Exhibit No.:
Issue: Cost of Debt
Witness: Kevin E. Bryant
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2012-0174
Date Testimony Prepared: October 8, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

SURREBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
October 2012

SURREBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2012-0174

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: Are you the same Kevin E. Bryant who pre-filed Rebuttal Testimony in this matter?

A: Yes, I am.

Q: What is the purpose of your Surrebuttal Testimony?

A: The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimony provided by Missouri Public Service Commission Staff ("Staff") witness Mr. David Murray concerning the cost of debt to be used for ratemaking purposes in the case.

Q: Please summarize the main difference between Mr. Murray's recommended cost of debt and Kansas City Power & Light Company's ("KCP&L" or the "Company") position.

A: Mr. Murray at page 28 of his Rebuttal Testimony recommends an arbitrary adjustment to the consolidated cost of debt by making adjustments to the interest rate on three long-term debt offerings that were issued by Great Plains Energy Incorporated ("GPE") whose proceeds were loaned to KCP&L Greater Missouri Operations Company ("GMO"). He appears to support a cost of debt figure of 6.142%, although he states that "Staff is open to suggestions to other methodologies for adjustment as long as there is some adjustment considered." The Revenue Requirement/Cost of Service Report ("Staff Report") used one methodology for making the adjustments, and Mr. Murray provides an alternative methodology in his Rebuttal Testimony for an interest rate adjustment on two of the three debt offerings.

Q: What is the Company's position?

A: The Company position is that no adjustments should be made to the actual interest rate for these three long-term debt offerings. It is also the Company's position that given the rationale Mr. Murray provides for making the interest rate adjustments, both of the Staff methodologies are flawed and unreasonable, and result in the calculation of an adjustment that is greatly overstated.

Q: Please summarize the different recommended cost of debt positions.

A: The three different consolidated cost of debt positions and the coupon interest rate on the three debt offerings that have been adjusted by the Staff are summarized in Table 1 below.

Table 1

	August 2010 $250 million Debt Offering	May 2011 $350 million Debt Offering	March 2012 $287.5 million Debt Offering	Consolidated Cost of Debt
Actual	2.75%	4.85%	5.292%	6.425%
Staff Report	2.00%	4.70%	4.25%	6.247%
Murray Rebuttal	2.00%	4.00%	4.00%	6.142%

Q: Has the Company made prudent decisions with regard to the three debt offerings with the interest rates that have been adjusted by the Staff?

A: Yes. The rationale for issuing debt at the GPE holding company level and loaning it to GMO is discussed in detail in my Rebuttal Testimony on pages 6 through 10. There I described the fact that prior to each of these offerings, GMO lacked at least three full years of historical financial statements after being acquired by Great Plains Energy in

2008 and that the March 2012 offering was a remarketing of debt related to the GPE Equity Units. The Company must balance the ability to lower the cost of debt with shorter tenors against the risk of refinancing that debt at higher interest rates in the future. For these three GPE offerings where the proceeds were loaned to GMO and for the KCP&L offering in September 2011, GPE was able to (1) lower the average cost of debt and (2) lower the risk of higher debt cost in the future by increasing the weighted average time to maturity for both KCP&L, GMO and on a GPE consolidated basis.

Q: To support his recommendation to use the consolidated cost of debt, Mr. Murray's Rebuttal Testimony includes the statement on page 26 that "the management of KCP&L's debt issuances is being impacted by financing decisions made by GPE for purposes of financing GMO's operations." He also states on page 26 that "GPE has issued three separate debt issuances on behalf of GMO and each of these debt issuances are of shorter tenors than debt KCPL issued during the same period. This causes KCPL to incur higher debt costs and GMO to incur lower debt costs, even though KCPL has and is providing credit support to allow GPE to issue this debt on behalf of GMO" and on page 29 that "absent KCPL's affiliation with GPE's other operations, KCPL would manage its debt costs and profile on a stand-alone basis." How do you respond?

A: The Company does not oppose using the consolidated cost of debt for ratemaking purposes. This is based on a desire to maintain a consistent methodology for all of GPE's regulatory jurisdictions including the KCP&L Kansas jurisdiction. However, KCP&L has managed its debt costs and profile on a stand-alone basis, and that its debt issuances are not materially or adversely impacted by financing decisions made by GPE and/or

GMO. I also believe that Mr. Murray's statement that KCP&L is providing the credit support to allow GPE to issue debt on behalf of GMO is misleading and erroneous. The credit support for GPE comes from the cash flow and equity capital associated with both of the utility operating companies and not just KCP&L. The credit support to allow GPE to issue debt on behalf of GMO comes primarily from GMO's cash flow and its ability to service the GPE debt through the intercompany loan agreements with GPE.

Q: In Mr. Murray's Rebuttal Testimony at page 28 he gives an affirmative response to the question: "If GMO were able to issue debt on its own and continued to have a 'BBB' credit rating as Aquila did before its non-regulated operations caused a deterioration in its credit rating, wouldn't it be reasonable to believe GMO could be realizing debt costs similar to that of KCPL?" What is the Company's response?

A: The question is premised on the dubious assumption of the existence of a hypothetical 'BBB' credit rating related to a 'BBB' credit rating Aquila once had years prior to GPE's acquisition of Aquila over four years ago in July 2008. Both KCP&L and GMO have been through contested rate cases since the acquisition of Aquila, and the cost of the 2.75% August 2010 GPE debt offering was included without adjustment in the cost of debt granted by the Missouri Public Service Commission ("Commission") in its GMO Report and Order dated May 4, 2011 in Case No. ER-2010-0356. Any recommendation to adjust the cost of debt issued after the Aquila acquisition by GPE based on the status of Aquila's operations prior to GPE's acquisition is based on a fictional scenario, is unreasonable, and should be disregarded.

Q: A new approach to adjusting the interest rate for two of the three GPE debt offerings is introduced in Mr. Murray's Rebuttal Testimony at pages 27-28. Is this new approach reasonable for estimating the difference in cost between the actual debt issued with a "BBB-/Baa3" rating and hypothetical debt issuances with a "BBB/Baa2" rating?

A: No. Debt offerings are priced on the basis of the spread over the yield on a benchmark U.S. Treasury ("UST") security, so the total debt cost is based on both the spread and the underlying UST rate. Mr. Murray's new approach compares an indicative coupon interest rate of 5.95% received from Scotia Capital in July 2011 for a KCP&L "BBB/Baa2" rated 30-year debt offering to the actual coupon interest rate of 5.30% that KCP&L received in September 2011. He then subtracts the 65 basis point difference from an indicative coupon rate of 4.45% received from Scotia Capital in July 2011 for a KCP&L "BBB/Baa2" rated 10-year debt offering and concludes that KCP&L could have issued 10-year "BBB/Baa2" rated debt at a coupon interest rate of close to 4.00%.

Initially, such an approach must be rejected because it is not based on the actual facts related to the debt offerings and is, therefore, simply a speculative hypothesis that is flawed from inception. Moreover, this approach fails to consider the significant changes in the underlying UST rates that occurred between the debt offerings and the indicative price quotes. The yield on the 10-year UST fell by 16 basis points between the May 2011 debt offering and the indicative pricing in July 2011, then decreased another 62 basis points by the time of the March 2012 10-year debt offering. The yield on the 30-year UST decreased by 95.7 basis points between the indicative pricing in July 2011 and the September 2011 $400 million 30-year KCP&L debt offering. Mr. Murray's proposed adjustment relies only on changes in interest rates between July 2011 and September 2011, without considering the changes in interest rates relative to the May 2011 and March 2012 dates of the actual debt offerings. As such, his recommendation is neither valid nor reasonable, and should be rejected.

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-2012-0174

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 Vice President, Investor Relations and Treasurer.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of Six (6) 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 5th day of October, 2012.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2015

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2015
Commission Number: 11391200