

Exhibit No.:
Issue: SERP; Severance
Witness: Ellen E. Fairchild
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
Date Testimony Prepared: December 15, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

REBUTTAL TESTIMONY

OF

ELLEN E. FAIRCHILD

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
December 2010**

REBUTTAL TESTIMONY

OF

ELLEN E. FAIRCHILD

Case No. ER-2010-0356

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 provided Rebuttal Testimony in KCP&L’s Case No. ER-2010-0355. Also, I testified
11 before the 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 witness Charles R.
14 Hyneman of the Missouri Public Service Commission Staff concerning KCP&L Greater
15 Missouri Operations Company (“GMO”) supplemental executive retirement plan
16 (“SERP”) payments and to rebut Staff’s adjustments E129.2 (MPS) and E135.1 (L&P) to
17 remove severance costs from costs of service, as reflected in Staff’s Accounting
18 Schedules. This rebuttal pertains to these issues for both of GMO’s regulated
19 jurisdictions, MPS and L&P.

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

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

22 A: I have four areas of concern regarding Mr. Hyneman’s SERP expense recommendations:

- 23 1. Exclusion of lump-sum payments;

- 1 2. Reduction of SERP expense based on a 2005 exclusion factor tied to executive
- 2 titles;
- 3 3. Reduction of SERP expense of two Aquila executives because the amount was
- 4 perceived to be too high based on a “benchmark” payment to one individual with
- 5 22 years of service; and
- 6 4. The exclusion of all Aquila SERP allocations to L&P due to the 2001 merger
- 7 of St. Joseph Light & Power Company and UtiliCorp United.

8 While I do have a number of areas of disagreement, I do agree with Mr. Hyneman’s
9 rational for not allocating any SERP expense to capital; the reduction of monthly annuities
10 by 20 percent to reflect that some SERP expense was based on bonus payments and
11 incentive compensation which were not included in cost of service; and the exclusion of
12 SERP for former L&P executives and certain former Aquila executives.

13 **Q: Please explain your concern with Staff’s proposed treatment of the Company’s**
14 **lump-sum SERP expenses?**

15 A: Mr. Hyneman recognizes that during the test period GMO made varying levels of annuity
16 based and lump-sum SERP payments. However, he incorrectly excluded lump-sum
17 SERP payments in his cost of service recommendation. He recommends that only
18 GMO’s 2009 annuity-related SERP payments meet the known and measurable test and
19 should be included in cost of service in this case. In the Stipulation and Agreement as to
20 Certain Issues in the Aquila’s Case No. ER-2007-0004, approved by the Commission on
21 April 12, 2007, it was agreed that the Company would account for SERP payments on a
22 pay as you go method. Yet, the known and measurable lump-sum amounts paid in 2009
23 were excluded in the cost of service in this case.

1 **Q: What were the amounts of lump-sum SERP payments made during the test period?**

2 A: The lump-sum SERP payments during the test period that should be included in the
3 SERP adjustment calculation are \$982,904. These amounts exclude any payments to
4 former L&P executives and certain former Aquila executives.

5 **Q: How do you recommend these lump sum payments be recovered?**

6 A: Lump sum SERP payments made in 2009 should be amortized over a five-year period
7 rather than be fully recognized in the test period. If the lump sum option had not been
8 chosen, these participants would receive monthly annuity payments. The amortization
9 merely spreads the payments over a period of time which more closely reflects annuity
10 based payments. The amount of this amortization should be included in the cost of
11 service since the difference between lump-sums and annuities is primarily timing.

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

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

19 **Q: Please explain why you believe SERP payments should not be allocated based on**
20 **executive titles and 2005 allocation factors?**

21 A: It appears that Staff looked at the titles for the Aquila executive officers and reduced
22 SERP payments to be charged to Missouri regulated operations based a 2005 percentage
23 exclusion factor. There are two problems with this approach: 1) Titles do not necessarily

1 communicate job function or percent of time that an individual worked on Missouri
2 regulated operations. 2) SERP is an accumulation of benefits over time, and job
3 responsibilities change over time.

4 **Q: What were the amounts of SERP payments excluded due to the allocation by title?**

5 A: The SERP amount related to this issue during the test period that should be included is
6 \$171,002. This amount excludes any payments to former L&P executives and certain
7 other Aquila executives and also excludes a 20 percent reduction to adjust for SERP
8 benefits that accumulated as a result of bonus and incentives not included in cost of
9 service.

10 **Q: Why do you believe that the full SERP expense of two Aquila executives should be**
11 **included in cost of service?**

12 A: Mr. Hyneman used one employee with over 22 years of service to determine what he
13 perceived was a reasonable SERP payment. He set this amount at approximately \$50,000
14 annually, yet he capped the recovery of a SERP payment to an employee with 38 years of
15 service. SERP benefits increase with years of service, similar to pension benefits.

16 **Q: What was the total amount of SERP payments excluded due to the cap placed on the**
17 **full recovery of SERP benefits for two former Aquila executives?**

18 A: The SERP amount related to this issue that should be included for GMO is \$50,782,
19 before the 20 percent reduction to adjust for SERP benefits that accumulated as a result
20 of bonus and incentives not included in cost of service. Using the Company's allocation
21 factor the amounts were \$38,483 and \$12,299 for MPS and L&P, respectively.

22 **Q: Why do you believe that SERP expense for former Aquila executives should be**
23 **allocated to L&P?**

1 A: Like MPS, L&P was a part of the Aquila organization and derived benefits from the
2 employment of Aquila executives and therefore L&P ratepayers are responsible for a
3 portion of their compensation and related benefits. Additionally, Staff has been the party
4 insistent that SERP recovery be based on cash payments and not accrued SERP expense.
5 Aquila/GMO has not been able to recover the SERP cost related to this service in the past
6 and now requests recovery of the cash payments in this case and going forward.

7 **Q: What was the total amount of SERP payments excluded related to this issue?**

8 A: Using the schedule prepared by Staff, the amount is \$20,618.

9 **SEVERANCE COSTS**

10 **Q: Do you agree with Staff's adjustments E129.2 (MPS) and E135.1 (L&P) to remove**
11 **severance costs from costs of service?**

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

16 **Q: Does GMO incur some level of severance costs annually?**

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

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

1 A: Yes. Not only do ongoing severance costs benefit the Company's customers by ensuring
2 employees are engaged in helping customers, but such costs also shield the Company
3 from potentially significant litigation expenses. Defending a meritless or frivolous labor
4 or employment claim against the Company is expensive. Customers benefit from a
5 company not expending dollars on legal costs and not having its employees distracted by
6 litigation. It is for this reason that the payment of severance is a common business
7 practice when an employee is terminated for something other than gross misconduct.

8 **Q: Would the Company over collect by including both severance and payroll costs in its**
9 **cost of service?**

10 A: No, the Company typically fills open position as soon as it can locate a qualified and
11 interested candidate. That being the case, in nearly all cases the position does not remain
12 unfilled long enough for the Company to recover its severance cost through regulatory
13 lag. If rates were set based on currently filled as well as unfilled positions, this might be
14 true. However, Staff has taken the position to exclude unfilled positions, even if offers
15 are extended and accepted, if the newly hired individual was not currently on the
16 Company's premises and in its payroll system as an employee on the true-up date.

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

18 A: The Company has included \$30,337 and \$6,646 of severance cost in this case,
19 representing a 3-year average of such costs (2007-2009) for KCP&L GMO-MPS and
20 KCP&L GMO-L&P, respectively. Staff has recommended no recovery.

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

22 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of KCP&L Greater)
Missouri Operations Company to Modify Its) Docket No. ER-2010-0356
Electric Tariffs to Effectuate a Rate Increase)

AFFIDAVIT OF ELLEN E. FAIRCHILD

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Ellen E. Fairchild, being first duly sworn on her oath, states:

1. My name is Ellen E. Fairchild. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President Corporate Secretary and Chief Compliance Officer.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of Seven (7) 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.

Ellen E. Fairchild
Ellen E. Fairchild

Subscribed and sworn before me this 15th day of December, 2010.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2011

