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Issue: Capital Structure; Return on Equity  
Witness: Kevin E. Bryant  
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Sponsoring Party: KCP&L Greater Missouri Operations Company  
Case No.: ER-2016-0156  
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**MISSOURI PUBLIC SERVICE COMMISSION**

Missouri Public  
Service Commission

**CASE NO.: ER-2016-0156**

**DIRECT TESTIMONY**

**OF**

**KEVIN E. BRYANT**

**ON BEHALF OF**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri  
February 2016**

**DIRECT TESTIMONY**

**OF**

**KEVIN E. BRYANT**

**Case No. ER-2016-0156**

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”) as Senior Vice  
6 President – Finance and Strategy and Chief Financial Officer of Great Plains Energy  
7 (“GPE”), KCP&L and KCP&L Greater Missouri Operations (“GMO” or “Company”).

8 **Q: What are your responsibilities?**

9 A: My responsibilities include finance, accounting, investor relations, corporate strategy and  
10 risk management. I am also responsible for leading the efforts to evaluate and pursue  
11 business opportunities that are complementary to the core business.

12 **Q: Please describe your education, experience and employment history.**

13 A: I received dual undergraduate degrees in finance and real estate from the University of  
14 Missouri – Columbia where I graduated cum laude in May 1997. I received my Masters  
15 in Business Administration degree with an emphasis in finance and marketing from the  
16 Stanford University Graduate School of Business in June 2002.

17 I joined Great Plains Energy Incorporated (“GPE”) in 2003 as a Senior Financial  
18 Analyst and was promoted to Manager - Corporate Finance in 2005 where I was  
19 responsible for contributing to the development and maintenance of the sound financial

1 health of both GPE and KCP&L through the management of company financing  
2 activities. In August 2006, I was promoted to Vice President, Energy Solutions for  
3 KCP&L and served in that capacity until March 2011, when I became Vice President,  
4 Strategy and Risk Management. In August 2011, I became Vice President – Investor  
5 Relations and Treasurer and became Vice President – Investor Relations and Strategic  
6 Planning and Treasurer in 2013. In 2014, I was appointed Vice President – Strategic  
7 Planning. In 2015, I assumed my current position.

8 Prior to joining GPE, I worked for THQ Inc. from 2002 to 2003, a worldwide  
9 developer and publisher of interactive entertainment software based in Calabasas,  
10 California. I served as Manager - Strategic Planning where I was responsible for  
11 establishing corporate goals and developing and assisting with the execution of the  
12 company's strategic plan. From 1998 to 2000, I worked as a Corporate Finance Analyst  
13 for what is now UBS Paine Webber. I worked on mergers and acquisitions for medium  
14 and large-sized companies. I also worked at Hallmark Cards as a Financial Analyst from  
15 1997 to 1998.

16 **Q: Have you previously testified in a proceeding before the Missouri Public Service**  
17 **Commission (“Commission” or “MPSC”) or before any other utility regulatory**  
18 **agency?**

19 **A:** Yes, I have. I testified before the Commission in Case No. EM-2007-0374, where GPE  
20 acquired the remaining assets and stock of Aquila, Inc. (“Aquila”). Aquila was later  
21 renamed KCP&L Greater Missouri Operations Company, here referred to as GMO. I  
22 also testified before the Kansas Corporation Commission in Docket No. 11-KCPE-581-

1 PRE (LaCygne Predetermination) and on KCP&L's application for its proposed Home  
2 Performance with ENERGY STAR<sup>®</sup> program in Docket No. 08-KCPE-581-TAR.

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

4 A: To provide the rationale for moving to the GMO-specific capital structure and cost of  
5 debt for calculating GMO's weighted average cost of capital. I am also providing the  
6 rationale for the specific Return on Equity ("ROE") rate requested by the Company.

7 **RETURN ON EQUITY**

8 **Q: What specific Return on Equity rate is being requested by GMO and why was that**  
9 **rate chosen?**

10 A: GMO is requesting a Return on Equity of 9.90 percent. This ROE is within the range of  
11 9.75 percent to 10.50 percent recommended in Mr. Hevert's Direct Testimony as  
12 representing a reasonable, but conservative range of GMO's Cost of Equity. In prior rate  
13 cases, GMO has used the midpoint of the ROE range recommended by its expert witness  
14 for determining its requested change in retail rates. Since both GMO and KCP&L have  
15 been authorized a Return on Equity in each of their previous two rate cases that was well  
16 below the range recommended by GMO and KCP&L, GMO has endeavored to be  
17 responsive to these recent Commission decisions and has selected a rate of 9.90 percent  
18 which is in the lowest quartile of the range recommended by Mr. Hevert in this case.



1 credit problems. This credit improvement, one of the benefits realized through the  
2 acquisition, has led to GMO's cost of debt declining significantly. It is now 38 basis  
3 points lower than KCP&L's debt. This difference is very reasonable as it is extremely  
4 difficult to manage to complete cost of debt parity. At the time of the acquisition, the  
5 average number of years to final maturity for GMO's long-term debt was less than 5  
6 years and significantly shorter than KCP&L's long-term debt average final maturity of  
7 more than 15 years, which presented GMO with significant liquidity and refinancing  
8 risks. Because of our efforts to improve GMO's maturity profile, now both GMO and  
9 KCP&L long-term debt has an average time to final maturity of approximately 10 years.  
10 This positive transformation of the GMO credit profile, capital structure and cost of debt  
11 allows for the Company's rates to be set on the basis of its actual capital structure and  
12 cost of debt, consistent with the rate-making construct used with all of the other electric  
13 utilities throughout the state.

14 **Q: GMO's equity ratio is higher than the GPE consolidated equity ratio and the**  
15 **KCP&L equity ratio. Is there a rationale for this difference?**

16 **A:** Yes. The credit quality of the two utilities is different and justifies a higher equity ratio  
17 for GMO. S&P assigns GMO a "Strong" business risk profile based on its "satisfactory"  
18 competitive position, whereas KCP&L is assigned an "Excellent" business risk profile  
19 based on its "strong" competitive position. Because of the difference in business risk  
20 profiles, GMO cannot support as much debt as KCP&L, thus resulting in a higher equity  
21 ratio. Even with its higher equity ratio, Moody's credit rating for GMO, while now  
22 investment grade given the improvements since its acquisition by GPE, remains one

1 notch lower than KCP&L, in part due to the lower market position rating Moody's  
2 assigns to GMO. These credit quality differences support a higher equity ratio for GMO.

3 **Q: Has GMO taken any proactive steps to manage its equity ratio?**

4 A: Yes. GMO has two ways to manage its equity ratio. First, it can change the level of debt  
5 in the capital structure by debt issuances (which result in decreases to the equity ratio) or  
6 debt paydowns (which result in increases to the equity ratio). Second, it can change the  
7 level of equity in the capital structure through (a) equity contributions from GPE (which  
8 result in increases to the equity ratio), (b) return of equity capital to GPE (which result in  
9 decreases to the equity ratio) or (c) changes in the level of retained earnings through  
10 dividend policy (where increased dividends lower retained earnings and the equity ratio,  
11 or where decreased dividends increase retained earnings and the equity ratio). GMO has  
12 made significant strides in reducing its equity ratio from a high of 57.7% in October 2012  
13 to 56.3% as of September 30, 2015. As GMO believes that its current debt level is  
14 appropriate given its credit profile and cash flow, the Company has chosen to utilize a  
15 dividend policy as the best way to manage its equity ratio. As a result, GMO reduced its  
16 equity ratio during 2015 by increasing the annual dividend it pays to GPE and is  
17 projecting a reduction in its equity ratio to 54.8% as of the July 31, 2016 true-up date  
18 contemplated in this proceeding by continuing to pay an increased dividend level to GPE.  
19 These previous higher levels of equity were appropriate given GMO's previous credit  
20 challenges, but an equity ratio in the current range is more appropriate given its  
21 improving credit profile.

1 **Q: Will GMO continue to prudently manage its equity ratio?**

2 A: Yes. As Mr. Hevert's testimony demonstrates, GMO believes that an equity ratio in the  
3 50-55% range is both appropriate and consistent with precedents across the country. As a  
4 result, GMO will continue to manage its current equity ratio through dividend policy if it  
5 can do so without negatively impacting GMO's credit ratings. While I would prefer to  
6 have the same credit rating as KCP&L, because of the differences in credit profiles,  
7 GMO would need to have cash flow, interest coverage and debt level credit metrics that  
8 are as good as or better than KCP&L's credit metrics. This reality limits how much  
9 additional debt GMO can add without additional cash flow.

10 **Q: If GMO's cost of capital is based on its own capital structure and cost of debt,**  
11 **should KCP&L's cost of capital be based on its own capital structure and cost of**  
12 **debt?**

13 A: Yes. If the Commission authorizes the use of GMO's actual capital structure and cost of  
14 debt to determine the cost of capital in this case, then KCP&L will recommend using its  
15 actual capital structure and cost of debt in its next rate case.

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

17 A: Yes, it does.

