measure assumes that investors rely exclusively on a single measure of company growth when making investment decisions. As I stated previously, earnings forecasts are only one of many such statistics available to investors.

Q. IS THE FINANCE LITERATURE UNIFIED IN CLAIMING THAT INVESTORS RELY SOLELY ON PROJECTED EARNINGS GROWTH IN MAKING INVESTMENT DECISIONS, AS MR. HEVERT PURPORTS?

A. No. Although Mr. Hevert claims that there are a number of published articles that support the use of analysts' earnings growth projections in the DCF model and he quotes findings from studies from 1986 and 1992, more recent studies have shown

that analysts' forecasts are too optimistic. For instance, a 2010 study by McKinsey & Company, titled "Equity Analysts: Still Too Bullish," concludes that "after almost a decade of stricter regulation, analysts' earnings forecasts continue to be excessively optimistic."[4] I believe that the significance of this study is that investors are hesitant to rely exclusively on analysts' earnings growth forecasts in making investment decisions.

Furthermore, a recent warning from the SEC titled "Investor Alert: Analyzing Analyst Recommendations" provides further caution to investors.[5] This statement, issued in 2010, recommends that when deciding whether to buy, hold, or sell a stock, investors should also do their own research by reading the prospectus and periodic reports filed with the SEC. The statement also warns investors of the potential conflicts of interest that analysts face, and calls into question the exclusive reliance on analysts' forecasts.

Q. MR. HEVERT ALSO CONDUCTS HIS OWN STATISTICAL ANALYSIS TO TEST WHETHER INVESTORS USE EARNINGS, DIVIDENDS, BOOK VALUE, OR SUSTAINABLE GROWTH RATES WHEN VALUING ELECTRIC UTILITY STOCKS. DO YOU AGREE WITH HIS ANALYSIS?

A. No, I do not. Although Mr. Hevert appears to conduct a robust statistical analysis testing the relationship between the P/E ratios of the universe of *Value Line* electric utility companies and the projected EPS, dividends per share, book value per share,

[4] Goedhart, Marc H., Rishi Raj and Abhishek Saxena, Equity Analysts: Still too Bullish, McKinsey on Finance: Perspective on Corporate Finance and Strategy, Number 35, Spring 2010, pp. 14-17.
[5] *See* U.S. Securities and Exchange Commission's *Investor Alert: Analyzing Analyst Recommendations* www.sec.gov/investor/pubs/analysts.htm

and sustainable growth rates reported by *Value Line*, I believe he does not provide sufficient evidence to discount the use of my alternative measures of company growth. His analysis merely proves the strong relationship between P/E ratios and EPS, as I discuss above. That is, since the P/E ratio is calculated by dividing the stock price by earnings growth, testing that relationship will yield strong results.

Furthermore, the practice of employing alternatives to earnings growth projections in DCF-based approaches is widely used by public utility commissions. In the Company's last rate case, for example, the Commission ruled in favor of using multiple sources of published projections in addition to earnings growth.[6]

III. CAPITAL ASSET PRICING MODEL

Q. PLEASE SUMMARIZE YOUR CAPM ANALYSIS AND RESULTS.

A. In my CAPM analyses, I first calculate an equity risk premium by subtracting the market risk-free rate from the historical *Duff & Phelps* Large Stock Arithmetic Average Return and then multiply it by my proxy group average Beta coefficient reported by *Value Line*. I then add the risk-free rate to my sample specific equity risk premium. My two CAPM estimates differ in that the first is based on a 30-day average of the current yield on the 30-year Treasury bond, and the second relies on the *Blue Chip Economic Indicators* ("*Blue Chip*") projected yield on the 10-year Treasury bond.

Q. WHAT CONCERNS DOES MR. HEVERT HAVE ABOUT THE MARKET RISK PREMIUM COMPONENT OF YOUR CAPM ANALYSES?

[6] *See Report and Order* dated January 9, 2013, Case No. ER-2012-0174 at 19.

A. Mr. Hevert avers that I should have used data from the more recent edition of the *Duff & Phelps 2015 Valuation Handbook – Guide to Cost of Capital*, which contains data as of 2014, to derive the market risk premium. The most recent issue that Mr. Hevert recommends was not available when I conducted my analysis. If I were to conduct the same analysis today, I would use the 2015 edition, increasing the market total return by only 3 basis points, from 11.63 percent to 11.66 percent, which would produce a negligible change in my CAPM results.[7]

Q. WHAT OTHER CONCERNS DOES MR. HEVERT HAVE REGARDING YOUR MARKET RISK PREMIUM?

A. Mr. Hevert is concerned whether historical estimates reasonably reflect investors' expectations and states that the forward-looking analyses contained in his direct testimony are more appropriate for that purpose.

Q. ARE YOU CONVINCED THAT MR. HEVERT'S FORWARD-LOOKING ANALYSIS IS A MORE APPROPRIATE ESTIMATE OF INVESTORS' EXPECTATIONS?

A. No. I am wary to adopt his forward-looking method to derive the market risk premium. Mr. Hevert's market return estimates of 13.7 percent (using Bloomberg data) and 13.4 percent (using *Value Line* data) are inflated because he relies on earnings growth projections when applying the DCF to calculate the overall market return.

Missouri Industrial Energy Consumers ("MIEC") and Midwest Energy Consumers' Group ("MECG") witness Michael P. Gorman also compares Mr.

[7] If I were to update my CAPM analyses using the more recent edition of the *Duff & Phelps 2015 Valuation Handbook – Guide to Cost of Capital* to derive the market risk premium, my CAPM analysis using the current risk-free rate would increase by 2 basis points to 9.28 percent.

Hevert's estimated required market returns to Morningstar estimates of actual capital appreciation for the Standard & Poors ("S&P") 500 over the period 1926 through 2013 to have been 5.8 percent to 7.7 percent. Mr. Gorman then provides the example of using the highest historical arithmetic average growth rate of 7.7 percent, and expected dividend yields of 1.9 percent and 1.8 percent as estimated by Mr. Hevert, to derive forward-looking market DCF return estimates of 9.6 percent and 9.5 percent.[8]

It is also important to note that Mr. Hevert applies the Constant Growth DCF model when calculating his *ex-ante* market required return—the same DCF approach to which he dedicates a large portion of his testimony criticizing. Since he relies solely on earnings growth projections in this application of the DCF, however, his analysis yields the unrealistic results described above. *See Hevert Direct Testimony, p. 27, line 13, through p. 28, line 3.*

Q. DOES MR. HEVERT HAVE ANY OTHER CONCERNS REGARDING YOUR CAPM ANALYSES?

A. Yes. He disagrees with my use of the yield on 10-year Treasury securities as the measure of the risk-free rate because, in his words, "The maturity of the risk-free security should approximate the life, or duration, of the underlying investment." *See Rebuttal Testimony of Robert B. Hevert at p. 61, lines 19-20.* Mr. Hevert continues by quoting the finance literature that states that the time horizon of the risk-free security should match the time horizon of the equity risk premium. Mr. Hevert then concludes, "Since the 30-year Treasury bond is the longest duration risk-free security, it most closely matches the horizon of equity and, therefore, is the appropriate security for the CAPM." *See Hevert Rebuttal Testimony, p. 62, lines 13-15.*

[8] See analysis provided by Mr. Gorman in his rebuttal testimony, page 18, lines 9 through 16.

Q. WHAT EFFECT WOULD UTILIZING THE FORECASTED 30-YEAR TREASURY BOND RATE HAVE ON YOUR ROE RESULTS?

A. The effect on my ROE estimate would be negligible. If I were to update my CAPM analyses using the most recent *Blue Chip Financial Forecasts* projection of the 30-year Treasury bond rate of 3.7 percent, my CAPM result using the forecast risk-free rate would decrease by 3 basis points to 9.56 percent.[9]

Q. DO THESE ADJUSTMENTS CHANGE YOUR UPPER BOUND OF 9.6 PERCENT IN YOUR ROE RANGE OF REASONABLENESS?

A. No.

IV. CAPITAL STRUCTURE AND COST OF DEBT

Q. WHAT POSITION DOES MR. HEVERT TAKE ON CAPITAL STRUCTURE IN HIS REBUTTAL TESTIMONY?

A. At page 63 of his rebuttal testimony, Mr. Hevert states that I should apply Great Palins Energy Incorporated ("GPE")'s consolidated capital structure because this is consistent with industry practice. He states that the Commission, in its *Report and Order* issued January 9, 2013, Case No. ER-2012-0174, at pages 24-26, approved a capital structure reflecting the parent's actual capital structure. The Commission likewise accepted the consolidated GPE capital structure for KCP&L Greater Missouri Operations Company in Case No. ER-2012-0175.

Q. DO YOU AGREE WITH MR. HEVERT'S ASSESSMENT OF INDUSTRY PRACTICE?

[9] MIEC and MECG witness Gorman also applies a 3.7 percent consensus 30-year Treasury bond forecast to his CAPM estimate provided from the March edition. *See Gorman Direct Testimony, p. 34, lines 16-17, and footnote 26.*

A. No. 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 pay the burden of the cost of an imbalanced capital structure.

Q. WHAT OTHER CONCERNS DOES MR. HEVERT HAVE WITH YOUR CAPITAL STRUCTURE?

A. He also believes that I should have excluded short-term debt from my capital structure to remain consistent with the Federal Energy Regulatory Commission's ("FERC's") Order No. 561 formula for calculating the Allowance for Funds Used During Construction ("AFUDC"). He states that since short-term debt is first used to fund Construction Work In Progress ("CWIP"), the same short-term debt amount cannot also be included in the regulatory capital structure without double-counting that debt.

Q. DO YOU AGREE WITH MR. HEVERT'S CONCLUSION THAT INCLUDING SHORT-TERM DEBT IN THE CAPITAL STRUCTURE IS DOUBLE-COUNTING THE COST OF DEBT?

A. No, I do not. If his rationale were to hold, then the Company would have to also 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.[10] Furthermore, the practice of excluding short-term debt from the capital structure assumes that the

[10] From November 2013 to November 2014, the CWIP balance exceeded the commercial paper balance: the 13-month average CWIP balance was approximately $692 million, while the 13-month average short-term commercial paper balance was approximately $184 million. *See Hevert Rebuttal Testimony, p. 64, line 21, through p. 65, line 2.*

Company is refinancing long-term debt to pay off short-term debt balances and is using short-term debt as a temporary substitute for long-term debt. Although the Commission has allowed the Company to exclude short-term debt from the capital structure, it needs to be aware that the Company maintains a constant and significant short-term debt balance. *See Reno Testimony, p. 11, lines 1-3.*

Since short-term debt is used to fund the operations and investments of the firm, credit-rating analysts incorporate such interest-bearing debt in their ratings. For example, S&P considers ratios, such as Funds from Operations/Total Debt and Total Debt/Capitalization when rating a company. These ratings, in turn, are used by investors to gauge the risks associated with valuing a utility's assets. Finally, excluding short-term debt from the capital structure makes the capital structure more equity-rich, which is more expensive, thereby shifting the cost to ratepayers.

Q. DOES MR. HEVERT AGREE WITH YOUR SHORT-TERM AND LONG-TERM DEBT RATES?

A. No, he does not. Mr. Hevert states that based on the Company's current bond rating, it may borrow under its revolving credit facility at LIBOR plus 125 basis points. KCP&L also has a commercial paper program that enables it to borrow for short periods at lower interest rates. Mr. Hevert also avers that the undrawn cost of the revolving credit facility must be included with the cost of the commercial paper to calculate the Company's total short-term borrowing cost and provides an adjusted short-term cost of 0.99 percent.

Q. DO YOU AGREE WITH MR. HEVERT'S ADJUSTMENTS TO YOUR SHORT-TERM DEBT COSTS?

A. After reviewing Mr. Hevert's rebuttal testimony, supporting workpapers, and responses to information requests, I agree with his adjustments to my short-term debt cost, increasing my proposed rate from 0.26 percent to 0.99 percent.

Q. MR. HEVERT ALSO MAKES AN ADJUSTMENT TO YOUR PROPOSED LONG-TERM DEBT RATE. DO YOU AGREE WITH HIS CHANGES?

A. Yes. Mr. Hevert claims that I incorrectly calculated the cost of long-term debt when I divided actual interest paid of $112,100,000 by the debt balance of $2,298,500,000 for the result of 4.88 percent. He also states that this interest paid amount is net of capitalized interest and that I should have used interest expense that includes amortized expense. After reviewing his rebuttal testimony and supporting documentation, I believe that his adjustments correctly calculate KCP&L's long-term debt cost, increasing my proposed cost of long-term debt from 4.88 percent to 5.70 percent.

Q. HOW DO THESE ADJUSTMENTS CHANGE YOUR RECOMMENDED OVERALL RATE OF RETURN?

A. The adjustments to both my short-term debt rate and my long-term debt rate increase my overall rate of return recommendation from 6.62 percent to 7.05 percent:

Adjusted Weighted Average Cost of Capital for KCP&L	December 31, 2014 Balance	Weight	Pre-Tax Cost of Capital	Actual Weighted Cost
Long-Term Debt[1]	$2,298,500,000	47.89%	5.70%	2.73%
Short-Term Debt[2]	$225,750,000	4.70%	0.99%	0.05%
Common Equity	$2,275,000,000	47.40%	9.00%	4.27%
Total Capitalization	$4,799,250,000	100.00%		7.05%

Source: Company's SEC 2014 Form 10-k Report

1. Cost of long-term debt as provided by company witness Hevert. See Hevery Rebuttal Testimony page 66, line 12.

2. Average short-term debt year-end balances for 2013 and 2014 as reported in the Company's SEC 2014 Form 10-k Report on page 84. The Cost of short-term debt provided by company witness Hevert. See Hevert Rebuttal Testimony, page 65, line 13.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL 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-2014-0370

AFFIDAVIT OF MAUREEN L. RENO

STATE OF NEW HAMPSHIRE	)	
	)	SS
COUNTY OF ROCKINGHAM	)	

Maureen L. Reno, being first duly sworn, on her oath states:

1. My name is Maureen L. Reno. I am an independent consultant and my principal business address is 19 Hope Hill Road, Derry, New Hampshire 03038.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of the United States Department of Energy which was prepared in written form for introduction into evidence in the above-captioned docket.

3. 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.

Maureen L. Reno

Subscribed and sworn before me this 5 day of June, 2015 by Maureen L. Reno.

Notary Public

My commission expires: 8/24/2016

JENNIE M. FEBOCE
MY COMMISSION EXPIRES AUG. 24, 2016
NOTARY PUBLIC
NEW HAMPSHIRE