Exhibit No.: GMO-41
Issue: Pensions
Witness: Ken Vogl
Type of Exhibit: Direct Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-____
Date Testimony Prepared: June 4, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-____

DIRECT TESTIMONY

OF

C. KENNETH VOGL

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
June 2010

KCPL Exhibit No GMO 41
Date 2/4/11 Reporter LMB
File No. ER-2010-0355

DIRECT TESTIMONY

OF

C. KENNETH VOGL

Case No. ER-2010-____

1 **Q. Please state your name and business address.**

2 A. My name is C. Kenneth Vogl. My business address is 120 South Central Avenue,
3 Suite 1400, St. Louis, Missouri 63105.

4 **Q. On whose behalf are you testifying?**

5 A. I am testifying on behalf of KCP&L Greater Missouri Operations Company ("the
6 "Company").

7 **Q. Please state your educational background and describe your professional**
8 **training and experience.**

9 A. I received a Bachelor of Science degree in mathematics from the University of
10 Missouri, Columbia in 1988 and a Doctorate of Philosophy in mathematics from
11 Washington University in 1994. I completed the examination requirements for
12 designation as a Fellow of the Society of Actuaries and received such designation in
13 August 2000. I completed both the examination and experience requirements for
14 designation as an Enrolled Actuary under the Employee Retirement Income Security
15 Act of 1974 ("ERISA") and received such designation in 1998. I have been employed
16 with Watson Wyatt Worldwide as a consulting actuary since 2007. In January 2010,
17 Watson Wyatt Worldwide and Towers Perrin merged to form Towers Watson, where
18 I am currently employed. I was also employed with Towers Perrin in St. Louis from
19 1995 to 2007 and William Mercer in St. Louis from 1994 to 1995. I have substantial

1 technical and consulting experience relative to employee benefit plans – including the
2 design, funding, accounting, and communication of pension and postretirement
3 welfare programs.

4 **Q. Have you previously testified before the Missouri Public Service Commission**
5 **("MPSC" or "Commission") or other utility regulatory agencies?**

6 A. Yes. I have submitted testimony on behalf of AmerenUE in Case No. ER-2007-0002
7 and the Empire District Electric Company in Case No. ER-2008-0093, among others.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to present the Company's requested rate treatment for
10 pension costs. I will explain how the requested rate treatment differs from the current
11 rate treatment. I will also explain why the change is appropriate and how the change
12 will not adversely affect ratepayers.

13 **Q. What methodology does the Company currently use to recover the cost of**
14 **providing pension benefits to its employees?**

15 A. In accordance with a stipulation and agreement entered into and approved by the
16 Commission in 2004 (Case No. ER-2004-0034), the Company recovers pension cost
17 based on a five-year average of minimum required contributions under ERISA. The
18 Company records the difference between the amount included in rates and the current
19 period's ERISA minimum required contribution as a regulatory asset or liability, the
20 cumulative amount of which is amortized over a five year period beginning with the
21 effective date of tariffs approved in the Company's next rate case. In addition, the
22 Company includes in rates the amortization of a stipulated electric prepaid pension
23 amount established in Case No. ER-2004-0034.

1 **Q. What methodology are you requesting be used by the Company to recover the**
2 **cost of providing pension benefits to its employees?**
3 A. I am requesting the same methodology as has been authorized for Kansas City Power
4 & Light ("KCP&L") in accordance with a stipulation and agreement entered into and
5 approved by the Commission in Case No. EO-2005-0329, as modified in Case Nos.
6 ER-2006-0314, ER-2007-0291 and ER-2009-0089, and including modifications
7 requested in KCP&L's case filed in 2010. See Schedule CKV2010-1 for an overview
8 of the KCP&L methodology. To briefly summarize this methodology, KCP&L
9 recovers pension cost equal to its FAS 87 expense determined under the regulatory
10 method. I use the terms "cost" and "expense" interchangeably to mean the annual
11 amount determined by the Company's actuaries, including the portion of such costs
12 capitalized on the financial books. A regulatory asset or liability is established to
13 track the difference between the annual FAS 87 regulatory expense (which is
14 generally required to be contributed to the plan) and the annual pension expense built
15 into rates for that period. The resulting regulatory asset or liability is amortized over a
16 period of five years at the next rate case, with the cumulative unamortized balance
17 included in rate base. There are also special situations that allow for contributions to
18 the plan in excess of the annual FAS 87 regulatory expense. KCP&L is requesting a
19 modification of these situations in its 2010 case.
20 **Q. Is this methodology used for other utilities in Missouri?**
21 A. Yes. This methodology is being used by other utilities across the state, including
22 Empire District Electric Company and AmerenUE.

1 **Q. Why are you requesting a change in rate recovery methodology?**

2 A. A change to the methodology is necessary because the Company no longer has its
3 own pension plan(s) and therefore can no longer definitively determine its minimum
4 required contribution under ERISA each year. Effective upon the merger, benefits
5 under the Aquila, Inc. Retirement Income Plan ("Aquila Plan") were frozen and all
6 former employees of Aquila began earning benefits in the Great Plains Energy
7 Incorporated Management Pension Plan ("Management Plan") or the Great Plains
8 Energy Incorporated Joint Trusteed Pension Plan ("Joint Trusteed Plan") (together
9 the "GPE Plans") based on whether the employee has a management or union status.
10 All Aquila Plan assets at December 31, 2008 and pre-merger frozen liabilities were
11 merged into the Management Plan on December 31, 2008. As a result, the minimum
12 required contribution can only be determined for the entire plan, which includes
13 current and former Company employees as well as current and former KCP&L
14 employees. Isolating the minimum required contribution for the Company as is
15 necessary under the current rate recovery methodology is no longer possible.

16 **Q. Are there other reasons you are requesting a change in rate recovery**
17 **methodology?**

18 A. Yes. Many employees now perform services for both the Company and KCP&L
19 during any given year. This means it is impossible to isolate specific pension benefits
20 earned while performing services for the Company. For example, if an employee
21 splits time between the Company and KCP&L based on a ratio of 75%/25% one year
22 and 40%/60% the next, there is no way to track the separate benefits being earned and
23 the underlying asset values supporting these benefits for either the Company or

1 KCP&L on a prospective basis. Moving to the same rate recovery method as is being
2 used by KCP&L will ensure that all pension benefits are being recovered in a
3 consistent manner. Using the same rate recovery method will allow for pension costs
4 to be determined in aggregate and then allocated to the Company in a reasonable
5 manner.

6 **Q. How would future rate recovery be impacted by changing the methodology?**

7 A. Since the requested methodology is based on FAS 87, the Company would establish
8 unrecognized costs for regulatory purposes that would result in the present value of
9 future rate recovery under the requested methodology being equal to the present value
10 of future rate recovery under the current methodology. This will ensure that, on a
11 projected basis, there is no impact on future rate recovery. Shown below is a
12 projection of minimum required contributions for the Company (representing future
13 rate recovery under the current methodology) along with a projection of FAS 87
14 regulatory expense for the Company (representing future rate recovery under the
15 requested methodology). Note these projections are based on the assumptions used
16 for the 2010 accounting valuation and assume no actuarial gains or losses in future
17 years.

Minimum Required Contributions

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
$20.9	$19.8	$19.7	$19.6	$19.3	$19.0	$18.6	$ -	$ 0.5	$ 2.6	$ 2.7	$ 2.7

Present Value: $121.3 million

FAS 87 Regulatory Expense

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
$15.1	$14.2	$14.3	$14.9	$13.0	$11.5	$10.0	$ 9.5	$ 9.4	$ 9.3	$ 9.2	$ 9.1

1 **Present Value:** $104.7 million

2 The difference in present value based on assessing the next twelve years is $16.6
3 million. However, because FAS 87 defers the recognition of gains and losses beyond
4 twelve years, we still need to account for the deferred gains and losses that will be
5 recognized in FAS 87 regulatory expense beyond 2021. The present value of this
6 deferred amount is $16.6 million. Therefore, the present value of the minimum
7 required contributions ($121.3 million) is equal to the present value of the FAS 87
8 regulatory expense ($104.7 million) plus the present value of the FAS 87 deferred
9 gains and losses ($16.6 million). These being equal ensures that there is projected to
10 be no impact on rate recovery as a result of changing from the current approach to the
11 requested approach.

12 **Q. How will pension costs be determined for the Company?**

13 A. With KCP&L and the Company on the same rate recovery method, the FAS 87
14 regulatory expense can be calculated in aggregate for the Great Plains Energy
15 Incorporated ("GPE") organization and then allocated to the Company in a
16 reasonable manner. I believe there are four key objectives for establishing a
17 reasonable allocation method:

1 (1) The method must be easy to understand and administer. An overly
2 complex allocation method could result in the parties involved not fully
3 understanding how or why the allocation method is appropriate.
4 (2) The method must appropriately allocate the pension benefits that are
5 currently being earned by active employees. In doing so, this would inherently
6 suggest the method is an appropriate long-term solution.
7 (3) The method must allocate the pension benefits that have already been
8 earned to the appropriate entity where they were accrued and funded by ratepayers.
9 Historical benefits that have been recognized and recovered through rates need to be
10 properly reflected.
11 (4) The method must avoid one group of ratepayers subsidizing another. Since
12 the consolidated GPE Plans contain more than one regulated entity, it is important
13 that the costs allocated to these entities be reflective of the costs they are incurring
14 and amounts they have funded, both currently and in the past.
15 **Q. With these objectives in mind, how is the Company requesting that the annual**
16 **FAS 87 regulatory expense be allocated among the GPE affiliates?**
17 A. The Company is requesting that the annual FAS 87 regulatory expense be allocated
18 among the GPE affiliates based on wage factors each year. The wage factors would
19 be calculated in the same manner that is used in the Company's 2010 rate case to
20 allocate salaries and wages in the Payroll Annualization adjustment (CS-50),
21 discussed by Company witness John P. Weisensee in his direct testimony in this case.
22 **Q. What costs are included in the pension costs and wage factors referred to above**
23 **and used in the tables throughout the remainder of your testimony?**

1 A. For purposes of my testimony, I refer to consolidated pension costs as those which
2 include the GPE Management and Joint Trusteed Plans, but which exclude pension
3 costs charged to KCP&L by the Wolf Creek Nuclear Operating Company. The wage
4 factors used in adjustment CS-50 reflect the proportion of total GPE labor charged to
5 each entity, after excluding joint partner shares and before inclusion of KCP&L's
6 share of Wolf Creek. To be on a consistent basis, joint partners' shares of pension
7 costs are first removed from the consolidated pension costs before applying the wage
8 factors. After applying the wage factors, the joint partners' shares of pension costs are
9 added back to the KCP&L allocated costs, so that the sum of the pension costs
10 allocated to the individual entities again equal the consolidated amount.

11 **Q. How will use of the annual wage factors satisfy the first objective that the**
12 **method must be easy to understand and administer?**

13 A. Use of the wage factors will clearly satisfy objective (1) as it will simply involve
14 multiplying the consolidated GPE FAS 87 regulatory expense, after deducting the
15 joint partner share, by the applicable wage factor for the Company.

16 **Q. How will use of the annual wage factors satisfy the second objective that the**
17 **method must appropriately allocate the pension benefits that are currently being**
18 **earned by active employees?**

19 A. Allocating pension costs based on annual wage factors will also satisfy objective (2)
20 since these wage factors are the most representative in determining the amount of
21 services performed for the Company in any year. It would be very reasonable to infer
22 that pension benefits are being earned consistent with the affiliate for which services
23 are being performed.

1 **Q. How will use of the annual wage factors satisfy the third objective that the**
2 **method must allocate the pension benefits that have already been earned to the**
3 **appropriate entity where they were accrued and funded by ratepayers?**
4 A. If the GPE Plans in aggregate prior to the plan merger and the GPE Plans in the
5 aggregate after the plan merger were in similar funded positions, the historical
6 benefits that were earned and funded will also be appropriately allocated using the
7 wage factors. In other words, the only impact on cost these past service benefits have
8 is related to the funded status of the plan. Since the funded status of the plans was not
9 quite the same before and after the merger, some adjustments will be necessary in
10 order for objective (3) to be met. These adjustments will be addressed later in this
11 testimony.
12 **Q. How will use of the annual wage factors satisfy the fourth objective that the**
13 **method must avoid one group of ratepayers subsidizing another?**
14 A. To validate that using the wage factors for allocation purposes results in no
15 subsidization, costs have been projected for the GPE affiliates under two scenarios
16 (cost projections shown below). Both scenarios reflect consolidated pension costs
17 excluding KCP&L's share of Wolf Creek pension costs. The two scenarios are:
18 (A) Where the FAS 87 regulatory expense is calculated in total and allocated
19 using the wage factors as described above, and
20 (B) Where the FAS 87 regulatory expense is calculated separately as if the
21 GPE affiliates maintained separate plans.
22 Note that scenario (B) must rely on several assumptions because of the difficulties
23 previously described in separating the pension benefits earned and asset values

1 between the Company and KCP&L. Nonetheless, it is still helpful in assessing the
2 reasonableness of the requested allocation approach. Also note the Company entities
3 shown below have been separated into the operations serving the territory formerly
4 served as Aquila Networks-MPS ("MPS") and the operations serving the territory
5 formerly served as Aquila Networks-L&P ("L&P").

FAS 87 Regulatory Expense Projections
(in millions)

Scenario A	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Present Value
KCP&L	$ 39.8	$ 37.7	$ 38.3	$ 37.7	$ 33.5	$ 30.8	$ 28.7	$ 27.8	$ 27.3	$ 27.0	$ 26.7	$ 26.4	$ 284.0
MPS	11.8	11.2	11.4	11.2	9.9	9.1	8.5	8.3	8.1	8.0	7.9	7.8	84.5
L&P	4.3	4.1	4.2	4.1	3.6	3.3	3.1	3.0	3.0	2.9	2.9	2.9	30.8
Other	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	4.5
	$ 56.5	$ 53.6	$ 54.5	$ 53.6	$ 47.5	$ 43.7	$ 40.8	$ 39.5	$ 38.8	$ 38.3	$ 37.9	$ 37.5	$ 403.8

Scenario B	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Present Value
KCP&L	$ 40.5	$ 38.7	$ 39.4	$ 38.1	$ 34.2	$ 32.1	$ 30.9	$ 30.3	$ 29.8	$ 29.5	$ 29.2	$ 29.1	$ 297.4
MPS	15.4	13.8	13.2	12.7	11.2	10.0	8.7	8.4	8.4	8.4	8.4	8.3	95.9
L&P	(0.3)	0.4	1.2	2.2	1.7	1.5	1.3	1.1	1.0	0.9	0.9	0.8	8.9
Other	0.9	0.7	0.7	0.6	0.4	0.1	(0.1)	(0.3)	(0.4)	(0.5)	(0.6)	(0.7)	1.6
	$ 56.5	$ 53.6	$ 54.5	$ 53.6	$ 47.5	$ 43.7	$ 40.8	$ 39.5	$ 38.8	$ 38.3	$ 37.9	$ 37.5	$ 403.8

Notes:
- Projections are based on 2010 actuarial assumptions for each year
- Annual return on assets assumed to be 8%
6 - Present value shown is for the 12-year period from 2010-2021

7 Based on the comparison of FAS 87 regulatory expense under scenarios (A) and (B)
8 described above, I believe allocating FAS 87 regulatory expense to the Company
9 based on wage factors will not fully meet objective (4) unless some adjustments are
10 made. These adjustments will be addressed later in this testimony.

11 Q. **Will such a comparison be made in future years?**

12 A. As discussed above, such a comparison will become more difficult as each year
13 passes due to the numerous employees performing services for both the Company and
14 KCP&L.

1 **Q. Please explain the adjustments referenced above in the assessment of objective**
2 **(3) and objective (4).**
3 A. In order to satisfy all of the objectives outlined above, there will need to be some
4 temporary adjustments within the regulated entities to appropriately allocate pension
5 costs between KCP&L, MPS, and L&P. These adjustments are necessary because the
6 L&P pension was historically better funded than the KCP&L pension and the MPS
7 pension.
8 **Q. Please describe this proposed adjustment.**
9 A. In light of the difference in funded position, I propose one cost allocation adjustment
10 from L&P to KCP&L and another cost allocation adjustment from L&P to MPS since
11 it would be inappropriate to allocate higher costs to L&P and its ratepayers. However,
12 over time, it is expected that all plans that were merged would have gotten to a
13 similar funded position had they not been merged (i.e., better funded plans would
14 have less required contributions and worse funded plans would have more required
15 contributions). Therefore, I am proposing these cost allocation adjustments take place
16 for a fixed period of time.
17 **Q. What is the amount of the adjustment that you propose?**
18 A. To determine the amount to adjust, I am proposing that the estimated present value of
19 the FAS 87 regulatory expense that would be allocated to KCP&L, MPS, and L&P
20 using the wage factors be compared to the estimated present value of the FAS 87
21 regulatory expense assuming the KCP&L, MPS, and L&P pensions were separate
22 plans. The difference between the two amounts (i.e., the difference between scenarios
23 (A) and (B) shown previously) represents the amount of cost that would be

1 inappropriately allocated to each entity if the wage factors were used without the
2 proposed adjustment. Note a negative amount indicates the entity would be allocated
3 less cost than appropriate while a positive amount indicates the entity would be
4 allocated more cost than appropriate.

Difference in FAS 87 Regulatory Expense Projections
(in millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Present Value
KCP&L	(0.7)	(1.0)	(1.1)	(0.4)	(0.7)	(1.3)	(2.2)	(2.5)	(2.5)	(2.5)	(2.5)	(2.7)	(13.4)
MPS	(3.6)	(2.6)	(1.8)	(1.5)	(1.3)	(0.9)	(0.2)	(0.1)	(0.3)	(0.4)	(0.5)	(0.5)	(11.4)
L&P	4.6	3.7	3.0	1.9	1.9	1.8	1.8	1.9	2.0	2.0	2.0	2.1	21.9
Other	*(0.3)*	*(0.1)*	*(0.1)*	-	0.1	0.4	0.6	0.7	0.8	0.9	1.0	1.1	2.9

Notes:
- Projections are based on 2010 actuarial assumptions for each year
- Annual return on assets assumed to be 8%
5 - Present value shown is for the 12-year period from 2010-2021

6 The differences shown above confirm that a cost allocation adjustment from L&P to
7 both KCP&L and MPS is justified. The amount to adjust and the number of years
8 each adjustment should apply will be determined based on which combination yields
9 the most reasonable overall result for each entity on a year-by-year basis and a
10 present value basis. After considering several different combinations, I believe the
11 following adjustments yield the most reasonable overall results:

12 (1) Adjust the wage factor allocation by $1.5 million in pension cost from
13 L&P to KCP&L for ten years

14 (2) Adjust the wage factor allocation by $2.5 million in pension cost from
15 L&P to MPS for five years

16 Incorporating the two adjustments described above to the wage factor allocation
17 approach will yield the following pension cost projections:

FAS 87 Regulatory Expense Projections
After Reflecting Proposed Adjustments
(in millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Present Value
KCP&L	$ 41.3	$ 39.2	$ 39.8	$ 39.2	$ 35.0	$ 32.3	$ 30.2	$ 29.3	$ 28.8	$ 28.5	$ 26.7	$ 26.4	$ 295.5
MPS	14.3	13.7	13.9	13.7	12.4	9.1	8.5	8.3	8.1	8.0	7.9	7.8	95.3
L&P	0.3	0.1	0.2	0.1	(0.4)	1.8	1.6	1.5	1.5	1.4	2.9	2.9	8.5
Other	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	4.5
	$ 56.5	$ 53.6	$ 54.5	$ 53.6	$ 47.5	$ 43.7	$ 40.8	$ 39.5	$ 38.8	$ 38.3	$ 37.9	$ 37.5	$ 403.8

Notes:
- Projections are based on 2010 actuarial assumptions for each year
- Annual return on assets assumed to be 8%
- Present value shown is for the 12-year period from 2010-2021

Comparing the cost projections above that reflect the proposed adjustments to the earlier amounts shown under scenario (B), the differences are minimal on a year-by-year basis and a present value basis. For convenience, these differences are shown below.

Difference in FAS 87 Regulatory Expense Projections
After Reflecting Proposed Adjustments
(in millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Present Value
KCP&L	0.8	0.5	0.4	1.1	0.8	0.2	(0.7)	(1.0)	(1.0)	(1.0)	(2.5)	(2.7)	(1.9)
MPS	(1.1)	(0.1)	0.7	1.0	1.2	(0.9)	(0.2)	(0.1)	(0.3)	(0.4)	(0.5)	(0.5)	(0.6)
L&P	0.6	(0.3)	(1.0)	(2.1)	(2.1)	0.3	0.3	0.4	0.5	0.5	2.0	2.1	(0.4)
Other	(0.3)	(0.1)	(0.1)	-	0.1	0.4	0.6	0.7	0.8	0.9	1.0	1.1	2.9

Notes:
- Projections are based on 2010 actuarial assumptions for each year
- Annual return on assets assumed to be 8%
- Present value shown is for the 12-year period from 2010-2021

Therefore, I conclude the adjustments described above yield the most reasonable overall results.

Q. Are any other changes to the proposed wage factor allocation method required?

A. Other than the special temporary adjustment described above, I believe no other changes to the allocation method are necessary. However, the Company recognizes that this change in method would result in a substantial increase in revenue requirement for the MPS rate jurisdiction. In order to mitigate the impact of this increase on ratepayers for this entity, I have computed a 12-year average of the cost projections, which is equal to $10.5 million (shown below).

Projected GMO-MPS FAS 87
Regulatory Pension Expense
(in millions)

2010	$ 14.3
2011	13.7
2012	13.9
2013	13.7
2014	12.4
2015	9.1
2016	8.5
2017	8.3
2018	8.1
2019	8.0
2020	7.9
2021	7.8
12 Year Total	$ 125.7
12 Year Average	$ 10.5

On behalf of the Company, I propose that the allocated pension cost, including the special temporary adjustment, be adjusted to the 12-year average for MPS. The difference between the adjusted pension cost and the 12-year average should be included in the tracker beginning with the implementation of the new method on the effective date of new rates.

Q: Is a similar adjustment necessary for L&P?

A: No, the L&P impact is not as significant as for MPS, primarily because of the L&P funding status. Additionally, a 12-year average for L&P would result in a larger impact than the proposed 2010 amount.

Q. Can you summarize your conclusions about the appropriateness of using wage factors to allocate pension cost?

A. In summary, I believe using wage factors to allocate pension cost to the Company is appropriate. Once the adjustments described above have been incorporated into the cost determination, this approach meets all of the key objectives outlined above.

1 **Q. What is your proposed treatment of the Company's regulatory assets and**
2 **liabilities that currently exist?**
3 A. I am proposing no change to the Company's existing regulatory assets and liabilities
4 related to the stipulated prepaid pension amortization and contribution tracker, nor
5 any changes to how they are scheduled to be recognized or recovered for ratemaking,
6 except that the contribution tracker should be updated for contributions through the
7 effective date of tariffs approved in this case and amortized over the next five years.
8 Additionally, any existing KCP&L regulatory assets and liabilities would remain
9 designated solely to KCP&L.
10 **Q. What are you requesting of the Commission on behalf of the Company?**
11 A. The Company requests that the Commission accept this method of ratemaking for
12 pension expense. Further, it asks the Commission to determine that this proposed
13 method satisfies the requirement in Case No. EM-2000-292, the UtiliCorp United/St.
14 Joseph Light & Power Company ("SJL&P") merger case, that the SJL&P pension
15 funded status be accounted for separately following the merger.
16 **Q. Does this conclude your testimony?**
17 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater Missouri Operations Company to Modify Its Electric Tariffs to Effectuate a Rate Increase	)))	Docket No. ER-2010-____

AFFIDAVIT OF C. KENNETH VOGL

STATE OF MISSOURI)
) ss
COUNTY OF ST. LOUIS)

C. Kenneth Vogl, being first duly sworn on his oath, states:

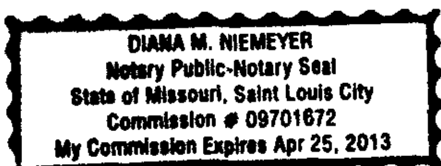
1. My name is C. Kenneth Vogl. I am employed by Towers Watson as a consulting actuary. My services have been retained by Kansas City Power & Light Company.

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 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.

C. Kenneth Vogl

Subscribed and sworn before me this 21st day of May, 2010.



Notary Public
Diana M. Niemeyer

My commission expires: April 25, 2013

KCP&L GREATER MISSOURI OPERATIONS COMPANY
KCP&L Pension Methodology

Excerpts from the Stipulation and Agreement in KCP&L Case No. EO-2005-0329

III. B. 1. e. PENSION EXPENSE

The intent of this pension expense agreement is to:

A. Ensure that KCPL recovers the amount of the net prepaid pension asset representing the recognition of a negative Statement of Financial Accounting Standards No. 87 (FAS 87) result used in setting rates in prior years;

B. Ensure that the amount collected in rates is based on the FAS 87 cost using the methodology described below in item 2;

C. Ensure that once the amount in item A above has been collected in rates by KCPL, all pension cost collected in rates is contributed to the pension trust;

D. Ensure that all amounts contributed by KCPL to the pension trust per items 3 and 5 below are recoverable in rates; and

E. Ensure that KCPL will receive no more or less than the amount in item 3 below before KCPL is required to fund the plan.

With the exception of item 1 below, this Agreement is consistent with the recent settlement agreement on pension expense in The Empire District Electric Company rate case, Case No. ER- 2004-0570.

To accomplish these goals in items A through E above, the following matters are agreed upon as part of this Agreement, to be applied as of the first day of the calendar year in which the settlement is approved:

1. KCPL's FAS 87 cost, for financial reporting purposes, will differ from the method used for ratemaking purposes described in item 2 below. KCPL made a voluntary decision (not required for compliance with a Commission order) in January 2000, to amortize gains and losses under FAS 87 over a five (5) year period. A five (5) year average of the unrecognized gain/loss balance has been amortized over five (5) years since January 2000. It is KCPL's belief that any method, which recognizes gains and losses over a shorter time frame, is considered a "more preferable" method under Generally Accepted Accounting Principles ("GAAP"). Therefore, KCPL believes that, pursuant to GAAP, it is precluded from changing the method of pension accounting to another method unless the change is to a more preferable method. It is KCPL's contention that, in

the case of FAS 87, a more preferable method is a method that amortizes gains and losses more rapidly. The method described in item 2 below does not amortize gains and losses more rapidly and is not considered a more preferable method under KCPL's belief. Therefore, under KCPL's understanding of this matter, it cannot switch to that method for financial reporting.

Public Counsel and the Staff do not concur in KCPL's belief. Thus, KCPL will establish a regulatory asset or liability for the annual difference in the FAS 87 result from the two different methods. KCPL's outside actuary will maintain actuarial reports under each method on an annual basis. Any difference between the two methods is merely a timing difference which will eventually be recovered, or refunded, through rates under the method used in setting rates over the life of the pension plan. No rate base recognition will be required for any regulatory asset or liability calculated in accordance with this Paragraph.

2. FAS 87 cost, used for ratemaking purposes, will be calculated based on the following methodology:

a. Market Related Value ("MRV") for asset determination, smoothing all asset gains and losses that occur on and after January 1, 2005 over five (5) years;
b. No 10% Corridor; and
c. Amortization period of ten (10) years for unrecognized gains and losses. (With a five (5) year MRV amortization - all gains/losses are reflected in fifteen (15) years.)

3. Any FAS 87 amount (as calculated in item 2 above), which exceeds the minimum Employee Retirement Income Security Act of 1974 ("ERISA") contribution, will reduce the prior net prepaid asset currently recognized in rate base of $63,658,444 ($34,694,918 Missouri jurisdictional). When the prior net prepaid pension asset currently recognized in rate base is reduced to zero (0), any amount of FAS 87 (as calculated in item 2 above), which exceeds the minimum ERISA funding level, must be funded. The Missouri jurisdictional net prepaid pension amount to be included in rate base may be increased as provided in item 5 below. Furthermore, any FAS 87 amount that exceeds the minimum ERSIA funding level that is not funded because it exceeds the amount of funding that is tax deductible will be tracked, as a regulatory liability, to ensure it is funded in the future when it becomes tax deductible. The non-funded amount (regulatory liability) will be allowed, as a rate base offset, for the excess collected in rates but not contributed to the trust fund, until such time as the contribution occurs.

4. In the case that FAS 87 expense becomes negative, the Signatory Parties agree that KCPL shall set up a regulatory liability to offset the negative expense. In future years, when FAS 87 expense becomes positive again, rates will remain zero (0) until the prepaid pension asset that was created by negative expense is reduced to zero (0). The regulatory liability will be reduced at the same rate as the prepaid pension asset is reduced until the regulatory liability becomes zero (0).

This regulatory liability is a non-cash item and should be excluded from rate base in future years.

5. The Signatory Parties agree to allow KCPL rate recovery for contributions made to the pension trust in excess of the FAS 87 expense, calculated pursuant to item 2 above for the following reasons: the minimum required contribution is greater than the FAS 87 expense level, avoidance of Pension Benefit Guarantee Corporation ("PBGC") variable premiums, and avoidance of the recognition of a minimum pension liability (i.e., with associated charge to Other Comprehensive Income ("OCI")). A regulatory asset will be established and will be allowed rate base treatment for the excess of any contribution (as defined above) over the annual FAS 87 amount calculated in accordance with item 2 above.

6. The Signatory Parties agree that a regulatory asset or liability will be established on KCPL's books to track the difference between the level of FAS 87 expense calculated, pursuant to item 2 above, during the rate period, and the level of pension expense built into rates for that period, after consideration for pension costs capitalized. The level of FAS 87 current period costs, before capitalization, built into rates for the initial period, is established as $22,000,000. If the FAS 87 expense during the period is more than the expense built into rates for the period, KCPL will establish a regulatory asset. If the FAS 87 expense during the period is less than the expense built into rates for the period, KCPL will establish a regulatory liability. If the FAS 87 expense becomes negative, a regulatory liability equal to the difference between the level of pension expense built into rates for that period and $0 will be established. Since this is a cash item, the regulatory asset or liability will be included in rate base and amortized over five (5) years at the next rate case.

7. Any FAS 87 net prepaid pension asset, other than the amount identified in item 3 above, will not earn a return in future regulatory proceedings. The regulatory assets/liabilities identified in items 5 and 6 above address the inclusion of any additional rate base amounts.

The Signatory Parties agree that KCPL should follow the accounting treatment prescribed by the Federal Energy Regulatory Commission ("FERC") in General Instruction No. 23 regarding pension-related OCI and transfer existing and future pension OCI amounts to a regulatory asset. This regulatory asset will not be included in Rate Base.

Excerpts from the Nonunanimous Stipulation and Agreement Regarding Pension Issues in KCP&L Case No. ER-2006-0314

Treatment of Pension Cost for Joint Partners

5. KCPL, Aquila Inc. (Aquila) and The Empire District Electric Company (Empire) jointly own the Iatan 1 generating station. KCPL and Westar Energy (Westar) jointly own the LaCygne generating station. As the majority owner and operator of both generating stations, KCPL allocates the operating costs, including pension costs, to the other joint partners, Aquila, Empire and Westar.

6. KCPL and the Staff agree KCPL employee pension costs related to KCPL employees directly assigned to or who allocate part of their time to work for the Iatan and LaCygne generating stations will be calculated consistently with the methodology identified in the Regulatory Plan. Any regulatory asset, including the prepaid pension asset, and/or liability, generated under paragraphs 2, 3, 4, 5, 6 and 7 of the pension agreement embodied in the Stipulation and Agreement the Commission approved in its final *Report and Order* in Case No. EO-2005-0329 will be calculated separately for the amounts related to KCPL's joint partners. KCPL employee pension costs for KCPL employees at the Iatan and LaCygne generating stations will be allocated among the joint owners of the stations in proportion to their ownership interests. None of the regulatory assets and/or liabilities, including the prepaid pension asset, or annual pension cost related to KCPL's joint partners will be reflected in rate base or cost of service in any KCPL rate case during the period covered by the Stipulation and Agreement in Case No. EO-2005-0329.

Treatment of Pension Cost for the Supplemental Executive Retirement Plan (SERP)

7. KCPL maintains a Supplemental Executive Retirement Plan (SERP) for key employees. The plan, administered by KCPL, does not utilize a trust fund. KCPL and the Staff agree that the SERP plan will not be included in the tracking mechanism for Regulatory Assets and/or Liabilities, including the Prepaid Pension Asset. SERP will be included in cost of service separately for rate making purposes.

FAS 88 Pension Cost treatment for Financial Reporting and Ratemaking Purposes

12. Unlike FAS 87, which allows for delayed recognition in net periodic pension cost of certain unrecognized amounts, FAS 88 requires immediate recognition of certain costs arising from settlements and curtailments of defined benefit plans. Without deferred accounting treatment approved by the Commission, KCPL is required to recognize a significant FAS 88 pension cost prior to year-end 2006 as a result of a significant number

of pension settlements occurring during 2006. FAS 88 costs are legitimate pension costs which should be recovered in rates.

13. KCPL has requested deferred accounting treatment in Case No. EU-2006-0560 for FAS 88 pension costs consistent with the deferred accounting treatment allowed for FAS 87 pension costs in Case No. EO-2005-0329. KCPL and the Staff have reached an agreement in this case, Case No. ER-2006-0314, to adopt deferred accounting treatment for FAS 88 pension costs consistent with FAS 87 deferred accounting treatment which, if accepted, resolves this issue and eliminates the need to address the issue in Case No. EU-2006-0560. Therefore, KCPL shall dismiss its application in Case No. EU-2006-0560 within ten (10) days after an order issued by the Commission approving this Stipulation and Agreement becomes both final and not subject to court review under Section 386,510, RSMO. 2000.

a. Any FAS 88 costs deferred and subject to recovery in a future KCPL rate case should (a) include only the costs related to KCPL's Missouri jurisdictional electric operations and (b) exclude all amounts assignable to Aquila, Empire and Westar Energy as joint owners of the latan and LaCygne generating stations;
b. KCPL and the Staff agree that all of KCPL's FAS 88 pension costs related to KCPL's Missouri jurisdictional electric operations, exclusive of amounts allocated to Aquila, Empire and Westar Energy, during the period between January 1, 2006 and KCPL's next rate case will be deferred in a regulatory asset and amortized to cost-of-service over 5 years in KCPL's next rate case. This treatment will continue to apply in all KCPL rate cases during the period of KCPL's Regulatory Plan. There were no FAS 88 pension costs included in cost of service in Case No. ER-2006-314.
c. KCPL will be required to fund all FAS 88 pension costs it collects in rates. Since KCPL will not be required to fund any FAS 88 cost prior to recovery in rates, no rate base treatment will be required for the regulatory asset representing deferred FAS 88 costs.

Excerpt from the Nonunanimous Stipulation and Agreement regarding Pension Issues in KCP&L Case No. ER-2007-0291

FAS 88 Pension Cost treatment for Financial Reporting and Ratemaking Purposes

12. In Case No. ER-2006-0314, KCPL and the Staff reached an agreement to adopt deferred accounting treatment for FAS 88 pension costs consistent with the agreement for FAS 87 deferred accounting treatment. Unlike FAS 87, which allows for delayed recognition in net periodic pension cost of certain unrecognized amounts, FAS 88 requires immediate recognition of certain **costs** arising from settlements and curtailments of defined benefit plans. Without deferred accounting treatment approved by the Commission, KCPL would have been required to recognize a

significant FAS 88 pension cost prior to year-end 2006 as a result of a significant number of pension settlements occurring during 2006. FAS 88 costs are legitimate pension costs which should be recovered in rates.

a. Any FAS 88 costs deferred and subject to recovery in a future KCPL rate case should (a) include only the costs related to KCPL's Missouri jurisdictional electric operations and (b) exclude all amounts assignable to Aquila, Empire and Westar Energy as joint owners of the Iatan and LaCygne generating stations;
b. All of KCPL's FAS 88 pension costs related to KCPL's Missouri jurisdictional electric operations, exclusive of amounts allocated to joint owners, subsequent to September 30, 2007 will be deferred in a regulatory asset and amortized to cost-of-service over 5 years in KCPL's next rate case. This treatment will continue to apply in all KCPL rate cases during the period of KCPL's Regulatory Plan. KCPL's Regulatory Asset for FAS 88 pension costs is $22,706,500 (total Company) at September 30, 2007, exclusive of any amount allocated to KCPL's joint partners. (See below for rate base treatment.)
c. KCPL's rates reflect the 5-year amortization of the $22,706,500 Regulatory Asset identified in the prior paragraph. KCPL will amortize $3,508,210 (total Company), after capitalization, annually beginning with the effective date of rates established in this case, ER-2007-0291.
d. KCPL will be required to fund all FAS 88 pension costs it collects in rates. Since KCPL will not be required to fund any FAS 88 cost prior to recovery in rates, no rate base treatment will be required for the regulatory asset representing deferred FAS 88 costs. KCPL will fund $2,459,831 (Missouri jurisdictional) annually beginning with effective date of rates established in this case, ER 2007-0291 until the effective date for rates are established in KCPL's next rate case.

Excerpt from the Nonunanimous Stipulation and Agreement Regarding Pensions and Other Post Employment Benefits in KCP&L Case No. ER-2009-0089

FAS 158 Pension and OPEB Cost Treatment for Financial Reporting and Ratemaking Purposes

13. FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," requires KCP&L to convert its measurement date from September 30, 2008 to December 31, 2008. As a result, KCP&L will incur a "catch up" of three months of additional pension and OPEB expenses in 2008. The Signatories agree that FAS 158 pension and OPEB remeasurement adjustments related to KCP&L's Missouri

jurisdictional electric operations, exclusive of amounts allocated to joint owners, will be deferred in a regulatory asset and amortized to cost-of-service over 5 years beginning with the effective date of rates in this case, ER-2009-0089. This treatment will continue to apply in all KCP&L rate cases until fully amortized. The FAS 158 remeasurement adjustment for pensions is $7,308,560 ($4,033,609 Missouri jurisdictional), excluding amounts allocated to joint partners. The FAS 158 remeasurement adjustment for OPEB is $2,017,485 ($1,113,454 Missouri jurisdictional), excluding amounts allocated to joint partners.

a. KCP&L's rates reflect the 5-year amortization of the $7,308,560 total company Pension Regulatory Asset identified in the prior paragraph at an annual amount of $1,461,712 ($806,721 Missouri jurisdictional) before capitalization. KCP&L will amortize $1,121,527 (total Company), or $618,971 (Missouri jurisdictional) after capitalization, to pension expense annually beginning with the effective date of rates established in this case, ER-2009-0089.

b. KCP&L's rates reflect the 5-year amortization of the $2,017,485 total company OPEB Regulatory Asset identified in the prior paragraph at an annual amount of $403,497 ($222,691 Missouri jurisdictional) before capitalization. KCP&L will amortize $305,003 (total Company), or $168,331 (Missouri jurisdictional) after capitalization, to OPEB expense annually beginning with the effective date of rates established in this case, ER-2009-0089.

c. KCP&L will be required to fund all FAS 158 pension and OPEB costs it collects in rates. Since KCP&L will not be required to fund any FAS 158 costs prior to recovery in rates, no rate base treatment will be required for the regulatory asset representing deferred FAS 158 costs. KCP&L will fund $806,721 pension costs and $222,691 OPEB costs (Missouri jurisdictional capitalized and expensed) annually beginning with the effective date of rates established in this case, ER-2009-0089, until the effective date for rates established in KCP&L's next rate case.

Ratemaking for Contributions Made Pursuant to the Pension Protection Act of 2006 (PPA)

14. Due to the Pension Protection Act of 2006, KCP&L may be required to make contributions in excess of amounts calculated for FAS 87 Regulatory Expense in order to avoid benefit restrictions under the PPA. Such contributions will be examined in the context of future rate cases and a determination will be made at that time as to the appropriate and proper level recognized for ratemaking as a Net Prepaid Pension Asset.

Excerpt from Ken Vogl Direct Testimony in KCP&L Case No. ER-2010-xxx

Why are you requesting modifications to the current method?

A. The modifications being proposed below are due to special circumstances that have been created due to the passage of the Pension Protection Act of 2006 ("PPA") and the inclusion of KCP&L Greater Missouri Operations Company ("GMO") in the pension plans.

Q. What modifications to the existing rate recovery methodology are you proposing as a result of the passing of PPA?

A. PPA imposes significant additional funding requirements. Some situations, not addressed previously, may make it advantageous or even require KCP&L to make contributions in excess of FAS 87 regulatory expense. We are recommending that modifications be made to the method that ensures KCP&L will get recovery for contributions in excess of the FAS 87 regulatory expense for the following situations:

(a) To avoid benefit restrictions. Such restrictions could cause an inability of the Company to pay pension benefits to recipients according to the normal provisions of the plan (e.g., providing the lump sum form of payment option). Generally, a plan's funded status must remain above 80% in order to avoid benefit restrictions. Note that because of the market downturn at the end of 2008, many plan sponsors are ensuring their plan is funded sufficiently to avoid benefit restrictions.

(b) To avoid "at risk" status under PPA. If a plan is "at risk", minimum contributions are greatly accelerated.

(c) To decrease PBGC variable premiums. There may be times when additional contributions made to avoid these premiums would be excessive, but additional contributions of a lesser amount would still be advantageous and reduce the premiums.

Q. Why is a change needed for determining the pension cost for KCP&L due to the inclusion of GMO in the pension plans?

A. Many employees now perform services for both KCP&L and the other regulated entities during any given year. This means it is impossible to isolate specific pension benefits earned while performing services for KCP&L. For example, if an employee splits time between KCP&L and another entity based on a ratio of 75%/25% one year and 40%/60% the next, there is no way to track the separate benefits being earned and the underlying asset values supporting these benefits for KCP&L or the other entity on a prospective basis.

Q. How do you propose pension costs be determined for KCP&L?

A. The FAS 87 regulatory expense can be calculated in aggregate for the Great Plains Energy Incorporated ("GPE") organization and then allocated to KCP&L in a reasonable manner. I believe there are four key objectives for establishing a reasonable allocation method:

(1) The method must be easy to understand and administer. An overly complex allocation method could result in the parties involved not fully understanding how or why the allocation method is appropriate.

(2) The method must appropriately allocate the pension benefits that are currently being earned by active employees. In doing so, this would inherently suggest the method is an appropriate long-term solution.

(3) The method must allocate the pension benefits that have already been earned to the appropriate entity where they were accrued and funded by ratepayers. Historical benefits that have been recognized and recovered through rates need to be properly reflected.

(4) The method must avoid one group of ratepayers subsidizing another. Since the consolidated GPE Plans contain more than one regulated entity, it is important that the costs allocated to these entities be reflective of the costs they are incurring and amounts they have funded, both currently and in the past.

Q. **With these objectives in mind, how is KCP&L requesting that the annual FAS 87 regulatory expense be allocated among the GPE affiliates?**

A. KCP&L is requesting that the annual FAS 87 regulatory expense be allocated among the GPE affiliates based on wage factors each year. The wage factors would be calculated in the same manner that is used in the Company's 2010 rate case to allocate salaries and wages in the Payroll Annualization adjustment (CS-50), discussed by Company witness John P. Weisensee in his direct testimony in this case.