Exhibit No.: KCP&L-37
Issue: Transition Costs Amortization and Synergy Savings Tracking Model
Witness: Darrin R. Ives
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2010-0355
Date Testimony Prepared: January 5, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0355

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2011

KCPL Exhibit No KCPL 37
Date 2/3/11 Reporter LMB
File No ER-2010-0355

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2010-0355

Q: Please state your name and business address.

A: My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri, 64105.

Q: Are you the same Darrin R. Ives who prefiled direct and rebuttal testimony in this matter?

A: Yes.

Q: What is the purpose of your surrebuttal testimony?

A: I will respond to the rebuttal testimony provided by Missouri Public Service Commission Staff ("Staff") witness Keith A. Majors under the heading "Transition Cost Recovery."

Q: Can you please summarize Staff witness Majors' rebuttal testimony in regards to transition cost recovery?

A: Yes. Consistent with Staff's position in its direct filing in this case, Mr. Majors testifies that he believes KCP&L and GMO have already recovered all of the transition costs associated with the acquisition of Aquila through regulatory lag. Therefore, Staff has not included any amount of amortized transition costs in its cost of service for KCP&L. While I will not repeat my rebuttal testimony in this case herein, Mr. Majors makes several points in his rebuttal testimony that I will address more fully in this surrebuttal testimony. However, his main points continue to reflect significant revisionist history regarding the Merger case and his testimony and positions disregard the facts of the

Merger case as well as much of the content of the Commission's Report and Order in that case.

Q: On page 3 of Staff witness Majors' testimony, he cites footnote 930 on page 241 as the Commission's discussion of recovery of transition costs in its Report and Order in the Acquisition Case No. EM-2007-0374 ("Merger case"). Is that the primary discussion by the Commission of transition cost recovery?

A: No, it is not. The primary discussion in the Commission's Report and Order regarding this topic, to which the footnote applies, is as follows:

> 3. Final Conclusions Regarding Transaction and Transition Cost Recovery
>
> Substantial and competent evidence in the record as a whole supports the conclusions that: (1) the Applicants' calculation of transaction and transition costs are accurate and reasonable; (2) in this instance, establishing a mechanism to allow recovery of the transaction costs of the merger would have the same effect of artificially inflating rate base in the same way as allowing recovery of an acquisition premium; and (3) the uncontested recovery of transition costs is appropriate and justified. The Commission further concludes that it is not a detriment to the public interest to deny recovery of the transaction costs associated with the merger and not a detriment to the public interest to allow recovery of transition costs of the merger. **If the Commission determines that it will approve the merger when it performs its balancing test (in a later section in this Report and Order), the Commission will authorize KCPL and Aquila to defer transition costs to be amortized over five years.** (Emphasis added by KCP&L)

As indicated by the sentence with emphasis added, the Commission authorized the companies to defer transition costs to be amortized over five years subject to the conditions provided in footnote 930 referenced by Mr. Majors.

Q: Can you describe the conditions provided in footnote 930 and the companies' position on its ability to meet the conditions?

A: The first condition in footnote 930 is that the Commission would give consideration to their recovery in future rate cases making an evaluation as to their reasonableness and prudence. That evaluation is being addressed for the first time in these current cases. As referenced by Mr. Majors on page 2 of his rebuttal testimony, the companies' total transition costs at June 30, 2010, were $58.0 million. As provided in my rebuttal testimony in this case, projected through December 31, 2010 (the true-up date in this case), the companies are requesting total transition cost recovery of $51.8 million ($41.8 million Missouri jurisdictional) from customers over a five-year period. These amounts are less than the companies' estimates provided in the Merger case of $58.9 million ($42.8 million Missouri jurisdictional) supporting the Commission's conclusion (1) from page 241 of the Merger Report and Order that the Applicant's calculation of transaction and transition costs are accurate and reasonable. This also supports the Commission's conclusion (3) on the same page that the uncontested recovery of transition costs is appropriate and justified and that it is not a detriment to the public interest to allow recovery of transition costs of the merger.

The second condition in footnote 930 is that at the time of evaluation of the reasonableness and prudence of transition costs (being addressed in these current cases) 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 costs of service expenses in future rate cases. As demonstrated in my direct and rebuttal testimony, and referred to on multiple occasions by Mr. Majors in the Staff's direct case and his rebuttal testimony, the companies have maintained and supplied to Staff a synergy savings tracking mechanism as ordered by the Commission in the Merger Report and Order. As ordered, the tracking mechanism compares 2009 (test year in the current cases) non-fuel operations and maintenance (NFOM) expense to the adjusted 2006 baseline NFOM, the same methodology as more fully described in the body of the Merger Report and Order. The companies' synergy savings tracking mechanism reflects savings of $48.5 million, clearly demonstrating savings in excess of the level of annualized transition cost recovery requested from customers of $10.4 million ($8.4 million Missouri jurisdictional) over five years in the current cases.

Q: **Are the transition costs provided above the final costs for consideration in these current cases?**

A: The costs provided are substantially complete. However, as indicated in my direct testimony in this case, we intend to utilize actual transition costs through December 31, 2010 (the true-up date for the current cases), as the basis for determining the annual amortization to be included in the current cases.

Q: **Please address the testimony offered by Staff witness Majors on pages 4 through 7 of his rebuttal testimony regarding regulatory lag.**

A: Mr. Majors presents several tables depicting regulatory lag and describing its effects; however, there is no new data in his testimony for the Commission to consider. Without repeating it fully here, I refer to my rebuttal testimony in this case beginning on page 4, line 12 and ending on page 5, line 13. In this section of my rebuttal testimony, I emphasize a Commission conclusion in its Merger Report and Order that clearly shows that the Commission recognized and addressed in the Merger case that **because the Applicants have agreed to recover any merger savings through "regulatory lag" as part of the traditional ratemaking process there is no net detriment to customers.**

(Emphasis added by KCP&L). It is clear the Commission affirmatively addressed the companies' utilization of regulatory lag to retain synergy savings in its Merger Report and Order.

Q: Do you have additional support that the Commission was aware of the companies' request to retain synergy savings through regulatory lag in the Merger case?

A: Yes. In the Merger case, the Additional Supplemental Direct testimony provided by both Company witnesses Bassham and Giles addresses utilization by the companies of the natural regulatory lag that occurs between rate cases to retain any portion of synergy savings. In particular, Company witness Bassham describes the Applicant's withdrawal of their request for a specific synergy savings adder and new proposal to utilize the natural regulatory lag to retain any portion of synergy savings. Company witness Giles provided Schedule CBG-1 to his testimony as support for his testimony estimating the Missouri jurisdictional impact of the companies' proposal to retain synergy savings utilizing regulatory lag and recover transition/transaction costs over five years from the first change in rates that include merger synergy savings. The companies' estimate in CBG-1 was that customers would receive cumulative net benefits of $140 million through 2013 and $482 million through 2017. Both witnesses' testimony is clear regarding the utilization of regulatory lag for the companies to retain synergy savings achieved and the expected customer benefits after doing so.

Q: Will the companies deliver net benefits to customers consistent with the expectations outlined in Schedule CBG-1 to Company witness Giles testimony in the Merger case?

A: Yes, as discussed in my rebuttal testimony in this case, the Company projects that, with consideration of return of synergy savings related to FTE reductions (including related benefits), facilities retirements (removal from rate base and cost of service) and insurance costs savings to customers in rates effective from the ER-2009-0089 and ER-2009-0090 cases, cumulative regulated synergy savings would be $344.2 million through the second quarter of 2013 (the first five years post-acquisition) with 56.1%, or $193.1 million, of that total returned to customers. Customer benefits are projected to grow to $625.6 million in synergies or 80.6% of the projected $776.7 million in cumulative regulated synergy savings over the first 10 years post-acquisition. Net of the $51.8 million of transition cost recovery requested from customers by the companies, cumulative customer benefits over the first five years are projected to be $141.3 million over the first five years after the acquisition and $573.8 million over the first ten years after the acquisition, which in both periods exceed the projections by Company witness Giles in the Merger case.

I also provide in my rebuttal testimony a summary of projected customer benefits over the first five years assuming no synergy savings are realized by customers until rates effective from the current cases. With this ultra-conservative assumption, customers still receive 47.5% of the $344.2 million cumulative regulated synergy savings over the period.

Q: Beginning on page 8 of his rebuttal testimony, Staff witness Majors discusses what he describes as the true cost savings relating to the acquisition of Aquila. Do you have a response to his testimony on this topic?

A: Yes. Mr. Majors again presents several tables, this time summarizing actual and projected synergy savings as depicted by the Company in our synergy savings charter database. His main points here are to demonstrate the significance of the corporate retained synergy savings category and the amount of regulated synergy savings retained by the Company through regulatory lag. Once again, this is not new data to these current cases or to the Commission. I will not repeat my prior testimony here, but in my rebuttal testimony on pages 9 through 11, I describe the corporate retained synergy savings and the inappropriateness in viewing those savings as an offset to transition costs the Commission said in its Merger Report and Order that the Company could recover. I have already addressed in this surrebuttal testimony, as well as in my direct and rebuttal testimony in this case, the appropriateness of utilizing regulatory lag to retain synergy savings for the companies and will not repeat those arguments again.

Q: Do you have any other points you would like to make in regards to the corporate retained synergy savings category?

A: Yes. As another demonstration that the companies were fully transparent in the Merger case regarding the magnitude and treatment of the corporate retained synergies, I would like to refer to Company witnesses Marshall and Zabors testimony in the Merger case. On pages 6 through 8 of Company witness Marshall's Supplemental Direct testimony in the Merger case he describes $302 million of corporate savings over the first five years after acquisition. He states that, "These costs will be eliminated upon the consummation of the Merger and .... those reductions are not a part of our regulatory request." The $302 million of corporate savings are also provided on Schedule RTZ-6 to the Supplemental Direct testimony of Company witness Zabors. The amounts were clearly identified by the companies in the Merger case and the fact that there were savings to be achieved and retained by the Company was clear in the companies' testimony demonstrating, as noted above, that Mr. Majors' testimony in regard to corporate retained synergy savings is not new data to participants in the Merger case and these savings were known and available for consideration in the Merger case.

Additionally, as I stated in my rebuttal testimony, corporate retained synergy savings are a result of eliminating either 2006 Aquila corporate retained costs (not allocable to any regulated jurisdictions) or costs that were allocated to regulated jurisdictions other than Missouri. These costs were not subject to recovery from Missouri ratepayers prior to the acquisition and would not be eligible to be recovered from Missouri ratepayers post-acquisition. Therefore, the risks of not realizing these synergy savings were fully borne by the Company and its shareholders and the resultant synergy savings achieved should similarly fully benefit the Company and its shareholders.

Q: Do you agree with Staff witness Majors' testimony beginning on page 11 line 22 of his rebuttal testimony regarding the description and summary of cash flows related to the recovery of transition costs?

A: No. This is once again an attempt by Mr. Majors to blur the companies' retention of synergy savings through regulatory lag with the recovery of transition costs. I have provided substantial testimony in this case regarding the Commission's conclusions in the Merger Report and Order that separately address synergy savings and transition cost recovery.

Specifically, the Commission's conclusion (4) on page 238 of the Merger Report and Order regarding synergy savings states, "because the Applicants have agreed to recover any merger savings through "regulatory lag" as part of the traditional ratemaking process there is no net detriment to customers" and on page 241 of the same order regarding transition costs, the Commission states, "If the Commission determines that it will approve the merger when it performs its balancing test (in a later section in this Report and Order), the Commission will authorize KCPL and Aquila to defer transition costs to be amortized over five years." Both (1) the companies' ability to retain synergy savings through regulatory lag and (2) their ability to recover transition costs over five years after the Commission has evaluated the prudence and reasonableness of the costs and the companies have demonstrated that the synergy savings exceed the level of the amortized transition costs were addressed clearly in the Commission's Merger Report and Order. There is no blurred line as depicted by Staff witness Majors.

Q: On page 13 of his rebuttal testimony, Mr. Majors asserts that in your direct testimony you do not appear to recognize the benefit shareholders have received from synergies through regulatory lag; however, the Company has communicated to its employees that shareholders will receive significant benefits from the acquisition before they are flowed to ratepayers. How do you respond?

A: I can only assume that Mr. Majors overlooked my direct testimony specifically on page 9 lines 9 through 17 where I specifically address retaining synergy savings through regulatory lag and the Commission's conclusion in its Merger Report and Order regarding recovering merger savings through regulatory lag. Additionally, earlier in this surrebuttal testimony, I point out the companies' transparency in the Merger case in discussing the utilization of the natural regulatory lag that occurs between rate cases to retain any portion of synergy savings. Lastly, I provided substantial rebuttal testimony in this case describing the projected cumulative regulated synergy savings over the five and ten-year periods after acquisition and the amounts realized by customers of those total savings. The analysis in my rebuttal testimony clearly shows that benefits are retained by the companies and shareholders through regulatory lag.

Most importantly, the analysis in my rebuttal testimony demonstrates that customer benefits from synergy savings over the first five years post-transaction will be more than 3 times the $51.8 million of transition costs the companies seek to recover. Moreover, customer benefits from synergy savings over the first ten years post-transaction will be more than 12 times the level of transition cost recovery requested.

Q: Please summarize your surrebuttal testimony regarding transition cost recovery.

A: I have provided testimony demonstrating that Staff witness Majors has provided no new information in his rebuttal testimony for the Commission to consider. The companies' ability to retain synergy savings through regulatory lag and to recover transition costs through amortization over five years after the Commission's evaluation of prudence and reasonableness of the costs have already been addressed in the Commission's Merger Report and Order. The extent of the cumulative regulated synergy savings retained by the Company was detailed in Schedule CBG-1 to Company witness Giles Additional Supplemental Direct testimony in the Merger case and the extent of corporate retained synergy savings was discussed in the Supplemental Direct testimony of Company witness Marshall in the Merger case. There is no new data to evaluate.

Finally, in response to Staff witness Majors' assertion on page 18 of his rebuttal testimony that, "In relation to the Commission's report and Order in Case No. EM-2007-0374 ("Merger case") regarding the recovery of transition costs previously referenced, it would be imprudent and unreasonable to include any amount of transition costs in KCPL's or GMO's cost of service", I disagree submit the following in response:

1) The companies have acted in good faith and been completely transparent in regards to the transition cost recovery requested and the synergy savings being retained and benefiting customers;
2) The companies' request is consistent with and supported by the Commission's Merger Report and Order;
3) The companies have maintained a synergy savings tracking mechanism demonstrating that synergy savings exceed transition cost recovery amortization as ordered by the Commission in the Merger Report and Order;
4) The requested transition cost recovery is less than the amount projected in the Merger case; and
5) The synergy savings benefit to customers is projected to be more than 3 times the $51.8 million of transition costs the companies seek to recover. Moreover, customer benefits from synergy savings over the first ten years post-transaction will be more than 12 times the level of transition cost recovery requested. These customer benefits exceed the amount projected in the Merger case.

Q: Does that 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-2010-0355
Continue the Implementation of Its Regulatory Plan)

AFFIDAVIT OF DARRIN R. IVES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Assistant Controller.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of eleven (11) 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.

D R Ives
Darrin R. Ives

Subscribed and sworn before me this 5th day of January, 2011.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200