

Exhibit No.:
Issue: SERP and Severance
Witness: Ellen E. Fairchild
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2010-0355
Date Testimony Prepared: December 8, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0355

REBUTTAL TESTIMONY

OF

ELLEN E. FAIRCHILD

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
December 2010**

*** [REDACTED] *** Designates "Highly Confidential" Information
Has Been Removed
Pursuant To 4 CSR 240-2.135.

REBUTTAL TESTIMONY

OF

ELLEN E. FAIRCHILD

Case No. ER-2010-0355

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

2 A: My name is Ellen E. Fairchild. My business address is 1200 Main Street, Kansas City,
3 Missouri, 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” or the “Company”)
6 as Vice President, Corporate Secretary and Chief Compliance Officer.

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

8 A: In my Corporate Secretary role, I work closely with the Chairman of the Board, Board
9 Committee Chairs, and other Directors in planning, organizing and conducting meetings.
10 In addition, as part of the Secretary role I support the Compensation and Development
11 Committee of the Board, and I am responsible for the day-to-day administration of all
12 executive compensation matters. In my Compliance Officer role, I manage the
13 communication, institutionalization and monitoring of the Company’s programs to
14 comply with requirements mandated by numerous federal and state agencies throughout
15 the Company.

16 **Q: Please describe your experience and employment history.**

17 A: I have a Bachelor of Arts in Accounting from Baker University, Baldwin City, Kansas,
18 and a Master of Business Administration from Rockhurst University, Kansas City,
19 Missouri. Prior to joining Great Plains Energy/KCP&L in 2008, I spent 3 years with a

1 small boutique public relations firm and prior to that I spent 16 years (1986-2002) with
2 Aquila, Inc. (Missouri Public Service / UtiliCorp United Inc.). At Aquila, I served in a
3 variety of roles including accounts payable, shareholder relations, internal audit, finance
4 and investor relations. When I left Aquila in 2002, I was Vice President, Investor
5 Relations. I joined KCP&L in January 2008 as Director, Investor Relations. I was
6 promoted to Senior Director Investor Relations and Assistant Secretary in June 2010 and
7 to my current position in October 2010.

8 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
9 **Commission (“Commission” or “MPSC”)?**

10 A: I have not previously testified before the Commission. However, I did testify before the
11 Kansas Corporation Commission in Docket No. 10-KCPE-415-RTS.

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

13 A: The purpose of my testimony is to rebut the Direct Testimony of staff witnesses Charles
14 R. Hyneman of the Missouri Public Service Commission Staff concerning
15 (i) supplemental executive retirement plan (“SERP”) payments; and (ii) severance costs
16 that are unrelated to the Company’s Talent Assessment in 2007.

17 **SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP) EXPENSE**

18 **Q: Do you agree with Staff’s proposed treatment of the Company’s SERP expenses?**

19 A: No, I do not. Mr. Hyneman recognizes that during the period 2001 through 2009
20 KCP&L made varying levels of lump-sum SERP payments in seven of nine years, in
21 addition to the annuity-related payments made in each of those same years. However, he
22 incorrectly concludes that lump-sum SERP payments cannot be accurately quantified and
23 should be excluded from cost of service. Therefore, he recommends that only KCP&L’s

1 2009 annuity-related SERP payments meet the known and measurable test and should be
2 included in cost of service in this case.

3 **Q: What were the amounts of SERP payments made during these years?**

4 A: The annual average SERP payments over this nine-year period was \$974,205, which
5 includes average annual lump sum payments of \$805,851 and average annual annuity-
6 related payments of \$168,354.

7 **Q: Do plan participants have the choice of either form of payment?**

8 A: Yes. Plan participants have the choice of receiving either a lump sum payment or an
9 annuity paid out on a monthly basis.

10 **Q: Therefore, is there any justification for including only one of the options in
11 normalized cost of service expense, such as Mr. Hyneman's recommendation to
12 include only annuity payments?**

13 A: No, both forms of payment must be included. It is appropriate for the Company to
14 include in its rates expenses that accurately reflect the Company's costs going forward.
15 By only including annuity payment costs, Staff's proposal would result in a significant
16 under recovery.

17 **Q: Have the Company's existing officers chosen their payment option?**

18 A: ** [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

23 [REDACTED] ** As a result, without including an average annual amount for

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1 lump sum SERP payments, the Company will experience a significant under recovery
2 related to its SERP payments. Therefore, using an average of payments over time is
3 appropriate, including both lump-sum and annuity payments.

4 **SEVERANCE COSTS – NON-TALENT ASSESSMENT**

5 **Q: Do you agree with Staff's contention that severance costs should be excluded from**
6 **this case?**

7 A: No, I do not. Severance costs are an ongoing cost of providing service. Company
8 management takes seriously its responsibility to ensure the Company has the human
9 capital capable of delivering safe, reliable service at a reasonable cost. Severance is an
10 ongoing cost to accomplish this.

11 **Q: Does KCP&L incur some level of severance costs annually?**

12 A: The Company generally incurs some amount of severance cost each year as it remains
13 diligent in ensuring it has qualified, productive individuals performing the appropriate job
14 function. Employees who are knowledgeable, skilled, and engaged are innovative and
15 efficient, thus taking costs out of the business. This allows the Company to be more cost-
16 effective in the long run and keep customers' rates as low as possible.

17 **Q: Are there other reasons why severance costs are a reasonable and necessary**
18 **business expense?**

19 A: Yes. Not only do ongoing severance costs benefit the Company's customers by ensuring
20 employees are engaged in helping customers, but such costs also shield the Company
21 from potentially significant litigation expenses. Defending a meritless or frivolous labor
22 or employment claim against the Company is expensive. Customers benefit from a
23 company not expending dollars on legal costs and not having its employees distracted by

1 litigation. It is for this reason that the payment of severance is a common business
2 practice when an employee is terminated for something other than gross misconduct.

3 **Q: Staff suggests that the Company already collects its severance costs through**
4 **regulatory lag. Do you agree with that assessment?**

5 A: No, I do not. Staff's position would potentially be accurate when an employee is
6 terminated and the position remains unfilled. However that is not the case with respect to
7 these types of routine severances. In these cases, the Company typically fills the position
8 as soon as it can locate a qualified and interested candidate. That being the case, in
9 nearly all cases the position does not remain unfilled long enough for the Company to
10 recover its severance cost through regulatory lag. In addition, if rates were set based on
11 currently filled as well as unfilled positions, I would agree with his position. However,
12 the Staff has taken the position to exclude unfilled positions, even if offers are extended
13 and accepted, but the newly hired individual was not currently on the Company's
14 premises and in its payroll system as an employee on the true-up date.

15 **Q: Please quantify the value of this issue in this case.**

16 A: The Company has included \$107,504 of severance cost in this case, representing a 3-year
17 average of such costs (2007-2009). Mr. Hyneman has recommended no recovery.

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

19 A: Yes, it does.

