Exhibit No.:
Issue: Capital Structure and Cost of Debt
Witness: Kevin E. Bryant
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2012-0175
Date Testimony Prepared: September 12, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0175

REBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
September 2012

Certain Schedules Attached To This Testimony Designated "(HC)"
Have Been Removed
Pursuant To 4 CSR 240-2.135.

REBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2012-0175

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" or "Company") as
6 Vice President, Investor Relations and Treasurer.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of KCP&L Greater Missouri Operations Company ("GMO" or
9 the "Company") for St. Joseph Light & Power ("L&P") and Missouri Public Service
10 ("MPS") territories.

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

12 A: My responsibilities include financing and investing activities, cash management, bank
13 relations, rating agency relations, financial risk management, investor relations, and
14 acting as a witness with regard to financing and capital markets-related matters in the
15 Company's regulatory proceedings. I am also responsible for strategic planning and
16 insurance.

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

18 A: I received dual undergraduate degrees in finance and real estate from the University of
19 Missouri – Columbia where I graduated cum laude in May 1997. I received my Masters

1 in Business Administration degree with an emphasis in finance and marketing from the
2 Stanford University Graduate School of Business in June 2002.
3 I joined Great Plains Energy Incorporated ("GPE") in 2003 as a Senior Financial
4 Analyst and was promoted to Manager - Corporate Finance in 2005 where I was
5 responsible for contributing to the development and maintenance of the sound financial
6 health of both GPE and KCP&L through the management of company financing
7 activities. In August 2006, I was promoted to Vice President, Energy Solutions for
8 KCP&L and served in that capacity until March 2011, when I became Vice President,
9 Strategy and Risk Management. In August 2011, I assumed my current position.
10 Prior to joining GPE, I worked for THQ Inc. from 2002 to 2003, a worldwide
11 developer and publisher of interactive entertainment software based in Calabasas,
12 California. I served as Manager - Strategic Planning where I was responsible for
13 establishing corporate goals and developing and assisting with the execution of the
14 company's strategic plan. From 1998 to 2000, I worked as a Corporate Finance Analyst
15 for what is now UBS Paine Webber. I worked on mergers and acquisitions for medium
16 and large-sized companies. I also worked at Hallmark Cards as a Financial Analyst from
17 1997 to 1998.
18 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
19 **Commission ("Commission" or "MPSC") or before any other utility regulatory**
20 **agency?**
21 A: Yes, I have. I testified before the Commission in Case No. EM-2007-0374 (Aquila
22 Acquisition). I also testified before the Kansas Corporation Commission in Docket No.
23 11-KCPE-581-PRE (LaCygne Predetermination) and on KCP&L's application for its

1 proposed Home Performance with ENERGY STAR® program in Docket No. 08-KCPE-
2 581-TAR.
3 **Q: What is the purpose of your Rebuttal Testimony?**
4 A: The purpose of my testimony is to respond to the Direct Testimony provided by Office of
5 the Public Counsel ("OPC") witness Mr. Gorman, U.S. Department of Energy ("DOE")
6 witness Mr. Kahal, and MPSC Staff ("Staff") Report on Revenue Requirement Cost of
7 Service ("Staff Report") concerning the capital structure and cost of debt to be used for
8 ratemaking purposes in the case.
9 **Q: What capital structure is OPC recommending for GMO in this case?**
10 A: On page 14 of the Direct Testimony of Michael P. Gorman, he states, "Absent support by
11 the Company, I believe the Company's actual capital structure weight should not be
12 modified and the component costs should simply reflect the March 2012 capital
13 structure." In Table 3 on page 13, he shows the actual capital structure as of March 31,
14 2012 consisting of 45.51% common stock equity, 53.90% long-term debt and 0.60%
15 preferred stock.
16 **Q: Does GMO agree with Mr. Gorman's recommendation?**
17 A: No. The significant and material increase in the actual common equity ratio that will be
18 reflected by the true-up date is a result of fulfilling the obligation of GPE to issue and the
19 Equity Unit holders to purchase common stock on June 15, 2012 with GPE using the
20 proceeds from the sale of that common stock to reduce its consolidated long-term debt
21 balance upon maturity of the GMO 11.875% senior note on July 2, 2012. The June 15,
22 2012 settlement date for the Equity Units has been known since they were originally
23 issued in 2009. The $287.5 million of Equity Units represented about 4.5% of the capital

1 structure in GMO's most recent rate case (Case No. ER-2010-0356). It would not be
2 appropriate to use a March 31, 2012 capital structure because it occurs prior to the true-
3 up date for this case and prior to the final execution of the Equity Unit conversion
4 process. While the 10% subordinated note component of the Equity Units were
5 remarketed as senior notes just a few days prior to March 31, 2012, the issuance of
6 common stock to settle the Equity Unit purchase contracts did not occur until June 15,
7 2012. Additionally, the proceeds from the issuance of common stock were not used to
8 reduce long-term debt until the July 2, 2012 maturity of the GMO 11.875% senior notes.

9 **Q: How do you respond to Mr. Gorman's statement on page 12 that the "increased**
10 **common equity ratio does not appear to be necessary"?**

11 A: Since the issuance of the Equity Units in 2009, the credit rating agencies of Standard &
12 Poor's ("S&P") and Moody's have recognized GPE's contractual obligation to issue
13 common stock on June 15, 2012 and its commitment to reduce long-term debt after the
14 GMO senior notes maturity in July 2012. Since the issuance of the Equity Units in 2009,
15 the rating agencies have made adjustments to their calculations of the GPE's financial
16 metrics and have treated the Equity Units as equity instead of debt, as reported in the
17 GPE's financial statements. This is clearly shown in credit research reports published by
18 S&P for the past three years. In the table titled "Reconciliation of Great Plains Energy
19 Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil.$)" under
20 S&P's adjustments, there is a line item titled "Equity-like hybrids" which shows a $287.5
21 million adjustment to decrease the Company's reported debt and increase the Company's
22 reported equity. See Schedule KEB-1 (HC), page 5.

1 This equity treatment for the Equity Units over the past three years was based on
2 GPE's commitment to the credit rating agencies that common stock issued at Equity Unit
3 conversion in 2012 would be used to pay down long-term debt. The equity treatment of
4 the Equity Units is a significant reason why GPE currently has a stable investment grade
5 rating. It was absolutely necessary for GPE to increase its equity ratio and decrease its
6 long-term debt ratio by following through on its contractual obligations and plans related
7 to the settlement of the Equity Units as well as to meet its commitment to the credit rating
8 agencies.

9 **Q: What capital structure is the Staff recommending for GMO in this case?**

10 A: As stated on page 37 of the MPSC Staff Report, Staff believes that the consolidated-basis
11 capital structure of GMO's publicly-traded parent, GPE, as of June 30, 2012 is most
12 appropriate for use as the rate making capital structure in this rate proceeding. The Staff
13 Report goes on to state that "because of unique and significant financing activities
14 occurring within GPE that were scheduled to be completed on or around June 30, 2012,
15 this capital structure seems reasonable" and that it "is appropriate because the risk
16 embedded in GPE's capital structure affects GMO's credit rating and cost of debt." The
17 Staff's recommended GMO ratemaking capital structure consists of 51.82% common
18 stock equity, 47.57% long-term debt and 0.61% preferred stock. The Staff Report also
19 stated that there is a true-up scheduled for the proceeding and that Staff can evaluate all
20 known data through at least the true-up period to verify the reasonableness of the current
21 proposed ratemaking capital structure.

1 **Q: Does GMO agree with the Staff's ratemaking capital structure recommendation?**

2 A: Yes. The Staff recommendation appears consistent with the Company's proposal to use
3 the actual GPE consolidated capital structure as trued-up through August 2012 for GMO
4 ratemaking purposes. This capital structure will reflect $287.5 million of new equity
5 resulting from the conversion of the Equity Units on June 15, 2012 and the maturity of
6 GMO $500 million 11.875% senior notes on July 2, 2012.

7 **Q: Does GMO agree with the Staff recommendation for the Embedded Cost of Debt**
8 **and Preferred Stock?**

9 A: No. The Company proposal differs from the Staff recommendation on two main points.
10 Staff recommends: (1) the use of a consolidated cost of debt be applied to both GMO
11 and KCP&L and (2) a downward adjustment to the coupon rates of all three debt
12 issuances that GPE made subsequent to its acquisition of GMO. The Company disagrees
13 with both of these recommendations.

14 **Q: Why does GMO believe that the cost of debt should not be adjusted?**

15 A: The Company made prudent decisions related to the three issuances of debt GPE made
16 subsequent to its acquisition of GMO and the cost of these debt issues should not be
17 adjusted from their actual costs. The circumstances surrounding each issuance will be
18 described individually to explain the Company's decision process.

19 **Q: What was the first GPE debt offering and what is Staff's position?**

20 A: The first GPE debt issuance was a $250 million senior note offering on August 15, 2010
21 with a coupon interest rate of 2.75%. This senior note was issued to refinance the short-
22 term debt balance at GMO resulting from the December 2009 maturity of its 7.625%,
23 $68.5 million senior notes and from GMO capital expenditures regarding its share of the

1 expenses related to the Iatan Unit 1 environmental retrofit and the Iatan Unit 2 plant
2 construction. At the time of this debt issuance, GPE selected a tenor of three years so as
3 to provide flexibility to refinance the debt at the utility operating company level once the
4 requisite historical financial statements were available.
5 The Staff suggests that this debt could have been issued at a 'BBB' unsecured
6 debt rating by GMO rather than at the GPE holding company level, and adjusts the
7 interest coupon rate down from 2.75% to 2.00% based on the average 'BBB' utility debt
8 yield for August 2010.
9 **Q: Do you disagree with Staff's position?**
10 A: Yes, there are several flaws with Staff's proposed adjustment. An offering directly by
11 GMO would not have been a U.S. Securities and Exchange Commission ("SEC")
12 registered public offering like the GPE offering. In August 2010, GMO only had post-
13 acquisition financial information for one complete calendar year (2009) instead of the
14 minimum three years of audited financial statements required for public or private
15 offerings. This lack of historical financial information would have resulted in investors
16 requiring a GPE guarantee. A GPE guarantee would have most likely resulted in an
17 interest rate for a GMO offering that would have been equal to the 2.75% interest rate
18 actually received for the SEC-registered public offering by GPE due to investors' reliance
19 on the guarantor's credit rating. This market dynamic has yielded the Company's
20 financing approach whereby holding company debt offerings are made on behalf of
21 GMO's financing needs. This approach has been previously supported by the
22 Commission as evidenced by the inclusion of the 2.75% interest coupon rate for the

1 August 2010 debt offering in the cost of debt approved by the Commission in GMO's most recent rate case, Case No. ER-2010-0356.

3 **Q: Are there also flaws with the application of Staff's own methodology?**

4 A: Yes. While I strongly disagree with the rationale for the cost of debt adjustment, I also disagree with the methodology used to calculate such adjustments. The 'BBB' utility debt yield for August 2010 includes the yields on previously issued outstanding debt, and does not fully incorporate the additional cost known as a "new issue concession" that is incurred when new debt issues are offered to the market. New issue concession can vary, but a recent estimate for a GMO offering was 20-25 basis points. Additionally, GMO has a split rating between the two agencies as GMO only has a 'BBB' unsecured debt rating with S&P and the rating with Moody's is one notch lower at Baa3. Based on information from Bloomberg (Schedule KEB-2 (HC)), the difference between BBB utility bond yields and BBB- utility bond yields for August 2010 was 58 basis points versus the 75 basis point adjustment made by Staff. Given the split GMO credit rating described above, only half of the 58 basis point difference would be attributable to GMO, resulting in a theoretical credit rating adjustment of only 29 basis points. For these reasons, even if it would have been possible to issue debt directly at GMO instead of at GPE, the 75 basis point adjustment is too large.

19 **Q: Please describe the second GPE debt offering and explain why its terms were reasonable.**

21 A: The second GPE debt issuance was a $350 million 10-year senior note offering on May 16, 2011 with a coupon interest rate of 4.85%. Funds were used at GMO to refinance a $137.3 million senior note with a 7.95% interest rate that matured in February 2011 and a

1 $197 million senior note with a 7.75% interest rate that matured in June 2011. By May
2 2011, the decision was made to issue a longer term note and reduce refinancing risk by
3 issuing the debt with a 10-year tenor. GMO still only had two full calendar years of
4 financial information instead of the aforementioned three years of audited financial
5 statements required for public or private offerings, so a GPE parent guarantee would still
6 have been required by investors. As with the first GPE debt offering discussed
7 previously, this GPE debt offering was prudent.
8 The previous points that I made above regarding GMO having a split BBB/Baa3
9 rating and the fact that new issue concessions are not fully incorporated in the utility debt
10 yields use by Staff apply to this debt issuance, as well. The Staff adjustment for this debt
11 issuance is only 15 basis points from the actual 4.85% coupon rate to the 4.70% average
12 'BBB' utility debt yield for May 2011. A potential GPE guarantee requirement, a split
13 GMO credit rating and new issue concession cost for new issuances could easily account
14 for the 15 basis point difference on which the Staff bases their adjustment for the May
15 2011 debt issuance.
16 **Q: What was the third debt offering and why were its terms reasonable?**
17 A: The third GPE debt issuance was the 5.292% coupon for the $287.5 million senior note
18 issued March 19, 2012. This debt issue is actually not a new issue but rather the
19 remarketing of the previously outstanding 10% subordinated notes that were components
20 of the GPE Equity Units. Because the Equity Units were linked to the issuance of
21 common stock, they had to be issued by the GPE holding company since GMO, as a
22 subsidiary operating company, has no public common stock. Since the subordinated
23 notes were a GPE debt instrument, the remarketing of them as senior notes had to remain

1 at the GPE holding company level. In the Report and Order in GMO's last rate case,
2 Case No. ER-2010-0356, the Commission concluded at page 155: "Overall, the cost of
3 the Equity Units was reasonable and was incurred in the best interest of the ratepayers."
4 As part of the structure of the Equity Units, the Company was required to remarket the
5 $287.5 million of notes at the GPE level. Since issuance of this debt at GMO was not
6 possible, an adjustment to a hypothetical GMO coupon interest rate does not apply.
7 Furthermore, the 104 basis point adjustment the Staff makes is extreme given the
8 difference between BBB utility bond yields and BBB- utility bond yields for March 2012
9 of 32 basis points according to Bloomberg (Schedule KEB-2 (HC)).

10 **Q: Please summarize your concerns with Staff's recommended adjustments related to**
11 **GPE debt issuances.**

12 A: The Company believes that the decision to issue these three debt offerings at the GPE
13 holding company level was prudent and that no adjustments should be made to the actual
14 cost of that debt. The holding company debt offerings are consistent with the financing
15 approach used by the Company since the acquisition of GMO and were previously
16 approved by the Commission in GMO's most recent rate case, Case No. ER-2010-0356.
17 For discussion of Staff's assertion that the cost of debt adjustments are the result of an
18 acquisition detriment, please see the Rebuttal Testimony of Darrin Ives.

19 **Q: Does GPE plan to continue issuing debt at GPE and loaning the proceeds to GMO?**

20 A: While this has been the most cost effective option in the past, the Company and GPE may
21 have more financing options in the future. Now that GMO has three full calendar years
22 of financial history, future audited financial statements may put GMO in a better position
23 to issue debt offerings itself versus GPE. Three years of audited financial statements may

1 eliminate the need for a GPE parent guarantee on future debt offerings and help support
2 GMO's stand alone credit rating. For these reasons, there may be additional options to
3 finance GMO debt.

4 **Q: The Staff Report at page 39 indicates that KCP&L could have lowered its cost to**
5 **ratepayers by issuing 3-year tenor debt instead of the 30-year tenor debt it issued**
6 **for the $400 million offering in September 2011. Why did KCP&L decide on a 30-**
7 **year tenor for that debt offering?**

8 A: With a normal upward sloping yield curve, debt with longer tenors will cost more than
9 debt with shorter tenors. However, with shorter tenors there is additional risk due to the
10 more frequent need to refinance that debt. KCP&L decided to reduce this refinancing
11 risk for the next 30 years since it could be done at a 5.30% coupon interest rate that was
12 both below its weighted average cost of debt and lower than the coupon interest rate of
13 any other outstanding KCP&L taxable senior notes, regardless of tenor. The Company
14 and KCP&L have objectives to both lower the weighted average cost of debt and
15 lengthen the weighted average time to maturity of its debt. Given the aforementioned
16 relationship of cost of debt to tenors mentioned above in the discussion of the upward
17 sloping yield curve, these objectives are often in conflict. With this issuance and given
18 interest rates at the time of issuance, KCP&L was able to accomplish both objectives
19 with a 30 year tenor, but would have only accomplished one of those objectives
20 (lowering its average cost of debt) with a 3 year tenor. KCP&L acted in the best long-
21 term interest of ratepayers by eliminating the risk of higher interest rates on this $400
22 million of debt for the next 30 years while at the same time lowering KCP&L's weighted

1 average cost of long-term debt paid by ratepayers from the 6.82% in the previous
2 KCP&L case to the 6.635% proposed in this case.

3 **Q: Does the Company agree with the statement in the Staff Report at page 39 that it is**
4 **"likely that KCPL is paying a higher coupon on its debt due to its affiliation with**
5 **GMO"?**

6 A: No. While the Company does not dispute that KCP&L has slightly better financial credit
7 metrics than GMO, it does not agree that KCP&L would have a better credit rating absent
8 GMO. The one statement made by Moody's in its March 29, 2012 Credit Opinion
9 (Scheduled KEB-3 (HC)) on KCP&L that "on a stand-alone basis GMO continues to
10 exhibit a more leveraged capital structure than KCPL, which also continues to be a
11 consideration in our ratings since Great Plains provides a downstream guarantee of the
12 unsecured debt at GMO" is not conclusive evidence that absent GMO, KCP&L would
13 have a higher credit rating. In the Credit Opinion published by Moody's for each of the
14 past three years, the report shows how KCP&L scores based on its credit rating
15 methodology. In the 2012 report referenced above and in the 2010 report published
16 March 17, 2010 (Schedule KEB-4 (HC)), the "Indicated Rating from the Grid" was Baa3
17 versus the "Actual Rating Assigned" of Baa2. In the March 17, 2011 Credit Opinion
18 (Schedule KEB-5 (HC)), the indicated rating and assigned ratings were both Baa2. These
19 scoring tables shown in Moody's Credit Opinions are based on their "Regulated Electric
20 & Gas Utilities" methodology published in August 2009 and detail parameters around
21 certain qualitative considerations and key credit metrics. The comment in the text of the
22 2012 Credit Opinion notwithstanding, the scoring in the Credit Opinions for the past
23 three years for KCP&L on a stand-alone basis shows that KCP&L is already assigned a

1 credit rating that is at or higher than what would be implied by the Moody's
2 methodology. Since the KCP&L stand-alone scores would not change absent GMO, the
3 Company does not believe that the KCP&L credit rating would be even higher than it
4 already is today. Therefore, GMO should not be penalized by reducing its cost of debt
5 below the actual cost incurred for that debt either directly or indirectly, through
6 adjustments to GPE issued debt.
7 **Q: Does the Company agree with the use of a consolidated cost of debt for ratemaking**
8 **purposes?**
9 A: Yes, but not for the same reason offered in the Staff Report. The Company recognizes
10 that based on the current cost of debt for each company, the use of a consolidated cost of
11 debt for ratemaking purposes would provide less revenue for KCP&L and more revenue
12 for GMO. This would result in a negative impact on KCP&L's financial metrics and an
13 improvement in GMO's financial metrics. While this could impact credit ratings by
14 Moody's, it would not impact consolidated financial metrics or credit ratings by S&P. In
15 general, KCP&L ratepayers should not be paying more because of the GMO acquisition.
16 However, as more of the utility operations are integrated, there may come a time to also
17 consolidate the financing cost of the utility operations either with or without a legal
18 merger of the two utility companies. What is of primary importance to the Company is
19 that there be consistency between the method used in the Company's Kansas and
20 Missouri jurisdictions. This is the same position KCP&L has also taken regarding this
21 and other jurisdictional allocation issues, such as the appropriate methodology for
22 allocating generation and transmission plant and the equitable allocation of pension
23 expense. Without consistency and as highlighted above, the Company either over-

1 recovers or under-recovers its costs of providing service. For these reasons alone, the
2 Company would not oppose using the 6.425% actual consolidated cost of debt for both
3 KCP&L and GMO ratemaking purposes.

4 **Q: Mr. Kahal points out at pages 6-7 in his Direct Testimony that the Company**
5 **excludes Other Comprehensive Income ("OCI") from the ratemaking common**
6 **equity component of the capital structure. Why is this adjustment proper?**

7 A: About 98% of the balance of Other Comprehensive Income relates to the amount of
8 income or loss on interest rate derivatives. The OCI balance in previous cases would
9 have included both the income or loss on outstanding interest rate derivatives based on
10 current market values as well as any unamortized income or loss on interest rate
11 derivatives that had been settled. Since the Company does not currently have any
12 outstanding interest rate derivatives, the current OCI balance is primarily the unamortized
13 net of tax income or loss on interest rate derivatives that have been settled. The balance
14 includes interest rate derivatives that were settled as early as 2005 and as recently as
15 2011. The use of interest rate derivatives has been authorized by the Commission in
16 previous KCP&L financing authorization orders including the most recent order in Case
17 No. EF-2010-0178. Absent an accounting order to record any income or loss as a
18 deferred regulatory asset, Generally Accepted Accounting Principles ("GAAP") requires
19 that the income or loss be recorded to OCI. However, since the amortization of any
20 income or loss on the interest rate derivatives has been included in the cost of service as
21 part of the cost of debt, there is no impact on net income which results in this OCI
22 accounting entry only having a temporary impact on the equity balance. Due to the
23 temporary nature of the OCI balance resulting from GAAP accounting requirements,

1 even though the income or loss will ultimately not be incurred, the exclusion of the OCI
2 balance from the equity component is both proper and consistent with the equity
3 component of the capital structure that was approved in the Company's most recent rate
4 case.

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

6 A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement General Rate Increase for Electric Service	)))	Case No. ER-2012-0175

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 Rebuttal Testimony on behalf of KC&PL Greater Missouri Operations Company consisting of fifteen (15) 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.

[signature]
Kevin E. Bryant

Subscribed and sworn before me this 12th day of September, 2012.

[signature]
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

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