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Witness: C. Kenneth Vogl
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Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2010-____
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-____

DIRECT TESTIMONY

OF

C. KENNETH VOGL

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
June 2010

KCPL Exhibit No. KCPL62
Date 2/4/11 Reporter LMB
File No. ER-2010-0355

DIRECT TESTIMONY

OF

C. KENNETH VOGL

Case No. ER-2010-____

Q. Please state your name and business address.

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

Q. On whose behalf are you testifying?

A. I am testifying on behalf of Kansas City Power & Light Company ("KCP&L" or the "Company").

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

A. I received a Bachelor of Science degree in mathematics from the University of Missouri, Columbia in 1988 and a Doctorate of Philosophy in mathematics from Washington University in 1994. I completed the examination requirements for designation as a Fellow of the Society of Actuaries and received such designation in August 2000. I completed both the examination and experience requirements for designation as an Enrolled Actuary under the Employee Retirement Income Security Act of 1974 ("ERISA") and received such designation in 1998. I have been employed with Watson Wyatt Worldwide as a consulting actuary since 2007. In January 2010, Watson Wyatt Worldwide and Towers Perrin merged to form Towers Watson, where I am currently employed. I was also employed with Towers Perrin in St. Louis from 1995 to 2007 and William Mercer in St. Louis from 1994 to 1995. I have substantial technical and consulting experience relative to employee benefit plans – including the design, funding, accounting, and communication of pension and postretirement welfare programs.

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

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

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the Company's requested rate treatment for pension costs. I will explain the proposed modifications to the current rate treatment and explain why these modifications are preferable.

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

A. In accordance with a stipulation and agreement entered into and approved by the Commission in Case No. EO-2005-0329, as modified in Case No.s ER-2006-0314, ER-2007-0291 and ER-2009-0089, KCP&L recovers pension cost equal to its FAS 87 expense determined under the regulatory method. I use the terms "cost" and "expense" interchangeably to mean the annual amount determined by the Company's actuaries, including the portion of such costs capitalized on the financial books. A regulatory asset or liability is established to track the difference between the annual FAS 87 regulatory expense (which is generally required to be contributed to the plan) and the annual pension expense built into rates for that period. The resulting regulatory asset or liability is amortized over a period of five years at the next rate case, with the cumulative unamortized balance included in rate base. There are also special situations that allow for contributions to the plan in excess of the annual FAS 87 regulatory expense.

Q. Is this methodology used for other utilities in Missouri?

A. Yes. This methodology is being used by other utilities across the state, including Empire District Electric Company and AmerenUE.

Q. Are you satisfied with how the existing rate recovery methodology has operated since becoming effective?

A. Yes. KCP&L continues to believe the existing rate recovery methodology is appropriate and effectively distributes the cost of the pension plan to ratepayers. The methodology is viewed favorably by KCP&L, particularly due to the tracking mechanism that ensures ratepayers are neither overcharged nor undercharged for the cost of pension benefits.

Q. 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.

Q. What costs are included in the pension costs and wage factors referred to above and used in the tables throughout the remainder of your testimony?

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

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

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

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

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

Q. How will use of the annual wage factors satisfy the third objective that the method must allocate the pension benefits that have already been earned to the appropriate entity where they were accrued and funded by ratepayers?

A. If the GPE Plans prior to including the other regulated entities and the GPE Plans in the aggregate after including the other regulated entities were in similar funded positions, the historical benefits that were earned and funded would also be appropriately allocated using the wage factors. In other words, the only impact on cost these past service benefits have is related to the funded status of the plan. Since the funded status of the plans was not quite the same before and after including the other regulated entities, some adjustments will be necessary in order for objective (3) to be met. These adjustments will be addressed later in this testimony.

Q. How will use of the annual wage factors satisfy the fourth objective that the method must avoid one group of ratepayers subsidizing another?

A. To validate that using the wage factors for allocation purposes results in no subsidization, costs have been projected for KCP&L and the other affiliates under two scenarios (cost projections shown below). Both scenarios reflect consolidated pension costs excluding KCP&L's share of Wolf Creek pension costs. The two scenarios are:

(A) Where the FAS 87 regulatory expense is calculated in total and allocated using the wage factors as described above, and

(B) Where the FAS 87 regulatory expense is calculated separately as if the KCP&L and the other affiliates maintained separate plans.

Note that scenario (B) must rely on several assumptions because of the difficulties previously described in separating the pension benefits earned and asset values between KCP&L and the other affiliates. Nonetheless, it is still helpful in assessing the reasonableness of the requested allocation approach. Note the other regulated entities shown are for the operations serving the territory formerly served as Aquila Networks-MPS ("MPS") and for the operations serving the territory 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%
- Present value shown is for the 12-year period from 2010-2021

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

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

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

Q. Please explain the adjustments referenced above in the assessment of objective (3) and objective (4).

A. In order to satisfy all of the objectives outlined above, there will need to be some temporary adjustments within the regulated entities to appropriately allocate pension costs between KCP&L, MPS, and L&P. These adjustments are necessary because the L&P pension was historically better funded than the KCP&L pension and the MPS pension.

Q. Please describe this proposed adjustment.

A. In light of the difference in funded position, I propose one cost allocation adjustment from L&P to KCP&L and another cost allocation adjustment from L&P to MPS since it would be inappropriate to allocate higher costs to L&P and its ratepayers. However, over time, it is expected that all plans that were merged would have gotten to a similar funded position had they not been merged (i.e., better funded plans would have less required contributions and worse funded plans would have more required contributions). Therefore, I am proposing these cost allocation adjustments take place for a fixed period of time.

Q. What is the amount of the adjustment that you propose?

A. To determine the amount to adjust, I am proposing that the estimated present value of the FAS 87 regulatory expense that would be allocated to KCP&L, MPS, and L&P using the wage factors be compared to the estimated present value of the FAS 87 regulatory expense assuming the KCP&L, MPS, and L&P pensions were separate plans. The difference between the two amounts (i.e., the difference between scenarios (A) and (B) shown previously) represents the amount of cost that would be inappropriately allocated to each entity if the wage factors were used without the proposed adjustment. Note a negative amount indicates the entity would be allocated less cost than appropriate while a positive amount indicates the entity would be 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%
- Present value shown is for the 12-year period from 2010-2021

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

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

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

Incorporating the two adjustments described above to the wage factor allocation 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.

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.

Q. What is your proposed treatment of the Company's regulatory assets and liabilities that currently exist?

A. I am proposing no change to any existing KCP&L regulatory assets and liabilities. These amounts shall remain designated solely to KCP&L.

Q. What are you requesting of the Commission on behalf of the Company?

A. The Company requests that the Commission accept the proposed changes regarding recognition of contribution in excess of the FAS 87 regulatory expense, as discussed at the beginning of my testimony, which might result due to the passage of the Pension Protection Act of 2006. It also asks that the Commission accept the method proposed above as an appropriate means to allocate FAS 87 regulatory costs between KCP&L and the other GPE affiliates.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariffs to) Docket No. ER-2010-____
Continue the Implementation of Its Regulatory Plan)

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 Kansas City Power & Light Company consisting of thirteen (13) 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.

DIANA M. NIEMEYER
Notary Public-Notary Seal
State of Missouri, Saint Louis City
Commission # 09701672
My Commission Expires Apr 25, 2013

Notary Public Diana M. Niemeyer

My commission expires: April 25, 2013