

Exhibit No.: **2**
Issue: Phase-In Carrying Costs
Witness: Kevin E. Bryant
Type of Exhibit: Direct Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2012-0024
Date Testimony Prepared: October 21, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0024

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Missouri Public
Service Commission

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
October 2011

GMO Exhibit No. 2
Date 1/5/12 Reporter JL
File No. ER-2012-0024

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2012-0024

1 **Q: Please state your name and business address.**

2 A: My name is Kevin E. Bryant. My business address is 1200 Main Street, Kansas City,
3 Missouri 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 Vice President,
6 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. I also served as KCP&L's Vice-President, Energy Solutions from 2006-early
4 2011. Prior to joining GPE, I worked for THQ Inc. from 2002 to 2003, a worldwide
5 developer and publisher of interactive entertainment software based in Calabasas,
6 California. I served as Manager - Strategic Planning where I was responsible for
7 establishing corporate goals and developing and assisting with the execution of the
8 Company's strategic plan. From 1998 to 2000, I worked as a Corporate Finance Analyst
9 for what is now UBS Paine Webber. I worked on mergers and acquisitions for medium
10 and large-sized companies. I also worked at Hallmark Cards as a Financial Analyst from
11 1997 to 1998.

12 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
13 **Commission ("Commission" or "MPSC") or before any other utility regulatory**
14 **agency?**

15 **A:** I testified before the MPSC in File No. EM-2007-0374 (Aquila acquisition case) and also
16 in the GMO 2011 IRP proceeding. Additionally, I have testified before the Kansas
17 Corporation Commission.

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

19 **A:** The purpose of my testimony is to address the carrying cost rate to be used in the phase-
20 in of rates ordered by the Commission in File No. ER-2010-0356 ("356 Case") for
21 KCP&L Greater Missouri Operations Company's ("GMO" or "the Company") Light &
22 Power division.

1 **Q: Why is a carrying cost necessary?**

2 A: Because the MPSC ordered a phase-in of rates in the 356 Case, the Company will
3 recognize a case flow detriment during the period of the phase-in. To illustrate this point,
4 it should be noted that the Commission's *Report And Order* in the 356 Case authorized a
5 revenue increase for the L&P division of \$29,772,796. However, the Commission's
6 *Order of Clarification a Modification* issued on May 27, 2011 restricted the first year
7 increase for the L&P division to the amount GMO originally requested of \$22,101,088
8 (Year One), and ordered a two year phase-in, pursuant to Section 393.155.1. As a result,
9 the first year rate increase of \$22,101,088 is \$7,671,708 less than what GMO would have
10 received absent the phase-in order for the first year following the effective date of the
11 *Report And Order*. By ordering the phase-in, the Commission would have effectively
12 denied the Company the right to earn a full return on investment during the first year on a
13 substantial amount of invested capital, unless appropriate carrying costs are allowed to be
14 recovered during the phase-in plan.

15 **Q: Won't GMO eventually reach the full \$29,772,796 level, thereby resulting in the**
16 **Company fully recovering its costs?**

17 A: No. Merely by allowing GMO to recover during the phase-in period the difference
18 between what GMO would have recovered if the full increase was immediately
19 implemented and the first year rate increase, does not make GMO whole. The fact that
20 the rates will eventually increase over the phase-in period reaching the \$29,772,796 level
21 at the conclusion of the phase-in period does not mean that GMO's revenues and earnings
22 will increase by the same amount as if the Commission had allowed the full authorized
23 rate increase of \$29,772,796 to go into effect immediately.

1 **Q: Is there a statutory mandate that governs phase-in recovery issues? Please explain.**

2 A: It is important that the Commission approve a phase-in plan that uses the appropriate
3 level of carrying costs to meet the following statutory mandate of Section 393.155.1:

4 *Any such phase-in shall allow the electrical corporation to recover the*
5 *revenue which would have been allowed in the absence of a phase-in and*
6 *shall make a just and reasonable adjustment thereto to reflect the fact that*
7 *recovery of a part of such revenue is deferred to future years.*

8 In other words, the phase-in plan statute requires that the phase-in plan keep the Company
9 whole so that it will “*recover the revenue which [it] would have been allowed in the*
10 *absence of a phase-in*” plan.

11 **Q: Does the phase-in statute specify the appropriate carrying cost rate?**

12 A: No, it does not. However, The Commission’s *Report And Order* in KCP&L’s Wolf
13 Creek rate case¹ approved KCP&L’s only previously approved phase-in plan, stating:
14 “*The carrying costs on the deferred revenues under the phase-in plan shall be calculated*
15 *at the overall rate of return.*” In the 356 Case, the Company utilized the same method
16 for determining the carrying costs that was approved by the Commission in the Wolf
17 Creek rate case—its overall rate of return on investment, or the same weighted cost of
18 capital (i.e. 8.414%) that was authorized by the Commission in its *Report And Order* in
19 the 356 Case. This method will accomplish the statutory requirement of Section
20 393.155.1 “*to recover the revenue which would have been allowed in the absence of a*
21 *phase-in.*”

¹ As explained herein, the phase-in plan for the Wolf Creek case authorized carrying costs at a level equal to the overall rate of return on investment. *Re Kansas City Power & Light Company*, 28 Mo.P.S.C. (N.S.) 228, 418 (1986). The Wolf Creek phase-in plan was shortened by the passage of the Tax Reform Act of 1986. *See* 29 Mo.P.S.C. (N.S.) 51-52 (1987).

1 **Q: Would a short-term borrowing rate accomplish the statutory objective?**

2 A: No, the use of a short-term debt cost in the phase-in tariffs would not recover the same
3 revenues which would be allowed in the absence of a phase-in plan. GMO does not
4 “finance” its investments using short-term debt. In reality, under the phase-in plan GMO
5 will forego those earnings, unless the Commission utilizes the overall return on
6 investment as its carrying cost.

7 **Q: Please elaborate.**

8 A: GMO has three sources of funds to operate its public utility business: 1) revenue, 2)
9 additional equity, and 3) additional debt (primarily long-term). By decreasing one of the
10 sources of funds, (i.e. first year revenue authorized in this case), the Company has to rely
11 on the other two sources for funds (i.e. equity and long-term debt, or the weighted cost of
12 capital). For GMO, there is an opportunity cost in not having available \$7,671,708 in
13 cash during the first year of the rate increase. This deferred revenue represent funds the
14 Company does not have available to invest in its business, and as a result, the Company
15 loses the opportunity to earn its overall rate of return of investment of 8.414%. Until the
16 Company finally recovers the full amount of its authorized rate increase of \$29,772,796,
17 the Company loses the opportunity to earn 8.414% on this money. This is the reason that
18 the overall rate of return, as recognized by the Wolf Creek decision, is the appropriate
19 carrying cost to be utilized in the phase-in plan.

20 **Q: If the Commission should decide that the carrying cost should be based on a short-**
21 **term borrowing rate, what short-term rate is appropriate?**

22 A: It should be noted that short-term debt costs vary widely over the course of time. In fact,
23 short-term interest costs can differ on a daily basis. However, over the twelve-month

1 period, June 2010 through May 2011, the Company's short-term debt costs as reflected
2 on its monthly AFUDC calculations, which encompass an all-in cost for short-term
3 borrowings, have averaged 4.473%. This weighted average includes an amortization of
4 up front revolver fees and commitment fees necessary for borrowing capacity. These
5 costs should be included because they are components of the total short-term borrowing
6 costs. That rate would be an appropriate carrying cost rate for the phase-in if the
7 Commission should decide that a short-term borrowing rate should be utilized.

8 **Q: The Company and Staff have agreed that the carrying cost should be 3.25%. Do**
9 **you support this agreement?**

10 A: Yes. As I have discussed above, the Company's carrying cost is actually higher than the
11 amount agreed to with the settlement with Staff. However, in this proceeding, the
12 Company is willing to settle for a lower amount in order to minimize the litigation
13 regarding this issue and get the phase-in tariffs approved by the Commission.

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

15 A: Yes, it does.

