KCP&L-230

Exhibit No.:
Issue: *Transition Costs, Arbitration Costs, Rate Case Expense, Iatan 1 Regulatory Asset*
Witness: *Keith A. Majors*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
File No.: *ER-2010-0355*
Date Testimony Prepared: *December 8, 2010*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

KEITH A. MAJORS

Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2010-0355

Jefferson City, Missouri
December 2010

Staff Exhibit No. KCP&L-230
Date 1/18/11 Reporter LMB
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KANSAS CITY POWER & LIGHT COMPANY

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Q. Please state your name and business address.

A. Keith A. Majors, Fletcher Daniels Office Building, 615 East 13th Street, Room G8, Kansas City, Missouri, 64106.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Keith A. Majors who direct filed testimony on this issue in the Staff's Cost of Service Report filed in this case on November 10, 2010?

A. Yes, I am.

EXECUTIVE SUMMARY

Q. With reference to File No. ER-2010-0355, please provide a summary of your rebuttal testimony.

A. The purpose of my testimony is to respond to certain positions taken by Kansas City Power & Light Company (KCPL) witnesses Darrin Ives and John Weisensee in their direct testimony in this proceeding. Specifically, I address KCPL's proposal to recover the costs to integrate its regulated utility operations with Aquila, Inc. as a result of GPE's

(Great Plains Energy, Inc.) acquisition of Aquila, Inc. on July 14, 2008. The Commission approved this acquisition in its Report and Order in Case No. EM-2007-0374 (the "Acquisition case"). These costs are referred to as "transition costs." I also address John Weisensee's direct testimony concerning arbitration costs in the test year, rate case expenses, and the Iatan 1 regulatory asset.

TRANSITION COST RECOVERY

Q. What level of transition costs is KCPL seeking to recover in this case?

A. Total deferred transition cost is $19.3 million on a Missouri jurisdictional basis. KCPL is seeking to recover this amount over five years for an annual rate recovery of $3.9 million from its Missouri customers. This amount can be found in KCPL Adjustment CS-95 sponsored by KCPL witness Darrin Ives in his direct testimony. The following table is a summary of transition costs related to GPE's acquisition of Aquila's Missouri electric operations updated through June 30, 2010:

Jurisdiction	**Total**	**%**
KCPL-MO	19,291,888	33.29%
KCPL- KS	15,591,495	26.90%
KCPL-Wholesale	137,352	0.24%
MPS-Retail	17,679,595	30.51%
MPS-Wholesale	69,545	0.12%
SJLP Electric	4,440,472	7.66%
SJLP Steam	243,408	0.42%
Corporate Retained - Merchant	500,726	0.86%
Total Transition Costs		
At June 30, 2010	**57,954,483**	100.00%

Q. What are transition costs?

A. As it relates to utilities, transition costs are the costs incurred for combining and integrating the operations of the combining utilities. In this case it represents the costs incurred by KCPL for integrating the operations of the former stand alone KCPL and the Missouri electric utility operating divisions Missouri Public Service (MPS) and Saint Joseph Light & Power Company (SJLP) of the former Aquila, Inc.

Q. Did the Commission discuss the recovery of transition costs in its Report and Order in the Acquisition Case No. EM-2007-0374?

A. Yes it did. In footnote 930 on page 241, the Commission stated:

> The Commission will give consideration to their recovery in future rate cases making an evaluation as to their reasonableness and prudence. At that time, the Commission will expect that KCPL and Aquila demonstrate that the synergy savings exceed the level of the amortized transition costs included in the test year cost of service expenses in future rate cases.

Q. Did KCPL include any amortization of transition costs in the test year 2009?

A. No. KCPL has not amortized any transition costs.

Q. Did the Staff include any transition costs in its direct case filed November 10, 2010?

A. No. The Missouri Public Service Commission Staff (Staff) is not proposing rate recovery in the current case from either KCPL or GMO customers for the amortization of transition costs.

Q. Please describe and summarize the Staff's direct testimony concerning the recovery of transition costs.

A. Beginning on page 187 of Staff's Cost of Service report, the Staff's position is that KCPL and consequently GPE Shareholders have already recovered all of the incurred and deferred transition costs through regulatory lag.

Q. What is GPE and why is it relevant to this discussion?

A. GPE is the parent company of KCPL and KCPL Greater Missouri Operations Company (GMO), the renamed former utility operations of Aquila, Inc. GPE is relevant because it has realized significant savings from its acquisition of Aquila that will never be passed on to customers. I will discuss those savings later in my testimony.

Q. When you refer to KCPL, are you referring to the former standalone entity?

A. No, unless otherwise noted, for the remainder of my testimony, when I refer to KCPL, I am referring to KCPL total company, which includes KCPL and GMO.

Q. You stated that KCPL has already recovered transition costs through regulatory lag. What is regulatory lag?

A. Regulatory lag is the difference between when lower or higher costs are measured in one time period and when the lower or higher costs are reflected in rates in a subsequent time period. A good example is employee reductions. In the instant case, File No. ER-2010-0355, KCPL proposed and the Commission approved a 2009 test year with a June 30, 2010 update. If KCPL experienced a reduction in employees occurring October 1, 2008, the day following the update period cutoff in the prior Case, ER-2009-0089, there would be a significant lag in the reduction to the cost of service. The first part of the lag would be the time period between when the reduction occurred and when Staff recognized the reduction and included it in the proposed cost of service. In this case, the date would be June 30, 2010, the update period cutoff in the current case. The second part of the lag is the time between the update period cutoff and the date rates go into effect. The table below summarizes this reduction of labor expense. For purposes of this example it only relates to salaries and wages and does not include any costs for benefits, pension costs - other substantial cost reductions related to the termination of employees. For this example, one employee making $50,000 who left the Company as of October 1, 2008 would have resulted in a savings of over $129,452 that would not have been reflected in rates due to the 31 month lag:

	October 1, 2008 - June 30, 2010	July 1, 2010 - May 4, 2011		
Annual Salary	Months of First Lag	Months of Second Lag	Total Lag in Months	Flow to Shareholders
$50,000	21	10	31.1	$ 129,452

Q. How does that example relate to the recovery of transition costs?

A. Employee reductions relating to the acquisition were a significant cost savings, but the benefits of regulatory lag are not limited to this category of costs. In fact, any cost reduction that was reflected in rates in the cases immediately prior to the July 14, 2008 acquisition date would flow directly to the shareholders. The first table is the relevant dates from the rate cases immediately prior to the acquisition and the rate cases since the acquisition:

Company Name	**Case No.**	**Test Year**	**Update Cutoff**	**True-Up Cutoff**	**Effective Date of Rates**
Aquila	ER-2007-0004	Calendar 2005	June 30, 2006	December 31, 2006	June 14, 2007
KCP&L	ER-2007-0291	Calendar 2006	March 31, 2007	September 30, 2007	January 1, 2008
KCP&L	ER-2009-0089	Calendar 2007	September 30, 2008	No True-Up	September 1, 2009
KCP&L GMO	ER-2009-0090	Calendar 2007	September 30, 2008	No True-Up	September 1, 2009
KCP&L	ER-2010-0355	Calendar 2009	June 30, 2010	December 31, 2010	May 4, 2011
KCP&L GMO	ER-2010-0356	Calendar 2009	June 30, 2010	December 31, 2010	June 4, 2011

The second table below summarizes the length of time KCPL and ultimately GPE shareholders have benefited from retained synergy savings:

Case Number	Type of Savings	Beginning Date Of Savings	Date Flowed Through to Rates	Lag (In Months)
ER-2009-0089, ER-2009-0090	Updated In Test Year Update	July 14, 2008	September 1, 2009	13.6
ER-2010-0355	Post Update Savings, KCPL	October 1, 2008	May 4, 2011	31.1
ER-2010-0356	Post Update Savings, GMO	October 1, 2008	June 4, 2011	32.1
ER-2010-0355	Savings Not in Test Year Update, KCPL	July 14, 2008	May 4, 2011	33.7
ER-2010-0356	Savings Not in Test Year Update, GMO	July 14, 2008	June 4, 2011	34.7
Future Case	Savings Not in Current Test Year Update	January 1, 2010	Unknown	Unknown
Future Case	Post Update Savings, KCPL and GMO	July 1, 2010	Unknown	Unknown
Future Case	Post True-up Savings, KCPL and GMO	January 1, 2011	Unknown	Unknown

Q. Using the above tables in relation to the elimination of labor expenses above, can you provide an example of savings KCPL has realized?

A. Assuming an expense of $50,000, the table below shows a simple example of the benefit to shareholders due to regulatory lag for savings from the acquisition:

Type of Savings	Beginning Date Of Savings	Date Flowed Through to Rates	Lag (In Months)	Savings Retained By Shareholders
Costs in Staff Test Year Update, ER-2009-0089	July 14, 2008	September 1, 2009	13.6	$ 56,712
Post Update Savings, Captured in ER-2010-0355	October 1, 2008	May 4, 2011	31.1	$ 129,452
Post Update Savings, Captured in ER-2010-0356	October 1, 2008	June 4, 2011	32.1	$ 133,699
Savings not captured in the update of ER-2009-0089	July 14, 2008	May 4, 2011	33.7	$ 140,274
Savings not captured in the update of ER-2009-0090	July 14, 2008	June 4, 2011	34.7	$ 144,521

Q. What types of cost reductions, similar to the example, did KCPL experience after the date of acquisition, July 14, 2008?

A. KCPL reduced a myriad of costs due to combining the operations of KCPL and Aquila, Inc.: employee headcounts, employee benefits (such as pensions, OPEBs, medical insurance), payroll tax reductions, redundant utility expenditures and maintenance fleet reductions are a few examples of cost reductions KCPL has experienced, retained and not immediately reflected in rates.

Q. What costs were in rates immediately prior to the acquisition?

A. Immediately prior to the acquisition, KCPL rates were established in Case No. ER-2007-0291 effective January 1, 2008. GMO rates were established in Case No. ER-2007-0004 effective June 3, 2007. All costs stipulated to, or ordered by the Commission, were in rates from the dates effective until the effective dates of the following cases, which would be September 1, 2009

Q. Did the Staff perform an examination of the documented acquisition savings detailed in the synergy savings tracking model created by KCPL as ordered by the Commission in the Acquisition case?

A. Yes. Mr. Ives refers to this model at page 4 of his direct testimony.

Q. What were the results of that examination?

A. The synergy savings tracking model comparing the 2009 non-fuel operations and maintenance (Non-Fuel O&M) expense as compared to the adjusted 2006 baseline NFOM shows a synergy, or savings of $48.5 million. The annual amortization of transition costs of $10.4 million (total transition costs less the amount over Kansas limit and corporate retained) for regulated operations is less than the annual Non-Fuel O&M savings.

The Kansas limit, or KS limit I am referring to is the amount of transition costs allocated to Kansas over the $10 million stipulated with the Kansas Corporation Commission (KCC). KCPL will not recover $5.6 million, the amount over $10 million allocated to Kansas in the table above.

Q. Does the synergy savings tracking model ordered by the Commission in Case No. EM-2007-0374 specifically identify cost savings such as the example you provided?

A. No, it does not. The synergy savings tracking model is a strict comparison of 2009 NFOM expenses to 2006 adjusted baseline Non-Fuel O&M expenses. It is not designed to track specific savings. On the contrary, it is designed to identify the aggregate savings from the acquisition using pre and post acquisition Non-Fuel O&M on a company wide basis. For this, it serves its purpose. But this analysis does not identify the amounts of savings and the length of time that GPE and KCPL have retained the acquisition savings prior to the time they have been provided to customers in rates.

Q. How are specific savings from the acquisition identified if not from the synergy savings tracking model?

A. From the synergy project charter database, as described on pages 8-10 of Mr. Ives' direct testimony.

Q. Using that database, what are the true cost savings relating to the acquisition of Aquila?

A. The table below is a summary of the cumulative synergy savings as they appear in the synergy project charter database in the response to Data Request No. 146, File No. ER-2010-0355, updated through June 30, 2010:

Period	Regulated Savings	Corporate Savings
Quarter 3	$ 7,049,467	$ 17,927,511
Quarter 4	13,565,146	31,022,978
2008 Total	**20,614,613**	**48,950,489**
Quarter 1	11,267,258	19,189,044
Quarter 2	14,296,977	19,062,379
Quarter 3	19,711,085	19,427,888
Quarter 4	19,286,671	20,322,463
2009 Total	**64,561,991**	**78,001,774**
Quarter 1	15,875,340	20,518,886
Quarter 2	19,753,175	20,570,612
2010 Total	**35,628,515**	**41,089,498**
Total Cumulative	**$ 120,805,119**	**$ 168,041,761**

The "Regulated Savings" column as identified by KCPL is synergies that will be reflected in regulated operations. The "Corporate Savings" column as identified by KCPL is synergies that will be retained at the corporate level and not reflected in reduced rates.

Q. Has KCPL quantified the projected synergy savings in addition to the cumulative savings above?

A. The table below is a summary of the cumulative and projected synergy savings as they appear in the synergy project charter database in the response to Data Request No. 146, File No. ER-2010-0355, updated for actual and projected through June 30, 2010:

	Category	
Period	**Regulated Savings**	**Corporate Savings**
Quarter 3	$ 7,049,467	$ 17,927,511
Quarter 4	13,565,146	31,022,978
2008 Total	**20,614,613**	**48,950,489**
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2009 Total	**64,561,991**	**78,001,774**
Quarter 1	15,875,340	20,518,886
Quarter 2	19,753,175	20,570,612
Q3 and Q4 Projected	73,486,502	41,023,882
2010 Projected Total	73,486,502	82,113,380
2011 Projected Total	70,518,971	81,527,411
2012 Projected Total	76,279,248	75,543,513
2013 Projected Total	38,732,332	34,934,170
Total Cumulative and Projected Savings	**$ 344,193,657**	**$ 401,070,737**

Q. Has KCPL presented the total projected synergies through 2013 to ratepayers and shareholders?

A. Yes. The 2009 GPE Annual Report on page 3 contains the following statement in the letter "To Our Shareholders" authored by Mike Chesser and Bill Downey, CEO and President of GPE, respectively:

> By the end of 2009 – nearly 18 months after the acquisition – we had identified synergies of just over $200 million. Synergies for the first five years post-acquisition are estimated to be approximately $740 million, almost $100 million above our initial projections.

Q. How does KCPL describe the "Corporate" category of synergy savings?

A. The response to Data Request 441, Case No. ER-2010-0355 states:

> By definition, <u>**none**</u> of the synergies in the "Corp" category have been or will be passed on to KCP&L or GMO ratepayers. The corporate category represents synergy savings associated with costs that were not recovered from Missouri or Kansas ratepayers or would not be considered for recovery from Missouri or Kansas ratepayers . . . (emphasis added)

Q. Is Staff proposing to capture or include the corporate category of synergies in the cost of service?

A. No. The corporate category of savings relates to line of credit fees, interest savings, and other corporate related savings, the costs of which would not be included in the cost of service. The corporate category of savings is relevant because on the whole, KCPL, and ultimately GPE shareholders have and will in the future realize more savings from the acquisition than ratepayers. The excess benefit to shareholders over regulated benefits projected for the five-year period post-acquisition is $56.8 million ($401-344 million).

Q. How does the quantification of synergies in the KCPL synergy charter tracking database compare to the results of the synergy savings tracking model as ordered by the Commission?

A. They are two different ways of looking at the same cost reductions resulting from the same event, the acquisition of Aquila, Inc. The Commission ordered synergy savings tracking model captures the aggregate annual savings comparing a period of time to the 2006 adjusted baseline. As time passes and future years are compared, the annual amount of savings will change due to inflation and the dynamic nature of costs. The KCPL designed and produced synergy charter tracking database captures specific savings at a point in time to recognize the cumulative savings from the acquisition. The synergy charter tracking database also captures corporate retained synergies, which the synergy savings tracking model was never designed to do.

Q. Can you describe and summarize the cash flows related to the recovery of transition costs?

A. The following table details the cumulative cash flows related to the recovery by recognizing the regulated synergies per the synergy charters through the effective date of rates in Case Nos. ER-2009-0089 and ER-2009-0090:

Total Transition Costs At June 30, 2010	$ 57,954,483
Less Corporate Retained Merchant	(500,727)
Less Amount over $10 million KS Max	(5,591,495)
Total Recoverable Transition Costs	51,862,262
2008 Regulated Retained Synergies	20,614,613
2009 Regulated Retained Synergies Through September 1, 2009*	38,704,958
Total Regulated Retained Synergies Through September 1, 2009*	59,319,571
Total Regulated Retained Synergies In Excess of the Recoverable Transition Costs	**$ 7,457,310**
*Assuming 3rd Quarter Synergies Occurred Ratably over the quarter	

The database reports retained regulated synergies of $59.3 million through September 1, 2009, assuming the third quarter synergy savings occurred ratably over the three months of the quarter, a reasonable assumption. Using the synergy charter database for savings through this date, KCPL has realized $7.5 million over the transition costs, even before any savings have been passed on to customers. The synergies in this table are referred to as retained because of the regulatory lag of the reduction in costs as compared to when they are reflected in rates.

Q. What is the significance of the date used in this analysis, September 1, 2009?

A. This is the effective date of rates in Case Nos. ER-2009-0089 and ER-2009-0090. It is the first date ratepayers would see any benefits from the synergies relating to the acquisition. In fact, using the tables above, KCPL has recovered the entire amount of recoverable transition costs before the effective date of rates following the first rate case after the acquisition.

Q. The amount of regulated retained synergies over recoverable transition costs is more than the amount Staff calculated for the over-recovery listed on page 196 of the Cost of Service Report. Please explain.

A. Staff omitted one month of retained synergies occurring in 2009 Quarter 3. Consequently, the recovery over the amount of transition costs is $7,457,310, as opposed the amount on page 196 of $886,948, indicating the over recovery through regulatory lag was underestimated in Staff's direct case.

Q. Does KCPL recognize that shareholders have received significant benefits from synergies before they are reflected in customer rates?

A. In his direct testimony, Mr. Ives does not appear to recognize the benefit shareholders have received from synergies through regulatory lag. However, KCPL has communicated to its employees that shareholders will receive significant benefits from the acquisition before they are flowed to ratepayers.

Q. What evidence do you have of KCPL's recognition of the shareholder benefit and subsequent communication to employees?

A. Schedule 1 and Schedule 2 attached to my rebuttal testimony are selected slides from two separate presentations made to employees dated April 24, 2008 and July 14, 2008, respectively. The entirety of the presentations is not attached as they are 48 pages each but can be provided. The remainder of the slides describes the history of KCPL, additional synergy information concerning the Aquila acquisition, and other information of a general nature concerning KCPL. Staff obtained these presentations from Data Request No. 12, Case No. EC-2009-0430. This was a complaint case filed against KCPL and GMO by the MOPSC Staff. Schedule 1 and Schedule 2 are substantially the same slides from separate presentations.

Q. What data request were these presentations responsive to?

A. Data Request 12, Case No. EC-2009-0430:

> Please provide all call center scripts and written procedures and/or documentation including all training material provided to any Kansas City Power & Light Company employee that provides a description of how to educate customers on the differences between KCP&L Greater Missouri Operations and Kansas City Power & Light Company.

Q. Please describe page 2 of each schedule.

A. Page 2 of each schedule is a graph of "Customer Benefits of 2008 Aquila Acquisition".

Q. What is the significance of the graph on page 2 of each schedule?

A. The graph shows that the cumulative customer benefits at 2013 total approximately $150 million. The regulated projected and actual synergy savings as of 2013 from the table presented and discussed earlier in my testimony total $344 million. Consequently, of the regulated projected and actual synergies through 2013, approximately $194 million will be retained by KCPL. The difference can be attributed to regulatory lag.

Q. Please explain.

A. Any synergy savings created after significant rate case events, such as test year cutoffs, update cutoffs, and true-up cutoffs KCPL retains a portion of through regulatory lag. This recovery takes place when cost savings are realized when KCPL's and GMO's rates are set to recover a higher level of costs than are actually being incurred by the combined utility – which is the very reason why synergies were retained after the acquisition - due to regulatory lag. Even though some synergies may be reflected in subsequent rate cases, savings that continue to be realized through new synergies created related to the acquisition continue to accrue to GPE until reflected in utility rates. Although the regulated synergies are projected to be $344 million, KCPL will retain a significant portion of those synergies, as shown by the graph.

Q. Please describe page 3 of each schedule.

A. Page 3 of each schedule is a timeline of the acquisition hearings and the rate case schedule, titled "Path to Synergy Sharing."

Q. What is the significance of the timelines on page 3 of each schedule?

A. These timelines show the relationship between the shareholder retention of synergy savings due to the impact of regulatory lag and the timing of future rate case filings. In effect, KCPL has produced and communicated to employees a timeline demonstrating exactly what I have discussed throughout my testimony: KCPL and consequently GPE shareholders have received the benefits of synergies in advance of customers and have recovered over and above the costs to achieve those synergies.

Q. Other than transition costs, what other costs has GPE incurred related to the acquisition of Aquila, Inc.?

A. GPE incurred transaction costs to consummate the acquisition of Aquila, Inc. Transaction costs include investment banking fees, tax advisory services, consulting fees, and other expenses relating to the structure and form of the transaction. In accordance with the Commission's Report and Order in the acquisition case, no transaction costs are included in the cost of service.

Q. How are the transaction costs treated by GPE?

A. The transaction costs were a part of the costs of acquiring Aquila, Inc. Of the total transaction costs of $40.2 million, $35.6 million was allocated to goodwill related to the acquisition of Aquila, Inc. The total amount of goodwill related to the acquisition is $169 million, which represents the excess of the purchase price over the net assets acquired. Goodwill cannot be amortized, but is required to be tested on an annual basis for impairment. This amount of goodwill has not been charged to expense nor reflected in rates but reflected as an asset on GPE's balance sheet.

Q. If the transaction costs are not recoverable in rates, how then can GPE recover those costs?

A. Those costs can be recovered through cost savings, namely, the corporate retained synergies that will not be passed on to ratepayers. The total actual and projected corporate retained synergies through 2013 total $401 million, which exceed the transaction costs by $360 million.

Q. Can you describe and summarize the cash flows related to the recovery of transition costs and transaction costs by GPE as of September 1, 2009?

A. The following table details the cumulative cash flows related to the recovery through September 1, 2009:

	Total Transition Costs At June 30, 2010	$ 57,954,483	
	Less Corporate Retained Merchant	(500,727)	
	Less Amount over $10 million KS Max	(5,591,495)	
B	Total Recoverable Transition Costs	51,862,262	
C	Total Transaction Costs	40,215,075	
	Total Costs To Be Recovered	92,077,337	(B+C)
D	2008 Corporate Retained Synergies	48,950,489	
E	2009 Corporate Retained Synergies Through September 1, 2009*	51,203,348	
F	Total Retained Corporate Synergies Through September 1, 2009	100,153,837	(E+F)

G	2008 Regulated Retained Synergies	20,614,613	
H	2009 Regulated Retained Synergies Through September 1, 2009*	38,704,958	
I	Total Retained Regulated Synergies Through September 1, 2009	59,319,571	(G+H)
J	Total Retained Corporate and Regulated Synergies Through September 1, 2009	**159,473,409**	(I+F)
K	Total Acquisition Costs To Be Recovered	**92,077,337**	(B+C)
L	Net GPE Shareholder Benefit from the Acquisition Through September 1, 2009	$ **67,396,072**	(J-K)
	*Assuming 3rd Quarter Synergies Occurred Ratably over the quarter		

Line J, the total retained synergies, is the regulated and corporate synergies retained by KCPL through September 1, 2009. Line K is the total costs to achieve those synergies, the sum of the recoverable transition costs and the transaction costs. Line L is the excess of synergy savings over the costs to achieve those savings, showing that GPE has received $67.4 million of savings over the costs of the acquisition.

It is important to note the corporate retained synergies on lines D-F will continue to accrue solely to shareholders after September 1, 2009 and any regulated synergies created after September 1, 2009 will accrue to shareholders until the following effective date of rates.

Q. Using the table and the analysis above, what conclusions do you make about GPE's recovery of the costs of acquiring Aquila and combining its utility operations into KCPL and KCPL's proposed inclusion of those costs in the cost of service?

A. KCPL, and consequently, GPE, has already recovered the transition costs it has proposed to include in the cost of service through regulatory lag. GPE has also recovered the transaction costs incurred for the acquisition of Aquila, Inc. through corporate retained synergies. The recovery through cost reductions over and above the expenses incurred for the acquisition of Aquila, Inc. through September 1, 2009 amount to $67.4 million dollars.

In reality, GPE has already been "made whole", recovered transition and transaction costs as discussed throughout my testimony, and has benefited greatly through regulatory lag.

In relation to the Commission's Report and Order in Case No. EM-2007-0374 regarding the recovery of transition costs previously referenced, it would imprudent and unreasonable to include any amount of transition costs in KCPL's or GMO's cost of service.

ADVANCED COAL TAX CREDIT ARBITRATION COSTS

Q. Did KCPL include its Advanced Coal Tax Credit arbitration costs in its cost of service in this case?

A. Yes, KCPL did. The costs of the Advanced Coal Tax Credit arbitration remained in the test year 2009 sponsored by KCPL witness John Weisensee.

Q. Does Staff agree KCPL's cost of service should include these arbitration costs?

A. When Staff filed its Cost of Service Report on November 10, 2010, it made an adjustment to exclude the legal costs incurred for these arbitration proceedings that I sponsored on pages 122-23 of that report. However, since it filed its COS Report on November 10, 2010 Staff has received from KCPL the data needed to fully quantify that adjustment.

Q. What was the original adjustment?

A. Staff's original adjustment was $41,764.

Q. What is the updated adjustment?

A. The response from Data Request 498, Case No. ER-2010-0355 identifies an additional $414,883 in the test year cost of service. The total updated adjustment is $456,647.

Q. Will Staff have any additional adjustments related to the expenses KCPL incurred for the Advanced Coal Tax Credit arbitration?

A. Staff does not anticipate any further adjustments. Because the costs resided in the test year and Staff does not specifically update all costs in FERC account 923, the account where these costs reside, in its test year update or true-up, no additional costs post 2009 will impact the cost of service in the current case. However, if any costs related to the arbitration were to be included in a future test period in a future rate case, Staff would propose to remove them from KCPL's cost of service.

RATE CASE EXPENSE

Q. Who sponsored the rate case expense adjustment in KCPL's Direct Case?

A. This adjustment was sponsored by KCPL witness John Weisensee in Adjustment CS-80. A component of the adjustment is the amortization over two years of all the costs KCPL has incurred to prosecute the current rate proceeding.

Q. Did you sponsor the section of Staff's Cost of Service Report concerning rate case expense that is at pages 146-148 of that report?

A. Yes.

Q. At page 147, you stated: "Staff will include the prudent and reasonable costs in its true-up of Iatan Project costs through October 31, 2010." Has the Staff included any costs removed from KCPL's rate case expense in the Iatan Construction Project plan balances?

A. No, not at this time. If appropriate, Staff will include in the Iatan Construction Project plant balances prudent and reasonable costs which KCPL has classified as rate case expenses, but which are more capital in nature.

Q. Has Staff found any such costs yet?

A. No. Staff is currently reviewing them. Staff has experienced significant delays in obtaining from KCPL complete invoices of the costs it has charged to rate case expense. The documents KCPL initially provided to Staff were insufficient and incomplete, and prohibited Staff from completing its evaluation. This delay in obtaining sufficient documentation upon which to conclude whether KCPL has classified as rate case expenses prudent and reasonable costs which are more capital in nature has put Staff behind its planned schedule for addressing this issue. Based on the data reviewed to date, however, Staff has concerns that KCPL may have been charged excessively high hourly rates for attorney and consulting fees, that KCPL may have retained more attorneys and consultants for this work than it needed, and the total cost KCPL has incurred to process the current rate cases. It is likely that Staff will make significant adjustments to exclude KCPL expenditures that Staff removes from KCPL's rate case expense.

Q. Have you quantified any additional expenditures that Staff is removing from KCPL's rate case expense, but KCPL has not?

A. Yes, I have.

Q. What are they?

A. The additional expenditures relate to an independent contractor KCPL has employed through a temporary employment agency, NextSource. Chris B. Giles retired from KCPL as Vice President – Regulatory on July 1, 2009. Since his retirement, Mr. Giles' responsibilities include "assisting and advising the current Senior Director, Regulatory Affairs". In his direct testimony in this case Mr. Giles noted that "I remain actively involved in KCP&L's regulatory strategy and the oversight of the Iatan Unit 2 Project."

Q. Were Mr. Giles' salary and benefits included KCPL's revenue requirement in its last rate case, Case No. ER-2009-0089?

A. Yes, they were. Staff updated payroll expense through September 30, 2008 for all current employees at that date. The effective date of rates was September 1, 2009 and these rates are projected to be in effect through May 3, 2011. Mr. Giles' salary and benefits have been in KCPL's revenue requirement used to set its electric utility rates for many years, and are in the revenue requirement that was used to set KCPL's current electric utility rates today.

Q. What is Staff's adjustment concerning Mr. Giles?

A. Staff is removing all dollars KCPL has included in rate case expense related to Mr. Giles' services as an independent contractor. The total amount billed to KCPL through June 30, 2010 for Mr. Giles services as an independent contractor is $338,813. This amount appears to have been allocated solely to KCPL.

Q. Why is Staff removing from KCPL's rate case expense Mr. Giles's independent contractor payments?

A. Mr. Giles' full, unadjusted salary and benefits were included in the cost of service in the prior KCPL and GMO rate cases. Due to regulatory lag, KCPL will recover the full expense amount of Mr. Giles' salary and benefits through the effective date of rates in the current case. To capture the consulting fees billed to KCPL by Mr. Giles into a regulatory asset for rate case expenses to be further recovered would represent a double recovery of KCPL's compensation for Mr. Giles' services.

Q. Aside from the double recovery due to regulatory lag, does Staff have any other reasons for removing Mr. Giles consulting fees?

A. Yes. Staff included Mr. Curtis Blanc's full salary and benefits in the last KCPL and GMO rate cases and will continue to do so for the current case. As Senior

Director - Regulatory Affairs Mr. Blanc has assumed the former duties of Mr. Giles. Since KCPL currently has a Director of Regulatory Affairs in Mr. Blanc, there is no reason to pay the additional cost for Mr. Giles to assist Mr. Blanc in performing his duties in this position.

Q. Will Staff update this adjustment in its true-up case?

A. Yes. Because Staff is including the prudent and reasonable rate case costs in amortizing KCPL's current rate case expense, Staff will update this adjustment for costs through December 31, 2010. Additionally, Staff is still examining KCPL's rate case expense invoices.

<u>IATAN UNIT 1 REGULATORY ASSET</u>

Q. Please summarize your rebuttal testimony concerning the Iatan 1 regulatory asset.

A. KCPL included the Iatan 1 regulatory asset in its rate base and amortized the regulatory asset in its cost of service in this case as described by KCPL witness John Weisensee on pages 9-12 of his direct testimony where he proposes adjustments RB-25 and CS-111, which are the December 31, 2010 projected Iatan 1 regulatory asset and amortization of that asset, respectively. Staff included neither the Iatan 1 regulatory asset nor an amortization of it in Staff's determination of KCPL's revenue requirement in its direct filing because Staff's proposed disallowances of costs of both the Iatan Unit 1 Air Quality Control System (AQCS) Project and the Iatan Common Plant essentially remove the need for construction accounting on the plant expenditures not included in rates in the prior case, Case No. ER-2009-0089. For that same reason, Staff opposes KCPL's proposed adjustments RB-25 and CS-111.

Q. Did Staff agree to allow KCPL to establish this regulatory asset?

A. Yes. Pursuant to the terms of the Non-Unanimous Stipulation and Agreement that the Commission approved on June 10, 2009 in Case. No. ER-2009-0089, KCPL was authorized to include in a regulatory asset, depreciation expense and carrying costs for the Iatan Unit 1 AQCS and Iatan Common plant that was not included in KCPL's rate base in that case.

Q. Is Staff's position not to include the Iatan 1 Regulatory Asset fully consistent with the terms of the Non-Unanimous Stipulation and Agreement Staff signed in Case No. ER-2009-0089?

A. Yes. Staff supported then, and supports today, the creation of a regulatory asset for these costs. However, due to Staff findings in its Iatan 1 construction audit, Staff is recommending a cost disallowance for substantially all, if not all, of the costs that would properly be included in that regulatory asset. Staff cannot recommend a disallowance on one hand and then allow a recovery of these same costs in a regulatory asset on the other. To the extent that the Commission allows rate recovery of the costs that KCPL is seeking to recover through the regulatory asset, Staff recommends the Commission treat those costs consistent with the terms of the Case No. ER-2009-0089 Non-Unanimous Stipulation and Agreement.

Q. What is the pertinent language of that Non-Unanimous Stipulation and Agreement?

A. It is Section 6, Paragraph (c) in its entirety:

> If Staff's in-service criteria are met by May 30, 2009, the Signatory Parties agree to "construction accounting" for remaining Iatan 1 prudent costs incurred post true-up cut-off as "construction accounting" is defined in the 2005 Stipulation at page 43, Section III.3.d.vii., subject to the agreement of the Signatory Parties of the amount to include in rates in this case and the agreement of the Signatory Parties of the date by which invoices are timely booked or approved for payment. Any deferred depreciation expense and carrying costs will be

> offset by accumulated deferred income taxes on this plant. The deferred depreciation expense will be charged to the depreciation reserve as required by normal accounting. The deferred expenses will receive rate base treatment, and consistent with the Commission treatment of these type of deferrals, the deferred income taxes will be included in rate base. KCP&L agrees to calculate the amount due from the other Iatan 2 owners and reflect that amount as an offset to the common plant costs. The carrying costs will be calculated at the rate used for Iatan 2.

Q. You stated that Staff's proposed disallowances of costs of both the Iatan Unit 1 AQCS Project and the Iatan Common Plant remove the need for "construction accounting" treatment of the Iatan 1 AQCS and Iatan Common plant that Staff agreed to in the 2009 Non-Unanimous Stipulation and Agreement. Please explain.

A. Section 6, Paragraph (c) of that agreement provides for "construction accounting" for remaining Iatan 1 prudent costs incurred post true-up cut-off. In its construction audit and prudence review of Iatan 1 AQCS and Iatan Common Plant costs Staff identified imprudent, unreasonable, and inappropriate costs. Staff's proposed adjustments reduce the plant balances of the Iatan 1 AQCS and Iatan Common Plant enough that the proposed balances are below the amount included in rates in KCPL's last rate case. To put it another way, since there are no prudent expenditures above the amount included in setting KCPL's rates in its last rate case, it would be unreasonable to allow KCPL to include the depreciation and carrying costs on plant costs that include imprudent and unreasonable charges.

Q. If the Commission expressly rejects Staff's foregoing adjustments before the true-up filing in this case, will Staff include the regulatory asset and the amortization of it in Staff's true-up case?

A. Yes, as noted above, Staff will evaluate KCPL's calculations of the regulatory asset for Iatan 1 AQCS and Iatan Common plant and include them in the cost of service if the Commission expressly rejects Staff's foregoing adjustments before the true-up filing in this case.

Q. Does that conclude your rebuttal 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 for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF KEITH A. MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Keith A. Majors, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 25 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Keith A. Majors
Keith A. Majors

Subscribed and sworn to before me this 8th day of December, 2010.

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

Nikki Senn
Notary Public

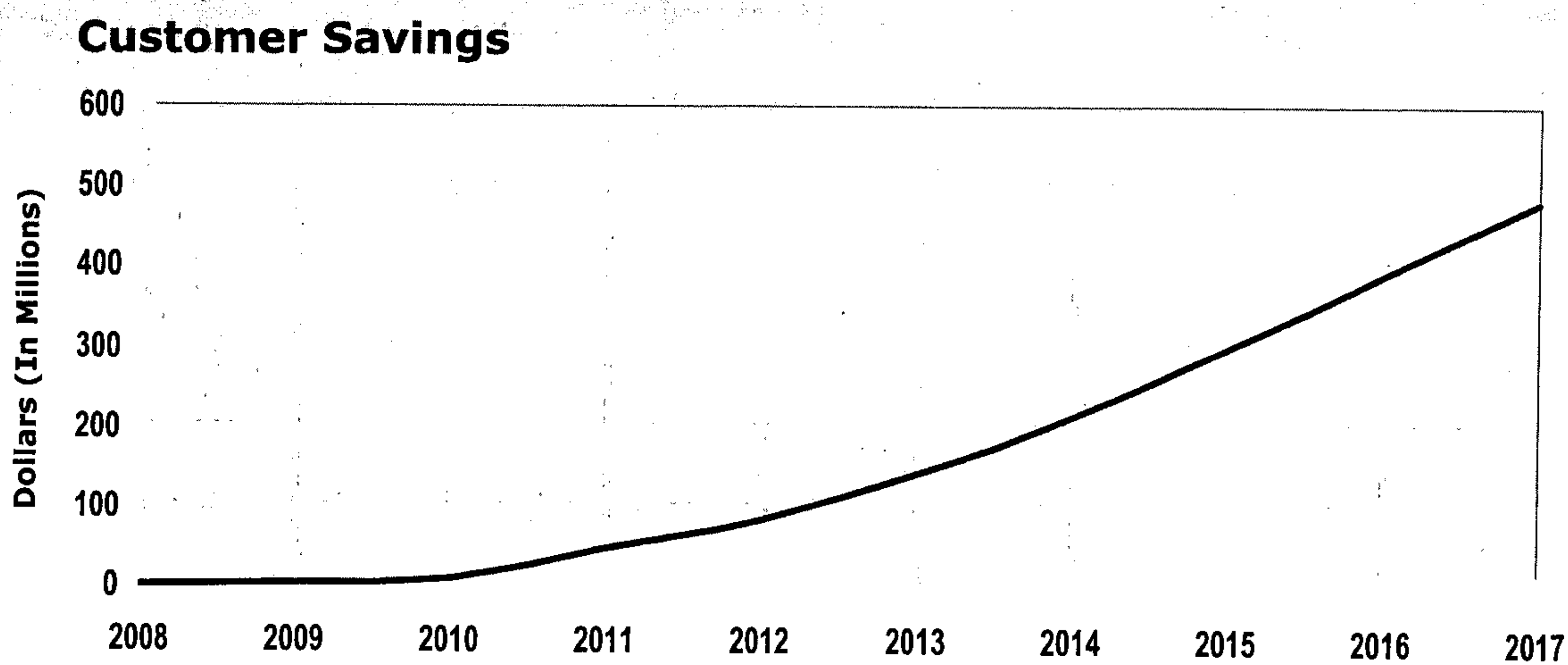
Welcome to GPE

GREAT PLAINS ENERGY

Kansas City Power & Light®
ENERGIZING LIFE

SCHEDULE 1-1

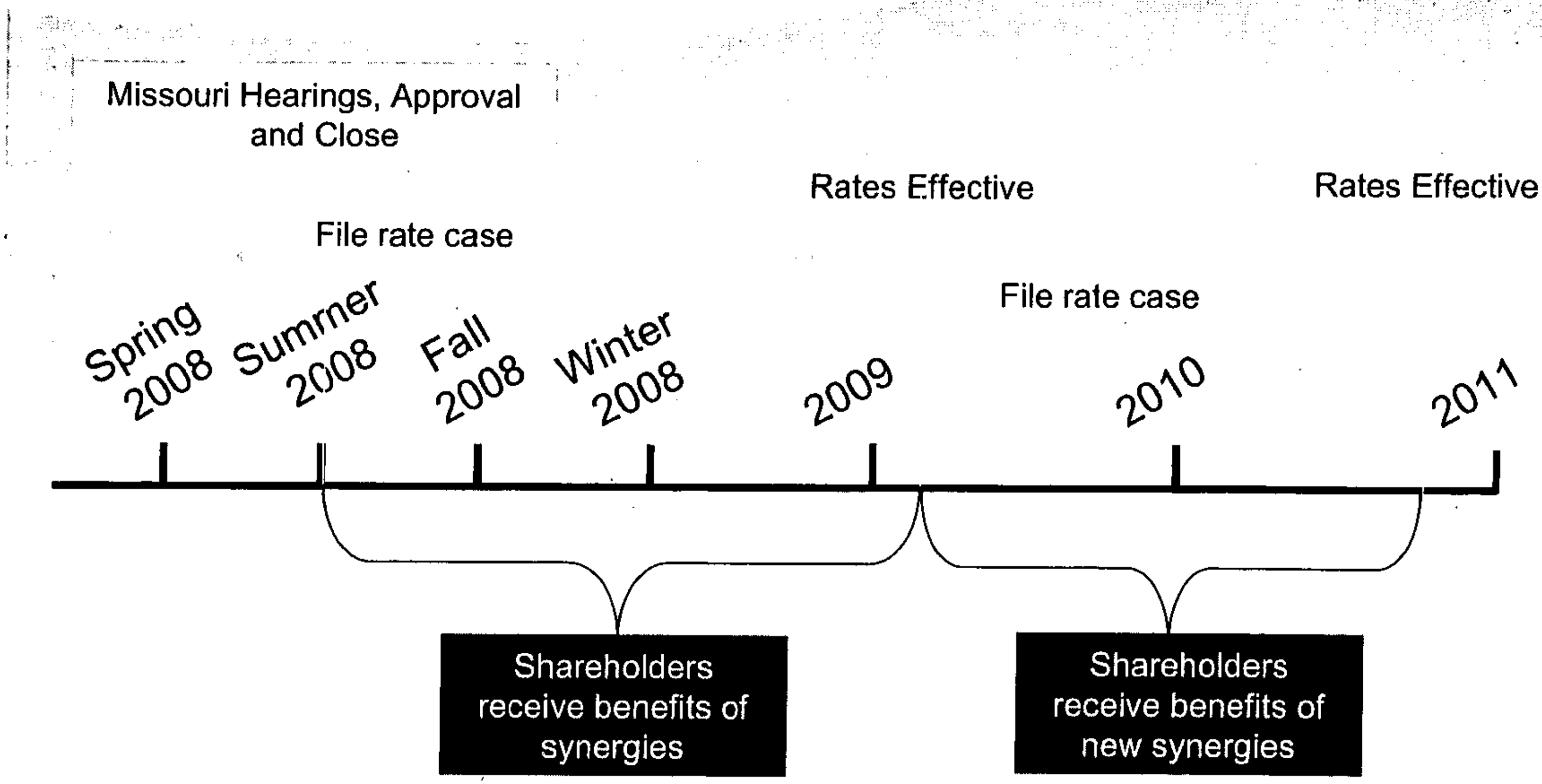
Aquila Purchase: Projected Customer Savings Mitigate Future Rate Increases



Note: Projection based on terms of revised regulatory proposal, including synergy capture assumptions

Kansas City Power & Light
ENERGIZING LIFE

Path to Synergy Sharing



Kansas City Power & Light
ENERGIZING LIFE

SCHEDULE 1-3

GREAT PLAINS ENERGY

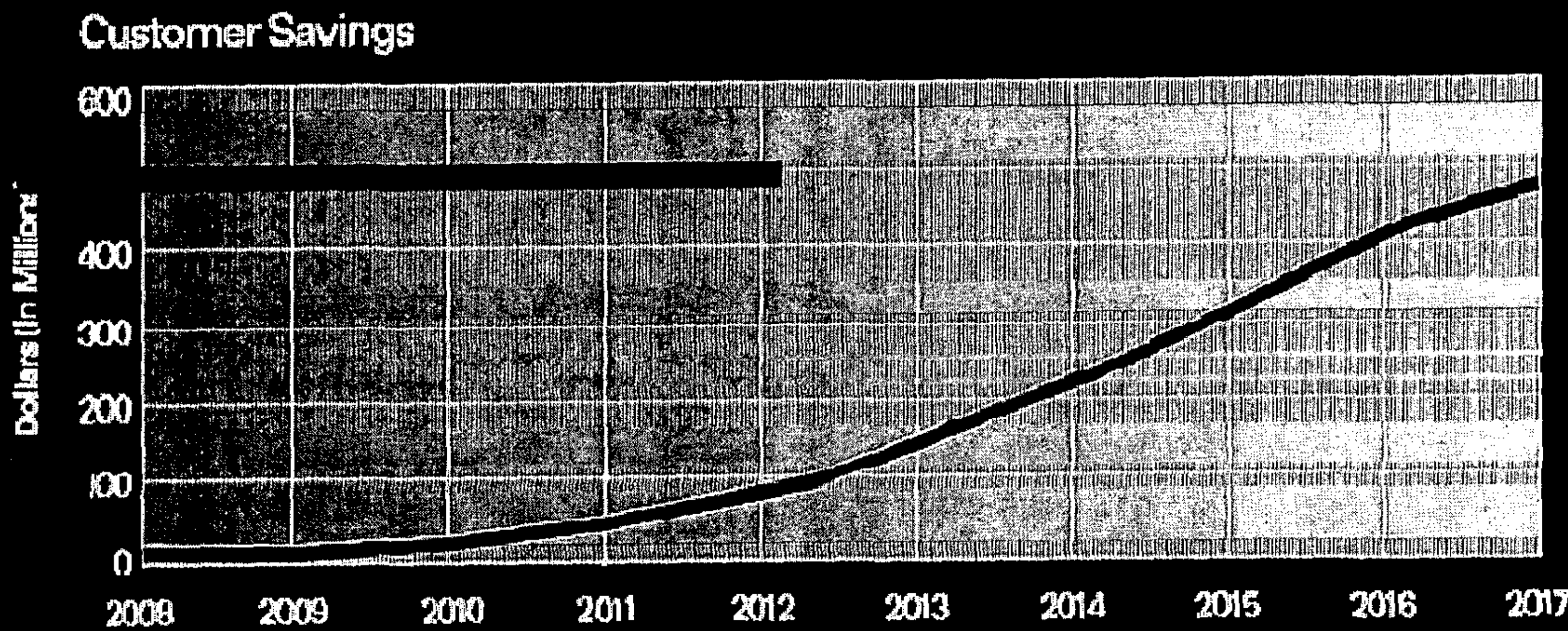
KCP&L energizing life

Welcome to GPE/KCP&L

SCHEDULE 2-1

Customer Benefits of 2008 Aquila Acquisition

KCP&L
energizing life

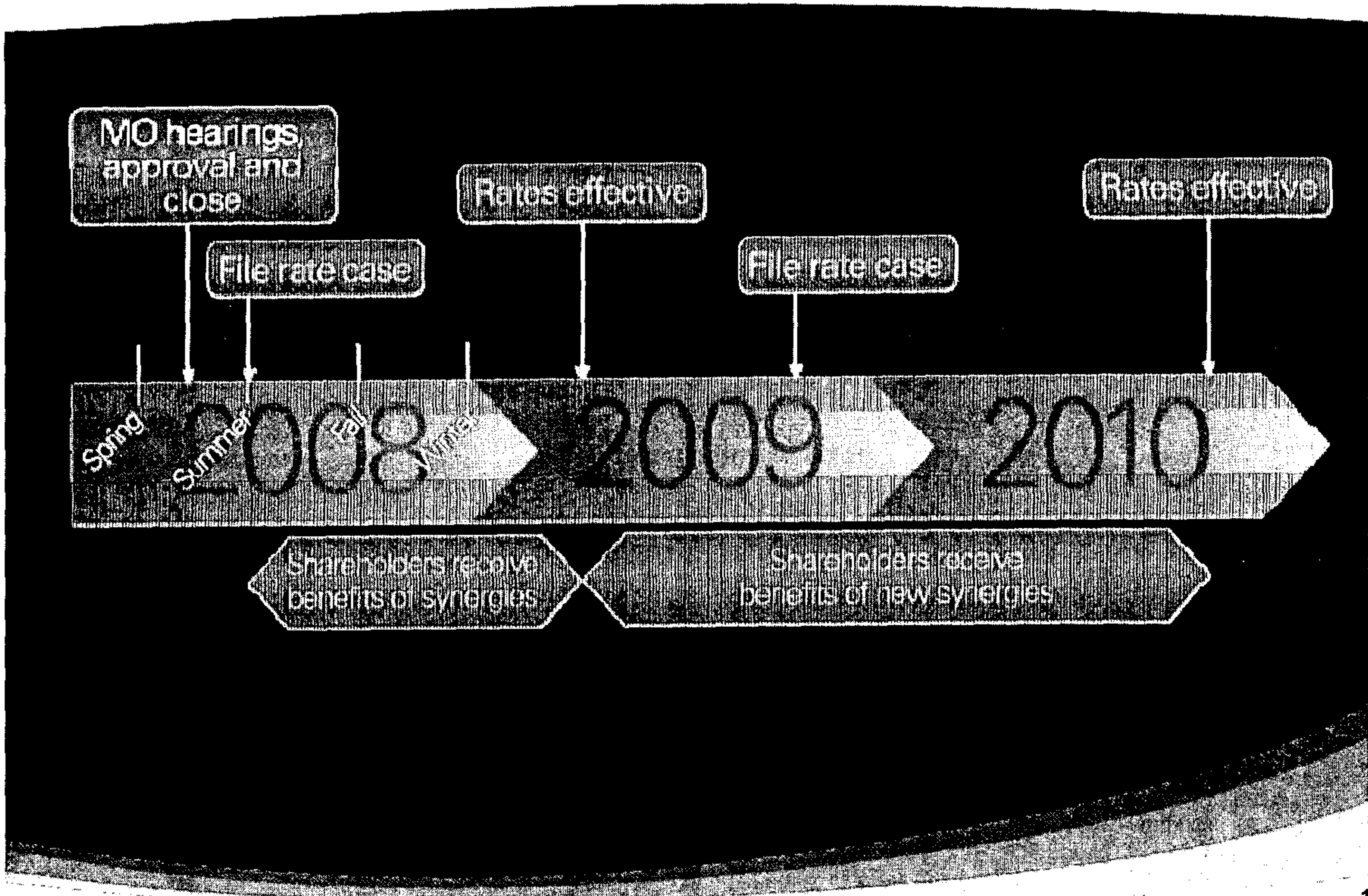


Note: Projection based on terms of revised regulatory proposal, including synergy capture assumptions

SCHEDULE 2-2

Path to Synergy Sharing

KCP&L energizing life



SCHEDULE 2-3