Exhibit No.:	
Issue:	Capital Structure; Cost of Debt
Witness:	Kevin E. Bryant
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2016-0285
Date Testimony Prepared:	January 27, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

SURREBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2017

SURREBUTTAL 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 and Rebuttal Testimony in this proceeding?

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 of Staff witness David Murray regarding capital structure and the cost of debt for KCP&L.

Q. Mr. Murray states that if a subsidiary's capital structure is fair and reasonable, and is directly consequential to raising debt capital at reasonable costs, Staff may recommend its use. Do you consider a subsidiary capital structure that is 50% debt and 50% equity and almost identical to the holding company capital structure fair and reasonable?

A: Yes. The following table shows KCP&L's and GPE's capital structures as of September 30, 2016 that are almost identical with both having 50% equity and 50% debt. Since both capital structures are the same, there is no revenue requirement impact from the decision on which capital structure should be used if the capital structure is based on September 30, 2016 actual balances.

Actual Capital Structure as of September 30, 2016

(Dollars in Millions)

	KCP&L		GPE Consolidated	
Common Equity	$2,568.3	50.0%	$3,743.1	50.0%
Long-term Debt*	$2,564.5	50.0%	$3,746.7	50.0%
Total Capitalization	$5,132.8	100.0%	$7,489.8	100.0%

*Includes current maturities

Source:Great Plains Energy's SEC Form 10-Q for September 30, 2016

Q. Is September 30, 2016 the true-up date in this case?

A: No. The true-up ordered in this case is December 31, 2016.

Q. Based on past decisions, is it likely that the Commission will used the actual GPE consolidated capital structure as of December 31, 2016 for KCP&L's capital structure in this case?

A: No. As I indicated in my rebuttal testimony, the GPE consolidated capital structure as of December 31, 2016 has 54% common equity, 8% mandatory convertible preferred stock, and 38% long-term debt. Based on past Commission orders, I believe it is highly unlikely that this capital structure with its significant increase in KCP&L's common equity and the resulting revenue requirement would be approved by the Commission. The capital structure used for KCP&L's rates will most likely be closer to KCP&L's actual capital structure as of December 31, 2016 than it will be to GPE's actual capital structure as of December 31, 2016.

Q. At page 8 of his rebuttal testimony, Mr. Murray references GPE's issuance of shorter-term tenor debt that was loaned to GMO as evidence that supports Staff's position. Has Staff made this argument in past cases?

A: Yes. Mr. Murray first suggested that KCP&L should benefit from the 2010 three-year debt GPE issued on GMO's behalf in KCP&L's rate case No. ER-2010-0355. The Commission rejected that recommendation, stating in its report and order that the record was clear that the debt was issued only for the benefit of GMO. The debt that Mr. Murray cites in his rebuttal testimony matured in 2013 and was refinanced by GMO. Mr. Murray's suggestion that KCP&L ratepayers were or are being harmed by debt that no longer exists has no basis in fact and is unreasonable.

Q. Mr. Murray states on page 8 of his rebuttal that it is "obvious that GPE was financially managing the two subsidiaries to achieve the lowest overall capital cost for GPE as a consolidated entity." Do you agree?

A: No. I have already addressed this unsubstantiated and untrue statement on pages 2-3 of my rebuttal testimony, but since Staff continues to make this claim, I must again emphasize that GPE has absolutely not managed the finances of KCP&L and GMO on a consolidated basis.

Q. Mr. Murray states on page 10 that GPE continues to guarantee GMO's credit facilities, and cites GPE's 2015 SEC Form 10-K. Is this correct?

A: No. GPE does not guarantee GMO's credit facilities. Mr. Murray's citation to page 16 of this Form 10-K is in error as that reference does not describe GMO's credit facilities. GPE's current guarantees only apply to a small portion of GMO's long-term debt and to GMO's commercial paper program.

Q. Mr. Murray states that in the past GPE guaranteed GMO's debt. Is this correct?

A: Yes. GPE guaranteed GMO's legacy Aquila debt that it acquired in 2008. Once a guarantee has been put in place, it cannot be removed without retiring that debt, some of which cannot be retired early. GMO has over $1 billion of long-term debt on its balance sheet and less than $97 million of legacy Aquila debt remains with GPE guarantees. Guarantees that GPE put in place over eight years ago and that remain on less than 10% of GMO's debt does not indicate that GMO needs any financial support from GPE today.

Q. Mr. Murray states that GPE's consolidated capital structure is used by S&P to assign both GMO's and KCP&L's credit rating. Is that an accurate description of S&P's credit rating methodology?

A: No. S&P's credit rating methodology uses a matrix of financial risk and business risk to establish the anchor credit rating for a company. The financial risk for a company is based on its individual financial statements and credit metrics, not the consolidated financial statements. Both KCP&L and GMO have the same financial risk profile based on their individual financial statements.

Q. If KCP&L and GMO have the same S&P financial risk profile, do they have the same anchor credit rating?

A: No. KCP&L has a higher business risk profile that results in a higher anchor credit rating. The difference between KCP&L's and GMO's business risk ratings is S&P's assessment of competitive position. For utilities, S&P assesses their regulatory environment. KCP&L is regulated in both Missouri and Kansas, and was given a higher competitive position assessment by S&P, compared with GMO which is only regulated in Missouri.

Q. Mr. Murray claims on pages 11-12 of his rebuttal testimony that KCP&L made it possible for GPE to refinance a significant amount of GMO's debt. Do you agree?

A: No. GMO had the cash flow to support the debt that GPE issued on its behalf, and GMO has paid all the interest associated with that debt. The debt GPE issued on GMO's behalf is shown on GMO's balance sheet and is reflected in the credit metrics that S&P uses to assign the same financial risk profile that KCP&L has. GMO had debt that matured and needed to be refinanced. The timing of debt maturities and refinancing of those maturities should not be used as the basis for benefitting KCP&L.

Q. Mr. Murray's rebuttal testimony on pages 12-15 discusses the calculation of the cost of debt for GPE and KCP&L based on different methods. Are the cost of debt numbers he provides in his testimony the same as the cost of debt numbers shown in the table on page 5 of your rebuttal testimony?

A: Yes. The cost of debt numbers range from a high of 5.51% for KCP&L's cost of debt (using KCP&L's yield-to-maturity calculation) to a low of 5.42% for GPE's cost of debt (using Staff's yield-to-maturity calculation). The table on page 5 of my rebuttal testimony clearly illustrates the two decisions that must be made by the Commission. The first decision, as discussed above, is whether to use KCP&L's cost of debt or GPE's consolidated cost of debt. The second decision is what calculation method for the cost of debt should be used.

Q. The Staff recommends at pages 10-11 of Mr. Murray's rebuttal testimony and elsewhere that KCP&L ratepayers should be allowed to benefit from GMO's lower cost debt by using the GPE consolidated cost of debt to set KCP&L's rates. Do you agree?

A: No. Mr. Murray admits that in GMO's rate cases No. ER-2009-0090 and No. ER-2010-0356 GMO's cost of debt was higher than the GPE consolidated cost of debt. In those proceedings Staff did not recommend using the GPE consolidated cost of debt to set rates. However, now that GMO has refinanced most of the legacy Aquila debt at lower rates, Staff takes the position that KCP&L should benefit from GMO's refinancing activity. Staff's shifting position on cost of debt is not based on a sensible or reasonable regulatory analysis that assesses each subsidiary as an individual utility. To the contrary, it is simply based on whatever position produces the lowest cost of debt at that particular time. If the Commission expects Missouri utilities to manage their financing activity based on what is best for them, then the Commission should makes its decisions based on each utility's own cost and capital structure.

Q. The second decision on cost of debt that you indicated the Commission must make relates to different calculations of the cost of debt. Mr. Murray states on pages 12-13 of his rebuttal testimony that KCP&L has "double counted" issuance expenses in its calculation of debt cost. Do you agree?

A: No. The disagreement between KCP&L and Staff on the calculation of the cost of debt is whether the sum of the dollar cost for each debt issue that includes the cost of issuance expenses, discounts and premiums should be divided by (a) the outstanding debt balance *net* of unamortized issuance expense, discounts and premiums, or (b) by the outstanding debt balance *gross* of unamortized issuance expense, discounts and premiums. Staff asserts that dividing by the outstanding debt balance net of unamortized issuance expense, discounts and premiums "double counts" the cost of those issuance expenses, discounts and premiums.

I disagree. Since issuance expense, discounts and premiums are not included in rate base, and the amount of debt funds available to finance rate base is net of the issuance expense, discounts and premiums, I believe that the sum of the total debt cost that includes issuance expense, discounts and premiums must be divided by the outstanding debt balance net of issuance expense, discounts and premiums in order to obtain a debt rate to apply to a rate base that has been financed with that same amount of net debt.

Q. The table on page 5 of your rebuttal testimony shows KCP&L's calculation of debt cost using both the yield-to-maturity method and the simple interest/amortization method that is two basis points lower. Would either method be acceptable to KCP&L for determining the cost of debt?

A: Yes. Either method would be acceptable to KCP&L. We would conform future cost of debt calculations to the simple interest/amortization method if that is the Commission's preference.

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 Surrebuttal 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 27th day of January 2017.

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