Exhibit No.:5Issue:Capital Structure; Return on EquityWitness:Kevin E. BryantType of Exhibit:Direct TestimonySponsoring Party:KCP&L Greater Missouri Operations CompanyCase No.:ER-2016-0156Date Testimony Prepared:February 23, 2016

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MISSOURI PUBLIC SERVICE COMMISSION CASE NO.: ER-2016-0156

Missouri Public Service Commission

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri February 2016

DIRECT TESTIMONY

OF

KEVIN E. BRYANT

Case No. ER-2016-0156

- 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.
 - 4 Q: By whom and in what capacity are you employed?
 - A: I am employed by Kansas City Power & Light Company ("KCP&L") as Senior Vice
 President Finance and Strategy and Chief Financial Officer of Great Plains Energy
 - 7 ("GPE"), KCP&L and KCP&L Greater Missouri Operations ("GMO" or "Company").
 - 8 Q: What are your responsibilities?
- 9 A: My responsibilities include finance, accounting, investor relations, corporate strategy and
 10 risk management. I am also responsible for leading the efforts to evaluate and pursue
 11 business opportunities that are complementary to the core business.

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

- A: I received dual undergraduate degrees in finance and real estate from the University of
 Missouri Columbia where I graduated cum laude in May 1997. I received my Masters
 in Business Administration degree with an emphasis in finance and marketing from the
 Stanford University Graduate School of Business in June 2002.
- I joined Great Plains Energy Incorporated ("GPE") in 2003 as a Senior Financial
 Analyst and was promoted to Manager Corporate Finance in 2005 where I was
 responsible for contributing to the development and maintenance of the sound financial

health of both GPE and KCP&L through the management of company financing
activities. In August 2006, I was promoted to Vice President, Energy Solutions for
KCP&L and served in that capacity until March 2011, when I became Vice President,
Strategy and Risk Management. In August 2011, I became Vice President – Investor
Relations and Treasurer and became Vice President – Investor Relations and Strategic
Planning and Treasurer in 2013. In 2014, I was appointed Vice President – Strategic
Planning. In 2015, I assumed my current position.

Prior to joining GPE, I worked for THQ Inc. from 2002 to 2003, a worldwide 8 9 developer and publisher of interactive entertainment software based in Calabasas, 10 California. I served as Manager - Strategic Planning where I was responsible for 11 establishing corporate goals and developing and assisting with the execution of the 12 company's strategic plan. From 1998 to 2000, I worked as a Corporate Finance Analyst 13 for what is now UBS Paine Webber. I worked on mergers and acquisitions for medium 14 and large-sized companies. I also worked at Hallmark Cards as a Financial Analyst from 15 1997 to 1998.

16 Q: Have you previously testified in a proceeding before the Missouri Public Service
17 Commission ("Commission" or "MPSC") or before any other utility regulatory
18 agency?

A: Yes, I have. I testified before the Commission in Case No. EM-2007-0374, where GPE
acquired the remaining assets and stock of Aquila, Inc. ("Aquila"). Aquila was later
renamed KCP&L Greater Missouri Operations Company, here referred to as GMO. I
also testified before the Kansas Corporation Commission in Docket No. 11-KCPE-581-

1		PRE (LaCygne Predetermination) and on KCP&L's application for its proposed Home		
2	•	Performance with ENERGY STAR [®] program in Docket No. 08-KCPE-581-TAR.		
3	Q:	What is the purpose of your testimony?		
4	A:	To provide the rationale for moving to the GMO-specific capital structure and cost of		
5	1	debt for calculating GMO's weighted average cost of capital. I am also providing the		
6		rationale for the specific Return on Equity ("ROE") rate requested by the Company.		
7		RETURN ON EQUITY		
8	Q:	What specific Return on Equity rate is being requested by GMO and why was that		
9		rate chosen?		
10	A:	GMO is requesting a Return on Equity of 9.90 percent. This ROE is within the range of		
11		9.75 percent to 10.50 percent recommended in Mr. Hevert's Direct Testimony as		
12		representing a reasonable, but conservative range of GMO's Cost of Equity. In prior rate		
13		cases, GMO has used the midpoint of the ROE range recommended by its expert witness		
14		for determining its requested change in retail rates. Since both GMO and KCP&L have		
15		been authorized a Return on Equity in each of their previous two rate cases that was well		
16		below the range recommended by GMO and KCP&L, GMO has endeavored to be		
17		responsive to these recent Commission decisions and has selected a rate of 9.90 percent		
18		which is in the lowest quartile of the range recommended by Mr. Hevert in this case.		

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	1		CAPITAL STRUCTURE AND COST OF DEBT
	2	Q:	In GMO's most recent rate case as well as the most recent KCP&L rate case, the
	3		recommended cost of capital was based on the GPE consolidated capital structure
	4		and cost of debt. Why is GMO now requesting to use the GMO-specific capital
	5		structure and cost of debt for calculating the weighted average cost of capital?
	6	A:	The preferred long-term approach to calculating revenue requirements for a utility is to
	7		base those revenue requirements on the costs that are specific to that utility. Using a
	8		capital structure and cost of capital that is different than the actual capital structure and
	9		cost of capital specific to that utility will result in earnings for that utility being somewhat
	10		higher or lower than intended for the return on equity that was granted.
	11	Q:	Why didn't GMO recommend this approach in previous rate cases?
	12	A:	After GPE acquired Aquila in 2008, time was needed to transition GMO from the legacy
	13		Aquila capital structure and cost of debt that had been under considerable credit strain to
	14		one that better reflected its improved credit profile and ratings as part of GPE. The new
	15		GMO company was only part of the former Aquila company and initially was unable to
	16		access the capital markets to finance its stand-alone financing requirements due to the
	17		lack of audited historical financial statements and credit history. Because of our diligent
	18		efforts to establish GMO's stand-alone financial history and improve GMO's credit
	19		profile since the acquisition, the Company's stand-alone financing capability was
	20		reinstated in 2013 with an issuance of private placement debt. As a result of these efforts,
·	21		GMO has been able to refinance the majority of legacy Aquila at more attractive rates.
	22		Today, only 9% of GMO's outstanding long-term debt is represented by that legacy
	23		Aquila debt, all of which was issued prior to 2000 and prior to the onset of Aquila's

1 credit problems. This credit improvement, one of the benefits realized through the 2 acquisition, has led to GMO's cost of debt declining significantly. It is now 38 basis 3 points lower than KCP&L's debt. This difference is very reasonable as it is extremely 4 difficult to manage to complete cost of debt parity. At the time of the acquisition, the average number of years to final maturity for GMO's long-term debt was less than 5 5 vears and significantly shorter than KCP&L's long-term debt average final maturity of 6 7 more than 15 years, which presented GMO with significant liquidity and refinancing 8 risks. Because of our efforts to improve GMO's maturity profile, now both GMO and 9 KCP&L long-term debt has an average time to final maturity of approximately 10 years. 10 This positive transformation of the GMO credit profile, capital structure and cost of debt 11 allows for the Company's rates to be set on the basis of its actual capital structure and 12 cost of debt, consistent with the rate-making construct used with all of the other electric 13 utilities throughout the state.

14 Q: GMO's equity ratio is higher than the GPE consolidated equity ratio and the

15 KCP&L equity ratio. Is there a rationale for this difference?

A: Yes. The credit quality of the two utilities is different and justifies a higher equity ratio
for GMO. S&P assigns GMO a "Strong" business risk profile based on its "satisfactory"
competitive position, whereas KCP&L is assigned an "Excellent" business risk profile
based on its "strong" competitive position. Because of the difference in business risk
profiles, GMO cannot support as much debt as KCP&L, thus resulting in a higher equity
ratio. Even with its higher equity ratio, Moody's credit rating for GMO, while now
investment grade given the improvements since its acquisition by GPE, remains one

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notch lower than KCP&L, in part due to the lower market position rating Moody's assigns to GMO. These credit quality differences support a higher equity ratio for GMO.

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Q: Has GMO taken any proactive steps to manage its equity ratio?

4 Yes. GMO has two ways to manage its equity ratio. First, it can change the level of debt A: 5 in the capital structure by debt issuances (which result in decreases to the equity ratio) or 6 debt paydowns (which result in increases to the equity ratio). Second, it can change the 7 level of equity in the capital structure through (a) equity contributions from GPE (which 8 result in increases to the equity ratio), (b) return of equity capital to GPE (which result in 9 decreases to the equity ratio) or (c) changes in the level of retained earnings through 10 dividend policy (where increased dividends lower retained earnings and the equity ratio, 11 or where decreased dividends increase retained earnings and the equity ratio). GMO has 12 made significant strides in reducing its equity ratio from a high of 57.7% in October 2012 13 to 56.3% as of September 30, 2015. As GMO believes that its current debt level is 14 appropriate given its credit profile and cash flow, the Company has chosen to utilize a 15 dividend policy as the best way to manage its equity ratio. As a result, GMO reduced its 16 equity ratio during 2015 by increasing the annual dividend it pays to GPE and is 17 projecting a reduction in its equity ratio to 54.8% as of the July 31, 2016 true-up date 18 contemplated in this proceeding by continuing to pay an increased dividend level to GPE. 19 These previous higher levels of equity were appropriate given GMO's previous credit 20 challenges, but an equity ratio in the current range is more appropriate given its 21 improving credit profile.

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Q: Will GMO continue to prudently manage its equity ratio?

2 A: Yes. As Mr. Hevert's testimony demonstrates, GMO believes that an equity ratio in the 3 50-55% range is both appropriate and consistent with precedents across the country. As a 4 result, GMO will continue to manage its current equity ratio through dividend policy if it 5 can do so without negatively impacting GMO's credit ratings. While I would prefer to 6 have the same credit rating as KCP&L, because of the differences in credit profiles, 7 GMO would need to have cash flow, interest coverage and debt level credit metrics that 8 ٠ are as good as or better than KCP&L's credit metrics. This reality limits how much 9 additional debt GMO can add without additional cash flow.

10 Q: If GMO's cost of capital is based on its own capital structure and cost of debt, 11 should KCP&L's cost of capital be based on its own capital structure and cost of 12 debt?

A: Yes. If the Commission authorizes the use of GMO's actual capital structure and cost of
debt to determine the cost of capital in this case, then KCP&L will recommend using its
actual capital structure and cost of debt in its next rate case.

16 Q: Does that conclude your testimony?

17 A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

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In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service

Case No. ER-2016-0156

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 of Finance & Strategy and Chief Financial Officer.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of <u>Seven</u>

(_____) pages, having been prepared in written form for introduction into evidence in the abovecaptioned 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.

Subscribed and sworn before me this	2.3 ^{wcl} day of	F-clesviller, 2016.	
	Micol	A. her	
	Notary Public	0	`
My commission expires:	12019	NICOLE A. WEHRY Notary Public - Notary Seal State of Missouri Commissioned for Jackson County My Commission Expires: February 04, 2019 Commission Number: 14391200	