Exhibit No.:	
Issue:	Capital Structure
Witness:	Kevin E. Bryant
Type of Exhibit:	True-up Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2016-0285
Date Testimony Prepared:	March 10, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

TRUE-UP REBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
March 2017

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TRUE-UP REBUTTAL TESTIMONY
OF

KEVIN E. BRYANT

Case No. ER-2016-0285

I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

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 pre-filed Direct, Rebuttal, and Surrebuttal Testimony in this matter?

A: Yes, I am.

Q: What is the purpose of your True-Up Rebuttal Testimony?

A: On behalf of KCP&L, my True-Up Rebuttal Testimony responds to Accounting Schedule: 12 sponsored by Mr. David Murray, witness for the Missouri Public Service Commission Utility Services Division ("Staff") as it relates to Staff's recommended capital structure and long-term debt cost rate.

Q: Please summarize your True-Up Rebuttal Testimony.

A: For the reasons discussed throughout this Testimony, the use of a vintage June 30, 2016 GPEcapital structure and long-term debt cost rate by Staff is incompatible with the trued-up rate base, operating expenses, depreciation, and taxes for KCP&L as of December 31, 2016. Because of this incompatibility and the other reasons I provided in my Rebuttal and Surrebuttal testimony in this proceeding, I believe that the Commission should use KCP&L's December 31, 2016, capital structure and not use KCP&L's parent, GPE's capital structure (including the cost of long-term debt) in this proceeding.

II. RESPONSE TO ACCOUNTING SCHEDULE: 12 SPONSORED BY MR. DAVID MURRAY

Q: Please briefly summarize Accounting Schedule: 12.

A: Accounting Schedule: 12 presents Staff's recommended capital structure and long-term debt cost rate, which are based on GPE as of June 30, 2016.

Q: Staff, at Accounting Schedule 12, used adjusted June 30, 2016 levels for its common stock (49.20%) and long term debt (50.80%) capital structure recommendation. Do you agree with this recommendation?

A: No. First, using a vintage June 30, 2016 capital structure ignores six months of retained earnings that the Company has reinvested in the business. This adds to the regulatory lag the Company must try to overcome in order to earn its allowed return on equity and it violates the matching principal which must be followed to match the timing of all of the other true up adjustments for this case. Second, the adjustment made by Staff does not match the description of the adjustment. As described on page 23 of the Staff Report, the capital structure as of June 30, 2016 includes 50.41% long-term debt, 0.52% preferred stock, and 49.07% common equity. The Staff Report goes on to say the preferred stock amounts have been allocated equally to long-term debt and common equity. Adding 0.26% (half of 0.52%) to both the long-term debt ratio and common equity ratio results in a long-term debt ratio of 50.67% and common equity of 49.33%.

Q: Do you agree with the use of a capital structure and long-term debt cost rates based on June 30, 2016?

A: No, I do not agree with the use of a capital structure or long-term debt cost rate based on June 30, 2016, because it is inconsistent with the agreed upon trued-up test year of December 31, 2016.

Q: Did Staff agree to the true-up period at the beginning of this proceeding?

A: Yes, it did. On July 22, 2016, Staff concurred with KCP&L's proposed test year of December 31, 2015 with a true-up cutoff date of December 31, 2016.

Q: Does Staff recognize the True-up period in written testimony in this case?

A Yes, it did. On page 3 of its Direct Revenue Requirement Report Staff states:

> A true-up date generally is established when a significant change in a utility's cost of service occurs after the end of the update period, but prior to the operation-of-law date, and one or more of the parties has decided this significant change in cost of service should be considered for cost-of-service recognition in the current case. True-up audits involve the filing of additional testimony and, if necessary, additional hearings beyond the initial testimony filings and hearings for a case. The true-up date ordered in this case is December 31, 2016.

Q: Was every other major cost of service component of Staff's case (revenues, expenses, rate base, etc.) trued-up to December 31, 2016?

A: Yes, it was.

Q: Why is a test year necessary in regulatory practice?

A: The test year is necessary in regulatory practice because it provides a common timeframe from which all stakeholders start. Karl McDermott, Ph.D. states:

> The test year is used to ensure a matching of revenues and costs; that is, the test year is for the purpose of setting rates based on the costs expected to be incurred when the rates come into effect. If revenues and costs are mismatched in the TRR [total revenue requirement], the resulting rates will either over or under recover costs, causing rates to not be just and reasonable.[1]

The test year is attributable to the accounting concept of the matching principle. The matching principle states that all expenses must be matched in the same accounting period as the revenues earned in that period. Staff's use of a capital structure and debt cost rate which does not match the accounting period agreed upon by the parties at the outset of the proceeding and used by Staff (and KCP&L) for all of the other major cost of service components (revenues, expenses, rate base, etc.), creates a significant mismatch and a significant risk that the Company will under recover its costs.

Q: What is a capital structure and long-term debt cost rate?

A: A capital structure is a current reflection of financial decisions by a firm made at various times in the past which reflects the firm's business and financial risks. Likewise, long-term debt cost rates reflect a current view of past financial decisions, but only reflect financial risks. These measures are not static; they evolve with the actions of the company, as will be demonstrated below. In other words, a capital structure and long-term debt cost rate at one point in time reflects a firm's risk at that point in time and at no other point in time. Since this is the case, capital structures and long-term debt cost rates even six months apart can vary greatly.

[1] Karl McDermott, Ph.D., "Cost of Service Regulation in the Investor-Owned Electric Utility Industry: A History of Adaptation", Edison Electric Institute, June 2012.

Q: What is the capital structure and long-term debt cost rate of the Parent at December 31, 2016?

A: GPE's December 31, 2016 trued-up capital structure consists of 53.74% common equity, 8.44% Preference Stock and 37.82% long-debt. GPE's long-term debt cost rate at December 31, 2016 is 5.45% using the Company's calculation or 5.43% using the Staff's calculation. A comparison between the June 30, 2016 and December 31, 2016 capital structures of GPE without any adjustments are shown in Table 1, below:

Table 1:
Comparison between June 30, 2016 and December 31, 2016 Capital Structures of GPE[2]

Type of Capital	At June 30, 2016	At December 31, 2016
Common Equity	49.07%	53.74%
Preferred/Preference Stock	0.52%	8.44%
Long-Term Debt	50.41%	37.82%
Total	100.00%	100.00%

As one can glean from Table 1, the capital structure of GPE has changed dramatically in the six months leading up to the end of the agreed upon true-up period, due to GPE's raising of capital for its proposed acquisition of Westar Energy, Inc. The effect on the weighted average cost of capital ("WACC") based on the change in GPE's capital structure (including long-term debt cost rate) is shown on Table 2 below:

[2] Staff Direct Revenue Requirement Report at 23 and Company-provided data.

Table 2:
Effect on WACC of GPE's Change in Capital Structure[3]

	Staff's 8.65% ROE
At June 30, 2016	7.319%
At December 31, 2016	7.013%
Difference in WACC	0.306%
Difference in RR (before interest impact)	$12,565,405

Given Staff's trued-up rate base calculation at December 31, 2016 of $2,530,894,738,[4] if the Commission adopted Staff's recommended use of the GPE capital structure and appropriately matched the capital structure to the true-up date in this proceeding, the Company would forgo $12,565,405 in revenue requirement (before interest impact), not including consideration of adjustments required that I discuss below, because of Staff's violation of the matching principle.

The volatility of GPE's capital structure can be compared with the relative stability of KCP&L's capital structure over the same period and reflecting the impact of six months of retained earnings, as shown on Table 3, below:

Table 3:
Comparison between June 30, 2016 and December 31, 2016 Capital Structures of KCP&L

Type of Capital	At June 30, 2016	At December 31, 2016
Common Equity	49.36%	49.72%
Long-Term Debt	50.64%	50.28%
Total	100.00%	100.00%

3 Source: Accounting Schedule: 12 and Company-provided data. ROE is shown for information purposes only.

4 Accounting Schedule: 01.

The Company filed its case based on a projected December 31, 2016 KCP&L capital structure that is only slightly different than the actual December 31, 2016 KCP&L's capital structure, as shown on Table 4, below:

Table 4:
Comparison between Projected and Actual December 31, 2016 Capital Structures of KCP&L

Type of Capital	Projected at December 31, 2016	Actual at December 31, 2016
Common Equity	49.88%	49.72%
Long-Term Debt	50.12%	50.28%
Total	100.00%	100.00%

III. SUMMARY AND CONCLUSIONS

Q: Please briefly summarize your True-Up Rebuttal Testimony.

A: Staff's use of GPE's June 30, 2016 capital structure and long-term debt cost rate violates the matching principle which underlies the ratemaking process. Because of this violation, the Company's revenue requirement (before interest impact) using Staff's recommended capital structure at June 30, 2016 is approximately $12,565,405 million less than what it would be if the December 31, 2016 capital structure were used. The change in the capital structure is due to the volatility of GPE's capital structure during the true-up period. This deficiency is why I do not advocate Staff's use of GPE's capital structure (including long-term debt cost rate).

Q: What capital structure should the Commission use to set rates in this case?

A: For all of the reasons provided in my Rebuttal and Surrebuttal testimony in this proceeding, the Commission should use the actual KCP&L capital structure as of December 31, 2016 with no adjustments with a Common Equity ratio of 49.72% and Long-term Debt ratio of 50.28%. Use of the GPE capital structure necessarily requires adjustments to adequately portray the capital structure applicable to KCP&L as the source of funds for its utility investments. Utilizing the capital structure reflected on the books and records of KCP&L does not require such adjustment process in order to appropriately portray the KCP&L capital structure utilized in funding its utility investments.

Q: Does this conclude your True-Up Rebuttal 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 True-Up Rebuttal 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 10th day of March, 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