

Exhibit No.: Gmo-23
Issue: Transition Costs Amortization and
Synergy Savings Tracking Model
Witness: Darrin R. Ives
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

DARRIN R. IVES

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
June 2010**

KCP&L Exhibit No. GM023
Date 2/3/11 Reporter LMB
File No. ER-2010-0356

DIRECT TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2010-_____

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

2 A: My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri
3 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCP&L") as Assistant
6 Controller of Great Plains Energy Incorporated ("Great Plains Energy"), the parent
7 company of KCP&L and KCP&L Greater Missouri Operations Company ("GMO" or the
8 "Company").

9 **Q: What are your responsibilities?**

10 A: I have primary responsibility for regulatory accounting and reporting activities
11 undertaken by Accounting Services for the benefit of KCP&L and GMO in support of
12 KCP&L's Regulatory Affairs group. I am also responsible for the management of Great
13 Plains Energy's and KCP&L's external financial reporting to shareholders and various
14 regulatory agencies.

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

16 A: I graduated from Kansas State University in 1992 with a Bachelor of Science in Business
17 Administration with majors in Accounting and Marketing. I received my Master of
18 Business Administration degree from the University of Missouri-Kansas City in 2001. I
19 am a Certified Public Accountant licensed in the states of Missouri and Kansas. From

1 1992 to 1996, I performed audit services for the public accounting firm Coopers &
2 Lybrand L.L.P. I was first employed by KCP&L in 1996 and have held positions of
3 progressive responsibility in Accounting Services and was named Assistant Controller in
4 2007.

5 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
6 **Commission (“MPSC” or “Commission”) or before any other utility regulatory**
7 **agency?**

8 A: Yes, I have previously provided testimony to the MPSC in KCP&L rate case Docket No.
9 ER-2009-0089; and in GMO rate cases, Docket Nos. ER-2009-0090 and HR-2009-0092.

10 **Q: What is the purpose of your testimony?**

11 A: The purpose of my testimony is to explain and support adjustment CS-95, which is
12 included in Schedule JPW2010-2 attached to the direct testimony of Company witness
13 John P. Weisensee. This adjustment represents the transition costs amortization
14 requested by GMO in this case, in connection with Great Plains Energy’s acquisition of
15 Aquila, Inc. GMO operates its electric operations as GMO For All Territories Served As
16 MPS (“MPS”) and L&P (“L&P”). The amortization reflects MPS and L&P’s respective
17 share of the annualized level of amortization based on a five-year amortization of total
18 transition costs. I also describe the Company’s synergy savings tracking model and
19 process as ordered by the Commission in its Report and Order in Case No. EM-2007-
20 0374 (the “Merger case”), in which Great Plains Energy was authorized by the
21 Commission to acquire Aquila, Inc., now known as GMO.

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

6 **Q: Can you demonstrate that synergy savings exceed the level of the amortized**
7 **transition costs requested in this case and reflected in CS-95?**

8 A: Yes. As discussed below, the Company implemented a synergy savings tracking model
9 as ordered by the Commission in the Merger case. The results from this tracking model
10 clearly demonstrate that the synergy savings achieved in calendar year 2009 significantly
11 exceed the annual transition costs amortization requested by MPS and L&P and confirm
12 the synergy savings estimates provided by the companies in the Merger case.

13 **Q: How do you define “transition costs”?**

14 A: These are costs incurred to successfully coordinate and integrate the utility operations of
15 KCP&L and GMO. These costs are necessary to achieve the synergy savings that are
16 reflected in MPS and L&P’s test year cost of service that will be flowed-through to
17 customers in rates effective as a result of this case. These costs include non-executive
18 severance costs for employees terminated as a result of the merger, facilities integration
19 costs and incremental third-party, and other non-labor expenses incurred to support the
20 integration of the companies.

1 **Q: What are the actual transition costs incurred to date and projected through**
2 **December 31, 2010?**

3 A: As outlined in Schedule DRI2010-1, actual total utility transition costs incurred through
4 December 31, 2009 total \$57.4 million, of which \$17.5 million and \$4.4 million has been
5 allocated to MPS and L&P's retail operations, respectively. In addition, we project an
6 additional \$0.7 million (\$0.2 million for MPS and less than \$0.1 million for L&P)
7 through December 31, 2010, the expected true-up period in this case. We intend to
8 utilize actual transition costs through December 31, 2010, as the basis for determining the
9 annual amortization to be included in this case. Any transition costs incurred after the
10 true-up date will continue to be deferred for inclusion in MPS and L&P's next rate case.

11 **Q: How did you allocate the amortized transition costs to MPS and L&P's rate payers?**

12 A: Consistent with the Company's position in the Merger case, we allocated transition costs
13 to each jurisdiction based on the allocation of the initial projected synergy savings
14 identified by the integration teams as presented in the Merger case. Because the
15 transition effort and resulting costs are necessary in order to achieve the synergy savings,
16 a consistent allocation process was deemed appropriate. During the integration planning
17 process, a team comprised of representatives from KCP&L and Aquila developed a
18 jurisdictional synergy allocation methodology determining allocation factors for each
19 projected synergy category based on the most representative cost driver for that category.
20 Cost drivers are defined as an activity that causes a cost to be incurred. For purposes of
21 allocating transition costs to jurisdictions in order to establish jurisdictional regulatory
22 assets, the statistics associated with the cost drivers were based on 2007 data, primarily
23 from the KCP&L and Aquila FERC Form 1 filings. This period was selected as it

1 reflected the last full calendar year of standalone KCP&L and Aquila financial
2 information and statistics prior to completion of the acquisition.

3 **Q: What process does the Company have in place to identify and track transition costs?**

4 A: Consistent with the process identified in the Company's Cost Allocation Manual,
5 transition costs were tracked by establishing and utilizing specific project IDs and activity
6 IDs in the Company's accounting chartfields. Initially, the identification of transition
7 costs was the responsibility of integration planning teams with governance and
8 accountability for the transition costs maintained by the Integration Planning Leadership
9 Team ("IPLT"). At the beginning of the integration planning process, specific project
10 IDs and activity IDs were established in the Company's accounting system to track
11 transition costs by primary integration planning team. The accounting procedures were
12 communicated to the IPLT and all integration planning teams. Throughout the
13 integration process, the teams identified the transition costs which were coded with the
14 appropriate project IDs and activity IDs. Accounting Services, under my direction,
15 analyzed, tracked and reported these transition costs over the course of the integration
16 process. After the close of the transaction, this initial accounting process was concluded;
17 however, operational areas continuing to incur transition costs were provided a new
18 project ID for accounting distribution in order to be able to specifically track future
19 transition costs, which is consistent with the Company's process for accounting for
20 project costs. Accounting Services, under my direction, continues to analyze, track and
21 report transition costs.

1 **Q: Have you included any transaction costs in this case?**

2 A: No, we have not. In the Merger case, the Company defined transaction costs as costs to
3 consummate the merger. Examples of transaction costs include investment bankers' fees,
4 as well as consulting and legal fees associated with the evaluation, bid, negotiation and
5 structure of the transaction. Consistent with the Commission's Report and Order in the
6 Merger case, no transaction costs are included in this case.

7 **Q: Please summarize your testimony regarding transition costs amortization.**

8 A: I am requesting that the Commission authorize transition costs amortization in this case
9 in the amount of \$3.5 million and \$0.9 million for MPS and L&P, respectively. This
10 level of amortization reflects recovery over a five-year period of MPS and L&P's
11 respective share of transition costs projected through December 31, 2010 (\$17.5 million
12 for MPS and \$4.4 million for L&P), incurred during integration and coordination of
13 GMO's operations with KCP&L's.

14 **SYNERGY SAVINGS TRACKING PROCESS**

15 **Q: Has the Company implemented a synergy savings tracking model as ordered by the**
16 **Commission in the Merger case?**

17 A: Yes, we have. As ordered by the Commission, and described by the applicants in the
18 body of the Report and Order in the Merger case, we have established base period costs
19 utilizing 2006 as the base year for synergy tracking. We have compared 2009 actual
20 costs (the first full calendar year of combined company operations after the July 14, 2008,
21 acquisition) to the 2006 base year costs as adjusted for inflation and giving consideration
22 to known and measurable changes necessary to appropriately reflect comparative 2006
23 base year costs. The synergy tracking model looks at non-fuel operations and

1 maintenance ("NFOM") FERC accounts – the same basis utilized to calculate the \$305
2 million in synergy savings over the first five years after acquisition described by the
3 Applicants in the Merger case. We have, however, prepared and maintained synergy
4 savings project charters to track synergy savings identified in the revenue and fuel areas.
5 As discussed earlier in this direct testimony, the results from this tracking model clearly
6 demonstrate synergy savings achieved in calendar year 2009 substantially in excess of the
7 annual transition costs amortization requested by MPS and L&P in this case and are
8 supportive of synergy savings estimates provided by the companies in the Merger case.

9 **Q: Please describe the project charters to track synergy savings that you discussed**
10 **above.**

11 A: We determined that for internal tracking and accountability we needed to develop a
12 documentation methodology for the identification, valuation and reporting of synergy
13 savings. Therefore, we developed synergy savings project charters to track specifically
14 identified synergy savings. We maintain a database of the savings achieved through the
15 project charter process, which is the basis for our progress reports to senior management
16 and the board of directors regarding projected and actual synergy savings.

17 **Q: Do the synergy savings project charters utilize the 2006 base year to calculate**
18 **synergy savings?**

19 A: Yes. For example, when the project charter documenting synergy savings related to
20 insurance costs was submitted for approval, the project charter presented expected
21 KCP&L and GMO costs on a "combined company" basis for post-transaction periods.
22 The charter included a comparison of the expected costs to the 2006 base year costs
23 incurred for insurance adjusted to coincide with the year being valued. The result of this

1 work is recorded and maintained in a project charter database. As time elapses and the
2 synergy savings are realized, the project charter database is updated to reflect the actual
3 synergy savings. Each specific project charter within the database contains a comparison
4 to 2006 base year costs as adjusted.

5 **Q: How are the project charters utilized in the synergy savings tracking model as**
6 **ordered by the Commission?**

7 A: We utilize the project charter process to support the variances identified in the
8 comparison of calendar year 2009 costs to the 2006 base year costs, as adjusted for
9 known and measurable changes, in the synergy savings tracking model. We believe the
10 specific project charters are essential to the tracking process as they are initiated and
11 completed by the functional field (operational) areas that are ultimately accountable for
12 the execution and realization of the identified expected synergy savings.

13 **Q: Has the Company made an adjustment to the test year cost of service in this case for**
14 **synergy savings?**

15 A: No. Our filed position in the Merger case requested that synergy savings be shared
16 through regulatory lag. In other words, synergy savings would be flowed-through to
17 customers as they are reflected in the Company's cost of service in this and future rate
18 cases. The Commission recognized this treatment in its Report and Order in the Merger
19 case. On page 238 in the Conclusions of Law section, the Commission stated in part that,
20 "because the Applicants have agreed to recover any merger savings through 'regulatory
21 lag' as part of the traditional ratemaking process there is no net detriment to customers".

1 Q: **Please summarize your testimony regarding synergy savings tracking.**

2 A: The objective of the synergy savings tracking model is to provide a mechanism to
3 evaluate whether synergy savings achieved exceed the level of amortization requested in
4 this case. I also believe that the Commission's determination that there would be no net
5 detriment to customers by accepting the applicants' proposal for utilizing regulatory lag
6 as a sharing mechanism, is consistent with the Company's position in this case that
7 synergy savings are shared with ratepayers as the savings are reflected in test-year cost of
8 service through the normal ratemaking process. Therefore, I request the Commission
9 find that the Company's synergy tracking model, maintained as ordered by the
10 Commission in the Merger case, supports the Company's assertion that synergy savings
11 exceed the level of transition costs amortization requested in this case.

12 Q: **Does that conclude your testimony?**

13 A: Yes, it does.

Transition Costs Summary
Actuals through February 28, 2010, Projections through December 31, 2010

Schedule DRI2010-1

Description	Actuals Through December 31, 2009	True-Up Period		Total	5-yr Amortization
		Actuals Through Jan - Feb 28, 2010	Projections Mar - Dec 31, 2010		
Summary by Jurisdiction					
33.3% KCPL-MO	19,115,390	70,481	172,072	19,357,943	3,871,589
KCPL-KS	10,000,000	-	-	10,000,000	2,000,000
26.9% Over KS max	5,448,851	56,962	139,067	5,644,879	1,128,976
0.2% KCPL-Wholesale	136,096	502	1,225	137,822	27,564
	Assigned to KCPL	34,700,336	127,944	35,140,645	7,028,129
30.5% MPS-Retail	17,517,847	64,590	157,692	17,740,129	3,548,026
0.1% MPS-Wholesale	68,909	254	620	69,784	13,957
7.7% L&P Electric	4,399,847	16,223	39,606	4,455,677	891,135
0.4% L&P Steam	241,182	889	2,171	244,242	48,848
0.864% Merchant	496,146	1,829	4,466	502,441	100,488
100.0%	Total by Jurisdiction	57,424,268	211,730	58,152,918	11,630,584
Total Regulatory Assets	Excl Over KS Max and Merchant	51,479,271	152,939	52,005,597	10,401,119

Transition Costs Summary
 Actuals through February 28, 2010, Projections through December 31, 2010

Schedule DRI2010-1

Description	Actuals Through December 31, 2009	True-Up Period		Total	5-yr Amortization
		Actuals Through Jan - Feb 28, 2010	Projections Mar - Dec 31, 2010		
Summary by Jurisdiction					
33.3% KCPL-MO	19,115,390	70,481	172,072	19,357,943	3,871,589
KCPL-KS	10,000,000	-	-	10,000,000	2,000,000
26.9% Over KS max	5,448,851	56,962	139,067	5,644,879	1,128,976
0.2% KCPL-Wholesale	136,096	502	1,225	137,822	27,564
Assigned to KCPL	34,700,336	127,944	312,365	35,140,645	7,028,129
30.5% MPS-Retail	17,517,847	64,590	157,692	17,740,129	3,548,026
0.1% MPS-Wholesale	68,909	254	620	69,784	13,957
7.7% L&P Electric	4,399,847	16,223	39,606	4,455,677	891,135
0.4% L&P Steam	241,182	889	2,171	244,242	48,848
0.864% Merchant	496,146	1,829	4,466	502,441	100,488
100.0%	Total by Jurisdiction	57,424,268	211,730	58,152,918	11,630,584
Total Regulatory Assets	Excl Over KS Max and Merchant	51,479,271	152,939	52,005,597	10,401,119