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Issue:	Regulatory Lag; Property Tax Tracker; RES Tracker; Transmission Tracker; ORVS; DFITS; Crossroads
Witness:	Darrin R. Ives
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	ER-2012-0175
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0175

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
October 2012

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2012-0175

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 pre-filed Direct and Rebuttal Testimony in this matter?

A: Yes, I am.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of KCP&L Greater Missouri Operations Company ("GMO" or the "Company") for St. Joseph Light & Power ("L&P") and Missouri Public Service ("MPS") territories.

Q: What is the purpose of your Surrebuttal Testimony?

A: I will rebut the testimony of various Staff witnesses on the following issues:

- Regulatory lag
- Property Tax Tracker
- Renewable Energy Standards Tracker
- Transmission Tracker
- Organizational Realignment and Voluntary Separation ("ORVS") Program
- Distribution Field Intelligence and Tech Support ("DFITS")

- Valuation of Crossroads Energy Center as a result of Great Plains Energy Incorporated's ("GPE") acquisition of Aquila, Inc.

REGULATORY LAG

Q: Do you agree with Mr. Hyneman's discussion on regulatory lag that he begins on page 2 of his Rebuttal Testimony?

A: I agree that regulatory lag is normal and recurring in the ratemaking process and that regulatory lag can be both positive and negative when looked at from either the vantage point of the ratepayer or of the Company. I also agree that the Commission has statutorily provided for or otherwise authorized certain mitigation processes such as fuel adjustment clauses, interim energy charges and pension and other trackers. However, there are many elements of his testimony with which I do not agree. I have addressed these below. I particularly disagree with his contention that the Company's commitment to controlling all costs to the greatest extent possible is reduced by the existence of such mitigating measures.

Q: What was your overall impression based on reading Mr. Hyneman's Rebuttal Testimony?

A: Mr. Hyneman spends a lot of time discussing the regulatory lag issue, covering pages 2 through 18 of his testimony. His overall message seems to be that regulatory lag that benefits the customers is a good thing, while at the same time attempts to mitigate regulatory lag could result in distortion and manipulation of the natural regulatory process.

Q: On page 4 and 5 of his Rebuttal Testimony, Mr. Hyneman indicates that "Once the revenue requirement is ordered and rates are set, a long list of variables come into play that will affect a utility's ability to earn at the authorized level established by the Commission." He continues

> **One example is when a utility is not engaged in a large amount of construction and adding a large amount of new plant additions to its rate base. During this period, due to rate recovery of its plant investment through depreciation expense and the resulting increases in depreciation reserve, shareholder investment in regulated rate base is constantly declining. However, its overall rate of return is based on the higher dollar amount rate base that was set in the previous rate case. This regulatory lag results in the utility's investors recovering more of a financial return on the rate base in rates than was determined reasonable and set in rates in the previous case.**

Do you agree with his contention?

A: I would agree with Mr. Hyneman only if the utility was incurring <u>no</u> new construction costs. However, this is never the case. Even absent major new capital programs such building a new generating plant or a significant retrofit, utilities such as GMO are constantly incurring construction costs for capital replacements. Generally, when one unit of property is replaced with a new unit of property, the cost of the new addition greatly exceeds the cost of the retired unit. The retirement of the prior plant actually has no impact on rate base in total because the retired plant is removed from both the Plant in Service accounts and the Reserve for Depreciation accounts at the same amount. Because of these capital replacements, the additions to plant in service generally equal or exceed the amount by which rate base is decreasing due to the provision for depreciation expense and associated increases in the depreciation reserve. Schedule DRI-6 shows the relationship of plant additions to the provision for depreciation for 2001 through 2005, the five years prior to the significant construction activities initiated under the Regulatory

Plan. Statistics for Kansas City Power & Light Company ("KCP&L") are used in this schedule because post-merger statistics for GMO include years for which there were significant plant additions for Iatan 1, Jeffrey Energy Center and Iatan 2. The KCP&L statistics are more representative of years with routine plant additions. As can be seen from the schedule, plant additions have exceeded the provision for depreciation in each of the years presented. Consequently, I disagree that the Company benefits from regulatory lag due to declining rate base.

Q: Mr. Hyneman continues on page 5 by saying that

> **But the normal operation of regulatory lag can provide a counterbalance to the impact of rising fuel costs through offsetting changes in other revenue requirement factors. For example, revenue levels are set at a fixed level in the rate case, but increasing revenues due to an increase in the number of customers or increases in usage per customer can compensate, and sometimes more than compensate, for any increase in fuel costs.**

Do you agree with this contention?

A: While customer growth and increasing off-system sales revenues helped offset rising costs in the past, those conditions have not occurred in recent years. The increases in recurring operating and maintenance costs and the increases due to environmental requirements and other regulations have combined to prevent the Company from earning its authorized rate of return. As was demonstrated on page 3 in my Rebuttal Testimony, the MPS and L&P jurisdictions have not earned their authorized return on equity at any time since 2008, the first year following the mid-2008 acquisition of Aquila's Missouri electric properties.

Q: On page 7 of his Rebuttal Testimony, Mr. Hyneman expresses his concern that "manipulation or elimination of regulatory lag (could) result in a distorted regulatory process." He contends that improperly designed regulatory lag

mitigation measures can result in a "guarantee of rate recovery of all prudently incurred costs and the burden of proof that utility management is not acting in the most efficient and effective manner possible to control costs is very difficult for even the most experienced regulator to meet." He continues "Utility management is keenly aware of this fact." Do you agree?

A: I strongly disagree with his implication that utility management purposely designs regulatory lag mitigation measures so as to hide or allow inefficiencies and ineffectiveness in their management practices. I believe that the ratemaking mechanisms listed by Mr. Hyneman, i.e. expense trackers, automatic adjustment clauses, IEC's and accounting authority orders, are used to manage regulatory lag, not manipulate it.

Q: Mr. Hyneman mentions the use of ratemaking mechanisms such as expense trackers as one source of "distorted regulatory process." He specifically uses the Company's pension tracker as an example where the elimination of regulatory lag may have led to excessive pension costs being charged to GMO's customers. Do you agree?

A: No. A pension tracker is in place at each of Missouri's regulated electric utilities to ensure that ratepayers pay no more and no less than actual incurred pension costs. It and a related tracker for Other Post-Employment Benefits ("OPEB") were adopted as part of Case No. ER-2010-0356 ("2010 Case"). These trackers were adopted to better align cost recovery with costs incurred, achieve a consistent method with other Missouri regulated utilities including KCP&L and to address the increasing volatility of these costs between rate cases. A tracker controls both positive and negative regulatory lag. When looking at the impact of the similar pension tracker for KCP&L since adoption, there were years when pension costs increased above amounts included in rates and other years when they decreased below those amounts. In fact, the OPEB tracker adopted as part of the 2010 Case has resulted in a reduction of cost of service in this case. The Company's goal is to control all of its costs and this commitment is not reduced simply because a tracker is in place.

Q: How do you address Mr. Hyneman's contention on page 9 of his Rebuttal Testimony that "Clearly, there are indications that GPE's pension costs are out of control and this may be indicative of a lack of competitive pressures on KCPL's management to rein in and control these runaway pension costs being charged to both KCPL and GMO customers"?

A: Members of the Company's Human Resources, Accounting and Regulatory Affairs departments, as well as representatives from the Company's actuary Towers Watson, met with Mr. Hyneman on several occasions. In those meetings, the Company discussed steps that GPE, whose consolidated pension plan covers KCP&L and GMO, has and is taking to review and modify its pension and benefit plans to reduce costs. As discussed in those meetings, GPE considers its entire compensation and benefit package as a whole and seeks to maintain a consolidated compensation package that is comparable with its peers.

Q: Are there other factors outside the Company's control that have resulted in increased pension costs in recent years?

A: The current environment of very low interest rates and volatility in markets has resulted in significant increases in the cost of the Company's defined benefit pension costs.

Q: Has GPE taken any steps to better control its pension and benefit costs?

A: Yes. Effective January 1, 2008, the GPE reduced the portion of its non-union retirement benefits provided under its defined benefit pension plan, moving toward more reliance on a defined contribution plan using its 401(k) plan. New non-union employees were placed on the new plan while existing employees were given the one-time option of staying on the prior plan. Under the revised plan, the lump-sum payment option was eliminated. The lump-sum payment option was also not granted to non-union employees joining the Company as a result of the merger with Aquila. Currently, over one-half of non-union employees participate in the new plan.

Q: Is GPE considering the recommendations made in the report by Deloitte Consulting, a draft of which dated October 11, 2011 is attached as Schedule CRH-1 HC to Mr. Hyneman's testimony?

A: Yes. The recommendations made by Deloitte Consulting are being considered as part of the GPE's ongoing review of the total compensation package.

Q: On pages 11-12 of his Rebuttal Testimony, Mr. Hyneman lists a number of changes that the Company could have made to its pension plans to reduce ongoing costs "if it had appropriate incentives to control its pension costs." He continues that "What is a concern to Staff is that the reason for this inaction may be the lack of the competitive incentive to keep pension costs as low as possible through the forces of regulatory lag." How do you respond to this contention?

A: GPE has in fact already made some of the changes that Mr. Hyneman lists. Effective January 1, 2008, it modified its non-union retirement plans to move more emphasis from a defined benefit plan to a defined contribution plan. It also eliminated the lump-sum payment option for new non-union employees. The report commissioned from Deloitte Consulting in 2011 was intended to help the GPE identify other changes that should be considered. However, as expressed to Mr. Hyneman in various pension and compensation meetings, changes to benefit plans must be enacted carefully and frequent changes are very disruptive. Additionally, changes to pension plans can only be made prospectively and will not impact pension benefits and costs already earned by existing employees.

Q: On page 10 of his Rebuttal Testimony, Mr. Hyneman contends that "I believe that both the high number of trackers and the specific design of the pension trackers that are currently in place, and have been in place for several years, has likely contributed to these excessive combined pension cost for KCPL and GMO." He indicates that there are 16 pension and OPEB expense trackers being included in the current rate case for KCP&L and GMO-MPS and GMO L&P. Do you agree?

A: No, I do not agree with either part of his statement. The Company's pension tracker in each jurisdiction is designed very similarly to the pension trackers in place at other Missouri utilities. Additionally, Mr. Hyneman is overstating the number of pension and OPEB trackers in place. Each jurisdiction has one pension tracker and one OPEB tracker for ongoing costs. Each jurisdiction also has a prepaid pension tracker to identify pension contributions made to comply with legislated pension contribution requirements that exceed the contributions required for ratemaking. GMO-MPS also has one pension-related tracker and GMO-L&P has two pension-related trackers that are being amortized as a result of the pension method in place prior to the method adopted in the 2010 Case.

These prior pension-related trackers are not ongoing and will only exist until the final amortizations have been completed.

Q: On page 13 of his Rebuttal Testimony, Mr. Hyneman states that "the Staff's current heightened concern about the elimination of the beneficial impact of regulatory lag is caused by the continuously increasing number of measures to eliminate what utilities believe to be the detrimental impact of regulatory lag, but effectively leave in place regulatory lag that is detrimental to customer interests." Please respond to this concern.

A: Some of the measures that the company seeks to implement, such as an interim energy charge for KCP&L, are authorized by statute. Other measures that the Company is seeking in this case are trackers, such as the property tax and transmission trackers. Trackers are symmetrical and capture amounts that are both more than and less than the amounts included in base rates. Consequently, both "beneficial" and "detrimental" regulatory lag is addressed for the areas in which trackers are adopted.

Q: On page 16 of his Rebuttal Testimony, Mr. Hyneman begins a discussion in which he addresses that "To achieve this level of balance and fairness, I believe it is important to approach the regulatory lag issues being raised by utilities today from a historical perspective." As an illustration, he indicates that in the mid-1980's KCP&L's earnings were so good that, for a period of approximately 20 years, it did not file a rate increase with the Commission. Please respond.

A: Prior to the rate cases filed by KCP&L beginning with ER-2006-0314 as part of the Regulatory Plan, it is true that the next earliest rate case filed by KCP&L was ER-85-128, twenty years earlier, when the Wolf Creek Generating Station was placed in Service. The rate order in that case ordered a 7-year phase in plan. Only the first three years of the phase in plan were implemented through May 1987, with the final four years of the plan being cancelled, eliminating the remaining scheduled increases that were determined to be necessary in 1985. In addition, there were four separate KCP&L rate reductions implemented between 1994 and 1999. These are shown on Schedule DRI-7. Elimination of the final four increases under the phase-in plan and these additional rate reductions reduced or eliminated the "beneficial" regulatory lag that was accruing to KCP&L.

Q: Mr. Hyneman continues "It is safe to say that due to positive regulatory lag (positive to KCPL shareholders) from a declining rate base, customer growth, strong off-system sales and possibly other factors, KCPL was earning at or above its authorized return on equity for this 20-year period." Do you agree? "

A: No. As part of the Wolf Creek order, KCP&L was required to file a Surveillance Report, first biennially and later annually. These Surveillance Reports clearly reflected the Company's earned return on rate base ("ROR") and earned return on equity ("ROE") for the reported periods. Based on the filed Surveillance Reports for each calendar year, Schedule DRI-8 reflects KCP&L's earned ROR and earned ROE as compared with its authorized Return on Equity for the years 1986 through 2011. As you can see on Schedule DRI-8, KCP&L failed to earn its authorized ROE in all of the 24 years presented.

Q: Is GMO required to file routine Surveillance Reports that would allow Staff to monitor is earned versus authorized ROR and ROE?

A: Yes. Both the MPS and L&P jurisdictions are required to file a monthly Surveillance Report. This is a long-term requirement that has been carried forward from when these were Aquila affiliates. As was demonstrated on page 3 in my Rebuttal Testimony, neither the MPS nor L&P GMO jurisdictions have earned its authorized return on equity at any time since 2008, the first year following the mid-2008 acquisition of Aquila's Missouri electric properties.

Q: Are there any other observations that you would like to make regarding regulatory lag?

A: Yes. The Commission recently opened Case No. AW-2013-0110 to investigate the establishment of a rate stabilization mechanism to reduce the need for frequent rate case filings. The Commission expressed its concern that the circumstances of any general rate action include expense to the utility, the Commission, and the public, of litigating general rate actions with increasing frequency in recent years. It ordered the parties to the Ameren Missouri, KCP&L, KCP&L-GMO and Empire District Electric Company rate cases to file additional testimony regarding possible means of reducing the need for the utility to file frequent rate increases. The primary driver behind the need to file a rate increase request is the Company's inability to earn its authorized rate of return. Increased use of reasonable regulatory lag mitigation measures such as expense trackers will allow the utility a reasonable opportunity to earn its authorized rate of return and reduce the need to return to the Commission for rate relief on an increasingly frequent basis.

Q: Please summarize your position on regulatory lag.

A: Regulatory lag, both beneficial and detrimental, is a naturally occurring part of the regulatory process. However, certain mitigation measures such as those being requested in this case protect both the ratepayer and the Company from changes in large-dollar and volatile costs. The Company's commitment to controlling all costs to the greatest extent possible and practicable is in no way reduced by the existence of these mitigating measures. GMO's monthly Surveillance Reports are a systematic and routinely recurring means by which the Staff can easily monitor the MPS and L&P jurisdictions on a regular basis to ensure that the GMO jurisdictions are earning at levels consistent with and not in excess of authorized levels. By putting in place measures to mitigate regulatory lag to help ensure that the GMO jurisdictions have a reasonable opportunity to earn its authorized ROE, the ratemaking process is facilitated by a reduction in the need to file frequent requests for rate increases. The measures requested by the Company in this case seek to mitigate regulatory lag and ensure that the company has a reasonable opportunity to earn its authorized ROE.

PROPERTY TAX TRACKER

Q: What was Staff's position regarding use of a tracker for property tax expense?

A: Staff witness Karen Lyons did not support the use of a tracker for property tax expense. On page 15 of her Rebuttal Testimony, she indicated that trackers should be used in rare circumstances where it is extremely difficult to identify an amount of costs to be included in rates. She further indicated that while GMO's property taxes have increased, the significant increase in property taxes was attributable to significant plant additions. On page 15, she indicates that "Staff concludes that the increases in property taxes that GMO has experienced are related to plant additions".

Q: Do you agree with Staff's position regarding use of a tracker?

A: No. The Company does not dispute that increases in Plant in Service may impact property tax expense. However, there are many other factors that can cause increases in property tax expense. GMO has very little control and cannot predict the actual property tax assessments, the mill levy tax rates and thus the ultimate property taxes to be paid.

Property taxes are determined on an annual basis and are due in part to budgetary issues of state and local governments. Such taxes can and have changed significantly over the past several years. A property tax tracker would capture the tax increases and decreases in property tax expense that are attributed to factors that are not under control of the Company.

Q: Please explain the fair market value that property tax assessments are based on for utilities in Kansas and Missouri.

A: As a public utility, the State appraisers use three standard appraisal methods for computing the fair market value of GMO, upon which the property tax assessments for GMO are based. The three methods used are the Cost Approach (based on the cost of plant placed in service), the Income Approach (based on an average of net operating income ("NOI") of the entity over a certain period of time) and the Market Approach (based on the stock value of the company). Once the three calculations are done, the Appraisers determine a fair market value that in their opinion is in line with these three calculations. Certainly the addition of plant in service directly impacts the calculation of fair market value for the Cost Approach. However, neither Missouri nor Kansas Appraisers rely solely on the Cost Approach to determine fair market value.

Q: Does Staff consider these other standard appraisal methods in their analysis of property taxes?

A: No, the Staff has ignored the impact that increases in the stock price or net operating income of the company may have on the amount of property taxes paid by GMO. Either one of these factors may occur without a corresponding increase in plant in service.

Q: Staff's witness Karen Lyons included a table on page 17 in her Rebuttal Testimony that identified actual plant in service values and actual property taxes paid by GMO as support to justify the increase in property taxes. Does GMO agree with these schedules?

A: GMO agrees that Plant In-Service and property taxes have increased significantly since 2008. However, the Company was unable to determine how Ms. Lyons arrived at her Plant in Service amounts for both MPS and L&P. The Company has updated the tables for amounts of Plant in Service provided in company work paper CS-126. Copies of work paper CS-126 for the MPS and L&P jurisdictions are attached as Schedule DRI-9 and Schedule DRI-10. The Company also believes that the L&P Property Tax Paid numbers in Ms. Lyons' testimony include Property Taxes Paid by both L&P and MPS, in error. We have updated the L&P Actual Property Taxes Paid to reflect only L&P's portion of the amounts paid. These changes have modified the percentage increases referenced in Ms. Lyons, testimony. However, the changes do not materially impact her analysis.

L&P

Year	L&P's Plant in Service as of January 1	% Increase of Plant	L&P's Actual Property Taxes Paid	% Increase of Property Taxes
2008	$389,304,558	n/a	$2,606,355	n/a
2009	$420,385,002	7.98%	$3,368,074	29.23%
2010	$521,797,920	24.12%	$4,460,291	32.43%
2011	$677,884,858	29.91%	$5,492,709	23.15%

MPS

Year	MPS's Plant in Service as of January 1	% Increase of Plant	MPS's Actual Property Taxes Paid	% Increase of Property Taxes
2008	$1,402,375,698	n/a	$9,804,826	n/a
2009	$1,529,970,983	9.10%	$11,022,341	12.42%
2010	$1,751,368,768	14.47%	$13,214,776	19.89%
2011	$2,031,930,326	16.02%	$16,537,766	25.15%

Q: Do the revised tables support Ms. Lyons' analysis that increases in Plant in Service is the sole driver of property tax expense increases?

A: No. To assume that the increase in plant is the only driver of the increase in property taxes is incorrect. From the revised tables (and Ms. Lyons' original table provided on page 17 of her Rebuttal Testimony) it is clear that Plant in Service has increased each year since 2008, and that property taxes have also increased. However, property taxes have not increased at the same level or rate as the plant in-service has increased and the level of plant in-service is only one factor that should be considered.

Q: How do mill levy rates impact property tax expense of GMO?

A: The property tax mill levy rates are set and then applied to the State assessments by the various taxing authorities. These mill levy rates are adjusted up or down annually depending on the revenue needed by the taxing jurisdictions. Over the last couple of years, the average company-wide mill levy rates have increased as taxing jurisdictions have needed to increase their property tax revenues to offset other sources of revenue that have decreased due to the economy.

Q: Does Staff consider the increase or decrease in mill levy rates in their analysis of property taxes?

A: No. The increases in mill levy rates as set by the taxing authorities have been excluded from the analysis done by the Staff as to whether or not a property tax tracker is appropriate.

Q: Are there elements of regulatory lag that occur because the Staff's method calculates normalized property tax expense based on the most recent assessed plant value?

A: Yes. Staff's method, which has been adopted by the Company for its True Up case, calculates normalized property tax expense by applying the property tax ratio from the latest calendar year to the taxable property as of the most recent January 1, the assessment date. Payments in Lieu of Property Taxes (PILOTs) and associated property are first excluded before calculating the ratio. In this case, that means that a ratio is developed based on property taxes paid for 2011 divided by taxable property as of January 1, 2011. That ratio is applied to taxable property as of January 1, 2012 and PILOTS are added.

Q: Why does this cause regulatory lag?

A: The Company will start recovering a normalized level of property tax expense on January 27, 2013, the anticipated effective date of new rates in this case. However, there will be a new assessed value of taxable property based on the three-factor test as of January 1, 2013. The Company will pay property taxes on this new assessed value for

2013. However, under the current ratemaking process, the Company's rates will not be impacted by increases in taxable plant subsequent to January 1, 2012 until the effective date of new rates in the next case.

Q: On page 19 of her Rebuttal Testimony, Ms. Lyons indicated that because property taxes are known and measurable costs, the Staff's method of calculating property taxes is an effective way to ensure an appropriate level of property taxes are included in the Company's cost of service in a timely manner and that there is no reason to support carrying costs or rate base treatment. Do you agree?

A: No. For all of the reasons stated above, the level of property taxes included in rates result in regulatory lag. The Company has very little control over and cannot predict the actual property tax assessments, the mill levy tax rates and thus the ultimate property taxes to be paid. The tracker method proposed by the Company would capture the tax increases and decreases in property tax expense that are attributed to factors that are not under control of the Company. Including in rate base both the increases and decreases from the ongoing level of property taxes included in rates will protect both the ratepayers and shareholders from future volatility.

Q: Are there any additional comments you would like to make?

A: Yes. The Commission has indicated that it is reviewing the possibility of a plan to stabilize rates and to limit the frequency, and related expenses of utility rate cases. A property tax tracker is one mechanism that may be used to offset the uncertainty surrounding property tax expense recovery and address potentially beneficial or detrimental regulatory lag.

RENEWABLE ENERGY STANDARDS (“RES”) TRACKER

Q: What is Staff’s position on the use of a tracker for RES costs?

A: The Staff, in its position put forward by Ms. Lyons on page 23 of her Rebuttal Testimony, believes a RES tracker is not necessary due to the nature of the RES rule and an electric company’s ability to defer costs for recovery in a later rate case.

Q: Is there a regulatory impact for adopting Staff’s recommendation?

A: Yes. By continually deferring costs to subsequent rate cases the Company would experience negative cash regulatory lag during the period of time from when the cost was incurred until the cost is built in rates.

Q: Do the RES regulations provide for or disallow the use of a tracker for RES costs?

A: No. The RES regulations are included in Mo. Rev Stat.3860.250 and 393.140 and 4 CSR 240-2.060 (“RES regulations”). 4 CSR 240-20.100(6)(D) states that “all questions pertaining to rate recovery of the RES compliance costs in a subsequent general rate proceeding will be reserved to that proceeding”. GMO believes that a tracker is not only allowed for RES costs, but is an appropriate method of rate recovery for this rapidly expanding program. While a tracker does not mitigate cash regulatory lag in a rising cost environment such as GMO is facing with RES costs, it does mitigate earnings regulatory lag for the RES costs, thereby providing GMO a more reasonable opportunity to earn its authorized ROE.

Q: Does the Accounting Authority Order ("AAO") granted by the Commission in Case No. EU-2012-0131, filed by KCP&L but including GMO's MPS and L&P rate jurisdictions, provide for or disallow the use of a tracker for RES costs?

A: No. The AAO approved for RES costs authorizes the Company to defer incremental RES costs, including carrying costs, in a separate regulatory asset with the disposition to be determined in the company's next general rate case. This current case is that "next general rate case." The Company is requesting both the recovery of costs deferred under the AAO and establishment of a tracker mechanism to address ongoing costs.

Q: Does GMO agree with Ms. Lyons' proposal on page 23 of her Rebuttal Testimony to set rates for an on-going level of normalized expense but to defer future costs for consideration in a future rate case?

A: GMO agrees with setting rates for an on-going level of expense. However, KCP&L disagrees with the proposal to defer future costs for consideration in a future rate case. GMO requests establishment of a tracker in this case to ensure the future recovery of prudently incurred incremental costs above or below the base on-going level of costs as determined in the True Up process in this case, including carrying costs. GMO requests the establishment of a 5-year amortization period to be used to recover such prudently incurred incremental costs in each future case. Under this tracker, the level of ongoing RES costs in base rates would be reset in each future rate case, similar to how ongoing pension costs are reset each case. This tracking mechanism would allow recovery of these volatile expenses of a new program with customers paying no more or no less than the actual cost the Company incurs.

Q: Please respond to Ms. Lyons' contention on pages 21-22 of her Rebuttal Testimony that inclusion of deferred RES costs in rate base is not appropriate.

A: The Company agrees that deferred RES costs are not capital in nature. However, there are many costs included as both increases and decreases to rate base that are not capital in nature, including deferred customer program costs and deferred gains on the sale of emission allowances. For RES costs, we believe it is more appropriate to focus on the fact that the incurred costs are mandated by the RES regulations, including payment to retail customers for new or expanded solar electric systems and funding of administrative software and support for the management of renewable energy credits throughout the state. The Company believes that it is reasonable to include the incremental costs resulting from these mandates in rate base until they can be recovered. Carrying costs would be incurred only between the time of expenditure until inclusion in rate base.

Q: Is there another reason that it is proper to include deferred RES costs in rate base?

A: Yes. As stated on page 45 in the Rebuttal Testimony of Tim Rush in this case:

> The primary objective of the RES is to increase the use of renewable energy and thereby reduce future coal generation. Therefore, and particularly as relates to solar renewable energy, the deferred RES costs are similar in nature to deferred DSM costs. Since both the Staff and the Company have consistently included deferred, unamortized DSM costs in rate base, GMO has included deferred RES costs in rate base in this case. Amortization will not begin until the effective date of new rates in this case; therefore, the entire deferral RES balance should be included in rate base.

TRANSMISSION TRACKER

Q: What is the purpose of this portion of your Surrebuttal Testimony?

A: My testimony addresses the recommendations by Staff witnesses Charles R. Hyneman and Karen Lyons regarding trackers as a regulatory mechanism, specifically the Company's request for a Transmission Tracker.

Q: Please describe the Company's proposed Transmission Tracker.

A: The Company proposed that transmission costs, as defined in this tracker, be set as a baseline in the true-up process in this rate proceeding. The actual charges would be tracked on an annual basis against the baseline, with any excess treated as a regulatory asset and any shortfall treated as a regulatory liability. The regulatory asset or liability would be included in rate base. The carrying costs would be calculated monthly and the regulatory asset or liability would be amortized to cost of service in the Company's next rate proceeding, over the same length of period as costs are accumulated with the unamortized balance included in rate base. The Company would reset the baseline level for transmission costs included in base rates during the next rate case, similar to how ongoing pension costs are reset in each case.

Q: Does the proposed Transmission Tracker harm the Customer?

A: No. The requested Transmission Tracker would benefit the customer by better matching actual transmission costs to effective rates. This process would insure there is no over or under recovery of actual transmission costs.

Q: Why is a tracker appropriate for GMO's transmission costs?

A: As previously stated in my Direct Testimony, transmission costs vary significantly from year-to-year, and such costs are a material component to cost of service. A Transmission Tracker in this situation would mitigate the material and volatile transmission cost pressure on a key component of cost of service, and allow the Company's return to more closely reflect the Commission authorized return, as well as provide a mechanism for rate stability.

Q: Does the Missouri Staff's Rebuttal Testimony recommend the Transmission Tracker?

A: No. The Staff's objection referenced in Mr. Hyneman's Rebuttal Testimony in his regulatory lag discussion on pages 2 through 18 is more philosophical in approach to the Transmission Tracker rather than factual. Mr. Hyneman states that it is the Missouri Staff's concern that as an increasing number of regulatory lag mitigation measures are being requested by the utility companies, there is a very real and significant potential for the distortion of the basic ratemaking principles (pages 6-7 and 18). In Staff witness Karen Lyons Rebuttal Testimony (pages 14-15) associated with Company requested property tax tracker, she states that trackers are only to be used as a last resort when other techniques fail to capture costs in rates, and only to be used in those rare circumstances where it is extremely difficult to determine a level of costs to include in rates. One can infer from Staff's Rebuttal Testimony that it is Staff's opinion that a tracker, Transmission Tracker in this case, is so rarely to be used in Missouri that the mechanism would seldom if ever be used to mitigate volatile costs pressures, absent a rate case.

Q: Please summarize your position?

A: I recommend the Commission adopt the Company's proposed Transmission Tracker to allow recovery of volatile transmission costs with the customer paying no more or less than actual costs incurred, for those transmission costs largely outside of the of the Company Managements' discretion. The Transmission Tracker will mitigate the volatility of transmission costs for a key component of cost of service, and allow the Company's earned return to more closely reflect the Commission authorized return, as well as provide a mechanism for rate stability.

ORGANIZATIONAL REALIGNMENT AND VOLUNTARY SEPARATION ("ORVS") PROGRAM

Q: What is the Staff's position regarding ORVS?

A: As stated by Mr. Hyneman on page 21-22 of his Rebuttal Testimony, Staff's position is that the Commission should not allow GMO to defer ORVS severance costs on its balance sheet and amortize the deferred expense over a five year future period as requested by the Company.

Q: Why does Mr. Hyneman take this position?

A: Mr. Hyneman believes that the Company has already recovered the costs of the ORVS. He indicates that because 140 positions were eliminated, primarily as of April 30, 2011, the Company will retain the costs related to its share of those positions in base rates until the effective date of new rates in this case through regulatory lag.

Q: Do you agree with this position?

A: No. As I point out above in my discussion on regulatory lag and as is shown in my Rebuttal Testimony, the MPS and L&P jurisdictions earned a return on equity of 8.54% and 5.60%, respectively, for calendar year 2011 compared with its authorized return of 10.0%. It is not reasonable to focus on isolated instances of positive regulatory lag without looking at the overall impact of regulatory lag. I also do not agree that it is appropriate to isolate a specific instance of positive regulatory lag to address recovery of one-time program costs that will result in long-term benefits to customers.

DISTRIBUTION FIELD INTELLIGENCE AND TECH SUPPORT ("DFITS")

Q: What is the purpose of this portion of your Surrebuttal Testimony?

A: My testimony addresses the recommendations by Staff witness Charles R. Hyneman regarding the Company's request for a new technical work group, the DFITS group.

Q: Please describe the Company's proposed new technical work group.

A: As provided in the Direct Testimony of Company witness, William P. Herdegen, III, the requested recovery of costs associated with DFITS includes the cost of establishing, training, and sustaining a new technical work group that focuses on the increasing amount of Distribution Automation in the field. KCP&L has been investing in Distribution Automation and Smart Grid technologies for more than a decade and is adopting those technologies in its GMO service territories. KCP&L has been progressive in the application of new and smarter technologies to improve safety and reliability of service, while reducing overall costs to deliver service to our customers. It also has been very prudent in applying technologies to the distribution grid by using pilot programs and demonstrations prior to system wide deployments. KCP&L was one of the first utilities in the nation to deploy Automated Meter Reading ("AMR") technology in the mid-1990s, among the first to leverage AMR communications for Capacitor Automation, the first to deploy 2-way cellular communications to our entire Underground Network in Kansas City, Missouri, one of the most aggressive in deploying 2-way cellular communications to a wide array of distribution equipment, and is one of the few recipients for a U.S. Department of Energy Regional Smart Grid Demonstration Grant. These upgrades have served our customers and KCP&L very well. In order to continue deployment and to maintain this specialized, high-tech equipment, a new work group creating ten new jobs that focuses on this Distribution Automation equipment in the field is necessary. The Company requests that the Commission include the cost of establishing, training, and sustaining this new technical field group in this rate case.

Q: Do you agree with Mr. Hyneman's characterization on page 24 of his Rebuttal Testimony of the costs associated with DFITS as neither known nor measurable?

A: No. The Company has been clear and straight forward in stating that the estimated program costs are for the development, staffing, training, and supporting equipment for the new DFITS work group. While the program costs are based on estimates, the Commission has allowed estimated program costs in the past. Mr. Hyneman's recommendation to disallow the DFITS program costs comes from a very limited ratemaking view point, as the Commission has allowed similar estimated program costs in the past.

Q: Please provide examples of when the Commission has allowed similar estimated program costs in the past.

A: The Commission recently allowed estimated program costs in Ameren-Missouri Case No. ER-2012-0166. In that case, the Commission added an estimate of $1.2 million to Ameren's cost of service to fund training. Another example of when the Commission allowed estimated costs to be included was in ER-2010-0355 and ER-2010-0356, the last KCP&L and GMO rate cases. In those cases, the Commission authorized recovery of estimated operations and maintenance expenses related to the Iatan 2 generating station placed in service in August 2010 and associated Iatan Common plant.

Q: Why has the Company provided estimated costs for the DFITS program?

A: The Company has provided cost estimates for a new program that currently does not exist, and Company is asking the Commission to allow the DFITS program in rates. Recovery of the costs of the program through rates relieves some of the regulatory lag pressures associated with development the new DFITS program. While Mr. Hyneman is correct that the costs for this new program are not historically known or measurable, as costs reflected in a rate case generally are, the Company's estimation of DFITS costs is similar to the estimations of costs of other new training programs that the Commission has allowed.

Q: Please summarize your position.

A: I recommend the Commission allow recovery of estimated DFITS program costs. Establishing, training, and sustaining this new technical work group addresses a growing need in the area of distribution automation. Additionally, as I described above, the DFITS program is similar to new training programs that the Commission has recently authorized.

CROSSROADS ENERGY CENTER VALUATION AT ACQUISITION

Q: Please summarize the Crossroads Energy Center valuation issue in this case.

A: In its request in this case, GMO's "MPS" jurisdiction has included Crossroads in rate base at its net book value, or in terms of the Federal Energy Regulatory Commission ("FERC") Uniform Systems of Account ("USOA") at net original cost. GMO's position is consistent with its appeal of the Crossroads issue from the last rate case currently pending at the Missouri Court of Appeals. The Company believes the Commission did not set an appropriate value for the Crossroads Energy Center when it based the value on the average of the Racoon Creek and Goose Creek sale transaction that a GMO affiliate made to Ameren Missouri in 2006 and therefore exercised its right of appeal.

Q: Can you please summarize Staff witness Featherstone's testimony on the Crossroads valuation issue?

A: Yes. Mr. Featherstone's testimony provides his rationale as to why he believes the Crossroads facility is overvalued in the Company's case based on results from the prior GMO Rate Case No. ER-2010-0356, which appear to have relied upon, among other factors, an early estimated fair value of Crossroads developed in a preliminary internal analysis prepared by GPE and disclosed in its joint proxy statement and subsequent amendments filed with the Securities and Exchange Commission ("SEC") between May and August 2007, well before the date of the acquisition of Aquila, Inc. on July 14, 2008. He goes on to incorrectly state that GPE's valuation of Crossroads in the acquisition of Aquila, Inc. was $51.6 million. As I will demonstrate, this was an early estimated fair value disclosed by GPE in its joint proxy statement filings made in 2007, less accumulated depreciation from the time of the July 14, 2008 acquisition. The discussion of valuation at the time of acquisition is the area that I will be specifically responding to in this Surrebuttal Testimony.

Q: What will you demonstrate in this Surrebuttal Testimony?

A: In this Surrebuttal Testimony, I will clearly show that the valuation of the Crossroads facility at the time of acquisition, as supported by a third party valuation and consistent with generally accepted accounting principles, was the net book value of the facility on the books of Aquila at the time of acquisition. I will more fully describe the SEC filings regarding the acquisition and purchase price allocation which will be in contrast to Mr.

Featherstone's selective discussion. I will fill in the gaps to the selective timeline provided by Mr. Featherstone. Finally, throughout my Surrebuttal Testimony, I will identify the additional information I am providing that has previously been made available to Staff, or is public information, which Mr. Featherstone chose to ignore or selectively chose to not provide in his testimony.

Q: Do you agree with Staff witness Featherstone's description of how GPE acquired Crossroads and the history of ownership of the Crossroads facility?

A: I agree with his summary of GPE's acquisition and I agree with his ownership timeline up through August 2007, except there is additional information regarding the $51.6 million estimate of fair value that I will provide later in this testimony. It is from the August 2007 point in the timeline forward that Staff witness Featherstone leaves out some critical points that lead up to the September 2008 rate case filed by GMO (Case No. ER-2009-0090) requesting inclusion of Crossroads in rate base at its net book value of $117 million.

Q: Please provide the timeline outlined in Mr. Featherstone's Rebuttal Testimony and indicate the gaps in the timeline that you will fill in.

A: As provided by Mr. Featherstone, the following is a timeline of Crossroads ownership and significant events related to Crossroads based in part on a memorandum received from GPE dated October 31, 2007 explaining the history of the Crossroads facility. Items bold and italicized are added by me in this testimony and reflect SEC filings made by GPE that were selectively not reflected by Mr. Featherstone in the timeline presented in his Rebuttal Testimony.

- October 2002 – Crossroads was moved from business unit MEP (Merchant Energy Partners Investment LLC) into business unit ACEC (Aquila Crossroads Energy Center). ACEC was a business unit under the non-regulated subsidiary of Aquila MEP.
- October 2002 to March 2007 – Crossroads remained on the books of Aquila's non-regulated Merchant Energy partners.
- February 2007 – Great Plains Energy announced an agreement to acquire Aquila, Inc. (subsequently renamed GMO).
- March 2007 – the regulated jurisdictional operations of Aquila, currently known as GMO, issued a request for proposal ("RFP") for a long-term supply option. Crossroads was bid into the RFP at net book value to satisfy the long-term supply option. Based on the 2007 time frame Crossroads was selected as the least cost and preferred option for long-term supply.
- March 2007 – Crossroads was transferred from Aquila Merchant to Aquila, Inc., referred to as GMO, at net book value and recorded on the books of a non-regulated business unit CECAQ (Crossroads Energy Center Aquila) where it resided when Great Plains Energy acquired Aquila (GMO).
- May 2007 – Great Plains Energy and Aquila filed a Joint Proxy Statement/Prospectus with the SEC. Great Plains Energy management told the SEC, the financial community and its shareholders that it found $51.6 million to be an appropriate estimate of the fair value of Crossroads. Great Plains Energy estimated that this was the amount of proceeds it would receive from

the sale of Crossroads to an unrelated party of similar capacity in the current market place.

- June 2007 – In a filing with the SEC, Great Plains Energy management told the SEC, the financial community and its shareholders that it found $51.6 million to be an appropriate estimate of the fair value of Crossroads.
- August 2007 – In another filing with the SEC, Great Plains Energy management told the SEC, the financial community and its shareholders that it found $51.6 million to be an appropriate estimate of the fair value of Crossroads.
- May 2008 – Great Plains Energy concurred with Aquila's recommendation to use Crossroads as the least cost and preferred option in its utility resource planning process as a long-term supply option.
- July 2008 – Close of Great Plains Energy's acquisition of Aquila. Aquila, Inc. began using the business name GMO, then later changed its name to GMO. Crossroads was recorded on the books of GMO business unit NREG by Great Plains Energy.
- ***August 2008 – SEC filing providing proforma financial information as of March 31, 2008.***
- August 2008 – Crossroads was moved from the books of GMO's business unit NREG to GMO's regulated books for MPS.
- September 2008 – GMO filed a Missouri rate case seeking to include Crossroads in rate base for MPS at net book value of $117 million.

- ***November 2008 – SEC periodic filing providing the preliminary purchase price allocation as of July 14, 2008, disclosed as of September 30, 2008.***
- ***February 2009 – SEC periodic filing providing the preliminary purchase price allocation as of July 14, 2008, disclosed as of December 31, 2008.***
- ***May 2009 – SEC periodic filing providing the preliminary purchase price allocation as of July 14, 2008, disclosed as of March 31, 2009.***
- ***May 2009 – SEC filing of providing audited proforma financial information for periods up to July 14, 2008.***
- ***August 2009 – SEC periodic filing providing the preliminary purchase price allocation as of July 14, 2008, disclosed as of June 30, 2009.***
- ***November 2009 – SEC periodic filing providing the FINAL purchase prices allocation as of July 14, 2008, disclosed as of September 30, 2009.***

Q: Please elaborate on the items you added to the timeline provided by Staff witness Featherstone in his Rebuttal Testimony.

A: Subsequent to the August 2007 SEC filing listed by Mr. Featherstone in the timeline he presented, GPE made several additional filings with the SEC that either reflected proforma financial statements depicting the acquisition of Aquila or included disclosure regarding the purchase price allocation for the acquisition of Aquila. The following additional SEC filings, not provided in the timeline by Staff witness Featherstone but filled in by me in this testimony, are all publicly available, just as the SEC filings Mr. Featherstone elected to highlight in his Rebuttal Testimony.

- August 2008 – In a filing with the SEC, Great Plains Energy provided unaudited proforma financial information as of March 31, 2008. The proforma financial information reflected no valuation adjustment for the Crossroads facility, thus reflecting Crossroads at its net book value.

- May 2009 – In a filing with the SEC, Great Plains Energy provided audited proforma financial information for periods up to July 14, 2008. The proforma financial information reflected no valuation adjustment of the Crossroads facility, thus reflecting Crossroads at its net book value.
- In four separate periodic filings with the SEC for the periods ended September 30, 2008, December 31, 2008, March 31, 2009 and June 30, 2009, Great Plains Energy provided a preliminary purchase price allocation in the Notes to its financial statements, audited for the December 31, 2008, financial statements. The preliminary purchase price allocation reflected no valuation adjustment of the Crossroads facility, thus reflecting Crossroads at its net book value at the date of acquisition.
- In its periodic filing with the SEC for the period ended September 30, 2009, Great Plains Energy provided its **FINAL** purchase price allocation in the Notes to its financial statements. The **FINAL** purchase price allocation reflected no valuation adjustment of the Crossroads facility, thus reflecting Crossroads at its net book value at the date of acquisition.

It is important to note that all SEC filings after May 2008 include no fair value adjustment for the Crossroads facility; as such, the Crossroads facility is included in the purchase price allocation in all of these subsequent SEC filings at Aquila's net book value. This change in the Crossroads facility fair value from the estimated $51.6 million included in the SEC filings referred to by Mr. Featherstone to the **final** purchase price allocation fair value at the acquisition date equaling the facility's $117 million net book value, which was included in all SEC filings made subsequent to May 2008, ***is consistent with the May 2008 timeline item listed by Mr. Featherstone describing GPE's concurrence with Aquila's recommendation to use Crossroads as the least cost and preferred option in its utility resource planning process as a long-term supply option***. This concurrence was the outcome of several integration planning discussions held between GPE and Aquila employees and management during the significant integration planning process that the companies were able to conduct after the February 2007 announcement of the acquisition through the July 2008 acquisition date.

Q: Throughout his Rebuttal Testimony, Staff witness Featherstone refers to the $51.6 million estimated value assigned to the Crossroads facility in the 2007 joint proxy SEC filings as a fair market valuation by GPE senior management of the Crossroads facility. Is this an accurate depiction?

A: No, it is not. The $51.6 million estimated fair value was an early conservative estimate used in the joint proxy filings before the companies had the opportunity to complete integration planning and determine the final use for the Crossroads facility. In fact, as Company witness Burton Crawford describes in his Rebuttal Testimony, the $51.6 million value was one of the high-level valuation options prepared internally by KCP&L's Energy Resources department in the joint proxy filing process. GPE selected a very conservative option for valuing the Crossroads facility in its joint proxy filings - essentially the estimated salvage value if the Crossroads combustion turbines ("CTs") were dismantled and sold as scrap. This option was selected for the joint proxy filings reflecting GPE's intent to be conservative in its disclosures due to the uncertainty, at that early stage in the acquisition process, as to what option would ultimately be chosen for the Crossroads facility. GPE knew through discussions with its external auditors, Deloitte and Touche LLP, that the final purchase price allocation would be determined utilizing a third party evaluation, and that the integration process would add clarity to the viability of the Crossroads facility.

Q: Staff witness Featherstone provides a section from the May 8, 2007, GPE and Aquila joint proxy statement/prospectus reflecting disclosure in the document of the pro forma adjustment to reflect the Crossroads facility at fair value. Please address your concerns with Mr. Featherstone's characterization of this section of the joint proxy filing.

A: Mr. Featherstone frames the estimated fair value for the Crossroads facility used in the joint proxy as an objective fair market valuation of a reasonable cost of Crossroads in early 2007 and attempts to leverage its release to the public in the Company's SEC filings to turn this into the actual price paid for the Crossroads facility by GPE in the acquisition of Aquila. This is clearly an unreasonable stretch of the facts and not reflective of how the allocation of the purchase price to assets and liabilities acquired in a business combination is required to be evaluated and completed under generally accepted accounting principles.

As I have referred to in this testimony, the $51.6 million value represents one of the high-level valuation options developed by the Company internally in the joint proxy filing process. In fact, the $51.6 million represents the estimated salvage value if the Crossroads facility was dismantled and the turbines were sold. As pointed out in the timeline provided by Mr. Featherstone in his Rebuttal Testimony, as it completed integration planning, GPE senior management did not elect to dismantle and sell the Crossroads facility for its estimated salvage value. In fact, in 2008 GPE's senior management ultimately concurred with Aquila's recommendation to use Crossroads as the least cost and preferred option in MPS' resource planning process as a long-term supply option. This go-forward utilization is fundamentally different than dismantling the Crossroads facility and selling it for salvage value and resulted in ultimately transferring the Crossroads facility to MPS' financial records and requesting the assets to be included in rate base in the first case after the acquisition. All of this was done at net book value, or as Mr. Featherstone refers to it, original cost as defined in the FERC USOA.

Q: Is there additional disclosure in the May 8, 2007 joint proxy statement/prospectus that should be examined in addition to the section referenced by Staff witness Featherstone?

A: Generally, the joint proxy statement/prospectus should be evaluated in its entirety. However, I will provide a couple of quotes from the document that are specifically relevant to the excerpt quoted by Staff witness Featherstone:

> The Unaudited Pro Forma Condensed Combined Financial statements are provided for informational purposes only and they are not necessarily indicative of what the combined companies' financial position or results of operations actually would have been had the merger been completed at the dates indicated. In addition, the unaudited pro forma condensed combined financial information is not intended to project the future financial position or results of operations of the combined company.

> In the Unaudited Pro Forma Condensed Combined Balance Sheet, Great Plains Energy's cost to acquire Aquila has been allocated to the assets to be acquired and liabilities to be assumed based upon Great Plains Energy's management's ***preliminary estimate*** of their respective fair values. Any differences between the purchase price and the fair value of the assets and liabilities to be acquired will be recorded as goodwill. In Great Plains Energy's opinion, the fair value of the assets acquired and liabilities

> (including long-term debt) assumed will approximate book value in a rate-regulated merger. Non-regulated assets and liabilities will be recorded at fair value. The amounts allocated to the assets acquired and liabilities assumed in the Unaudited Pro Forma Condensed Combined Financial Statements are based on Great Plains Energy's management's preliminary internal valuation estimates. The final allocation of the purchase price will be based upon the fair value of the assets acquired and liabilities assumed of Aquila on the date the merger is completed. ***Accordingly, the pro forma purchase allocation adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information and are subject to revision based on a final determination of fair value following the closing of the merger. Final determinations of fair value may differ materially from those presented herein.***

[Great Plains Energy & Aquila Joint Proxy Statement/Prospectus filed with the SEC on May 8, 2007, pages 167-168, emphasis added]

> ***The estimated purchase price and the allocation of the estimated purchase price discussed below are preliminary, as the proposed merger has not yet been completed.*** The actual purchase price will be based upon the value of Great Plains Energy shares issued to Aquila shareholders, the fair value of the Aquila share-based compensation that will be exchanged for Great Plains Energy's share-based compensation and the actual transaction-related costs of Great Plains Energy. ***The final allocation of the purchase price will be based upon the fair value of the assets acquired and liabilities assumed of Aquila on the date the merger is completed.***

[Great Plains Energy & Aquila Joint Proxy Statement/Prospectus filed with the SEC on May 8, 2007, page 172, emphasis added]

The quoted sections above are a portion of the lead-in discussion to the unaudited pro forma condensed combined financial information of the joint proxy, in part explaining considerations that should be given by readers as they review later disclosures in the unaudited pro forma financials, such as the quote of footnote D used by Staff witness Featherstone in his Rebuttal Testimony.

The three sections from the joint proxy statement above make it abundantly clear that the purchase price allocation was preliminary and subject to change, and that the final purchase price allocation would be based on the fair value of the assets acquired on the date the merger is completed, which could differ materially from fair values presented in the May 8, 2007 joint proxy statement.

Based on this information, which was in the SEC document, quoted by Mr. Featherstone in his testimony, just pages from the selective quote he used, it is clear that Mr. Featherstone's arguments that the $51.6 million represents GPE's senior management's final fair market valuation, acquisition cost, original cost or other such terms as used by Mr. Featherstone in his Rebuttal Testimony, are selective and misleading.

Q: Did GPE have a third party conduct a valuation study in order to support its initial purchase price allocation at the acquisition date in accordance with generally accepted accounting principles?

A: Yes. We engaged the global accounting firm of PricewaterhouseCoopers LLP ("PwC") to complete a valuation engagement as of July 14, 2008 ("acquisition date"). In its report, the firm stated, "This valuation was performed solely to assist in the matter of determining fair value for financial statement reporting in accordance with Statement of Financial Accounting Standards (SFAS) 141, Business Combinations….The estimate of value that results from a valuation engagement is expressed as a conclusion of value."

Staff was provided a copy of the valuation report in its review in GMO's first rate cases after the acquisition, GMO Case No. ER-2009-0090.

Q: What was PwC's conclusion of value for the Crossroads facility at the acquisition date?

A: Based on visits to the Crossroads facility and the work conducted by its valuation team, PwC concluded that the estimated fair value was $121 million at the acquisition date. In its report, PwC also acknowledged that subsequent to the acquisition date management intended to request inclusion of the Crossroads facility in MPS rate base at the net book value of $117 million. Therefore, PwC acknowledged that management would record Crossroads at its net book value at the acquisition date consistent with the valuation of the other regulated assets acquired in the transaction.

Q: Why was the fair value of the regulated assets acquired considered to be net book value?

A: It was management's conclusion, after its review of generally accepted accounting principles and discussion with GPE's external auditors, Deloitte and Touche LLP, that for regulated utilities subject to traditional cost-of-service regulation and subject to SFAS 71, Accounting for the Effects of Certain Types of Regulation, net book value of regulated assets is typically equal to its fair value. This treatment is also consistent with the term "original cost", as defined by the Electric Plant Instruction Section of the FERC USOA, and cited by Staff witness Featherstone in his Rebuttal Testimony, as follows:

> All amounts included in the accounts for electric plant acquired as an operating unit or system, except as otherwise provided in the texts of the intangible plant accounts, shall be stated at the cost incurred by the person who first devoted the property to utility service. (Paragraph 15,052 of USOA)

As noted by Staff witness Featherstone, and I agree, depreciation and amortization of the utility property from the previous owner must be deducted from the original cost, which results in a net original cost figure to be recorded on the purchaser's books and records. The acquired property is valued at the same value the seller placed on it, hence the "original cost when first devoted to public service," adjusted for depreciation and amortization, concept.

GPE's acquisition date valuation of the Crossroads facility at its net book value of $117 million is consistent with the fair value concepts for regulated utilities subject to SFAS 71 and the USOA definition of "original cost" as outlined above.

Q: Do you agree with Staff witness Featherstone's conclusion that in the State of Missouri, the use of original cost less depreciation and amortization, i.e., net original cost, to set rates is not only the predominant form of regulation, but to his knowledge, the only form that has been employed by this Commission?

A: I agree, and have no basis to argue his knowledge of net original cost being the only form that has been employed by this Commission. GPE's valuation of Crossroads at its $117 million net book value is consistent with this net original cost concept.

Staff witness Featherstone, on the other hand, incorrectly asserts that original cost to GPE for the Crossroads facility should be based on a preliminary estimate that was updated prior to the fair value purchase price allocation completed at the time of completion of the merger, the July 14, 2008, acquisition date. I have discussed at length in this testimony the inappropriateness of the position taken by Staff witness Featherstone on this issue.

Q: Please summarize your testimony regarding the Crossroads facility valuation at acquisition.

A: In his Rebuttal Testimony, Staff witness Featherstone selectively discloses information regarding the Crossroads valuation in the companies' joint proxy statement/prospectus in support of an artificially low rate base value for the facility. My testimony fills in the remainder of the information regarding the Crossroads valuation. The information I filled in is either publicly available or was specifically previously provided to Staff and not used by Mr. Featherstone.

Most importantly, my testimony supports that the value of the Crossroads facility to GPE at the time of acquisition was $117 million, the net book value on Aquila, Inc.'s books at the July 14, 2008, acquisition date. This valuation is supported by Crossroads being the least cost and preferred option in MPS' utility resource planning process as a long-term supply option as discussed in the Rebuttal and Surrebuttal Testimony of Company witness Burton Crawford. As a result of integration planning, in May 2008, before the acquisition date, GPE concurred with Aquila's original conclusion regarding the Crossroads facility long-term use culminating in a decision to file in the rate case subsequent to the acquisition date for inclusion of the Crossroads facility in MPS rate base. This decision path resulted in GPE reflecting the Crossroads facility at acquisition at net book value, consistent with the concept of original cost, as defined by the Electric Plant Instruction Section of the FERC USOA, and cited by Staff witness Featherstone in his Rebuttal Testimony.

Finally, as described in the SEC documents referred to by Mr. Featherstone, a third party valuation study was completed for GPE to determine the purchase price allocation for the Aquila acquisition as of the July 14, 2008 acquisition date. The valuation, performed by the global accounting firm PwC, supported a fair value of the Crossroads facility in excess of net book value. This report was provided to Staff in the last rate cases, but was not referred to by Mr. Featherstone in his Rebuttal Testimony in this case. Consistent with the fair value concepts for regulated utilities subject to SFAS 71 and the USOA definition of "original cost" as referenced above, GPE appropriately reflected the Crossroads facility's acquisition date value at its net book value on that date of $117 million.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement General Rate Increase for Electric Service	)))	Case No. ER-2012-0175

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 Senior Director – Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KC&PL Greater Missouri Operations Company consisting of forty-one (41) 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.

Darrin R. Ives

Subscribed and sworn before me this 9th day of October, 2012.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

KAREN M. SMITH
My Commission Expires
April 16, 2016
Jackson County
Commission #12446957

Notary Public

My commission expires: April 16, 2016

Kansas City Power & Light Company
Comparison of Plant Additions with Provision for Depreciation Expense

Source: Plant Additions - PowerPlant Asset 1061kcp-Missouri Basis
Provision for Depreciation Expense - PowerPlant Depr-1033 MO

	Missouri Basis			
Year	Plant Additions	Provision for Depreciation Expense	Increase (Decrease) Rate Base	
2001	513,159,286	131,776,528	381,382,758	Hawthorn 5 Boiler
2002	143,818,551	139,754,632	4,063,919	
2003	151,715,615	132,962,091	18,753,524	
2004	172,205,042	143,319,701	28,885,341	
2005	284,500,470	145,170,201	139,330,269	

Kansas City Power & Light Company
Rate Decreases After 1986 Initial Wolf Creek Phase in Plan

Case No.	Effective Date	Authorized Incr (Decr)	Comments
ER-85-128	5/5/1985	$41.6 Million	First of a 7-year annual phase-in of Wolf Creek Generating Station
	5/5/1986	$7.7 million	Second year of Wolf Creek phase-in plan increases.
	5/5/1987	$8.7 million	Third year of Wolf Creek phase-in plan increases. EO-85-185 - Final 4 years of phase-in plan dropped in exchange for approval of certain accounting issues.
ER-94-197	1/1/1994	($12.5 Million)	Expiration of amortization of Wolf Creek deferral accounting
EO-94-199	7-9-1996	($9.0 million)	Phase 1 stipulated earnings reductions from Staff's earnings investigation. Included major rate design and revised depreciation rates.
	1/1/1998	($11.0 million)	Phase II stipulated earnings reduction.
ER-99-313	3/1/1999	($14.7 million)	Stipulated earnings reduction from Staff's 1988 earnings investigation.

Kansas City Power & Light Company
Earned Return on Rate Base (ROR) and Return on Equity (ROE)

Source: Annual Missouri Surveillance Reports

Year	Earned ROR	Earned ROE		Authorized ROE Effective Date	Authorized ROE Case No.	Authorized ROE ROE
1988	10.288%	12.973%		4/23/1986	EO-85-185	15.000%
1989	10.044%	12.202%				15.000%
1990	9.544%	10.478%				15.000%
1991	9.040%	10.848%				15.000%
1992	7.962%	9.644%				15.000%
1993	8.840%	12.304%				15.000%
1994	8.629%	11.670%				15.000%
1995	8.648%	not available				15.000%
1996	not available					15.000%
1997	9.210%	12.900%	revised			15.000%
1998	9.879%	14.130%				15.000%
1999	8.051%	10.073%				15.000%
2000	7.309%	8.264%				15.000%
2001	8.01%	11.17%				15.000%
2002	8.89%	13.55%				15.000%
2003	8.36%	12.20%				15.000%
2004	8.69%	11.57%				15.000%
2005	7.54%	9.32%				15.000%
2006	6.92%	7.67%				15.000%
2007	8.17%	10.04%		1/1/2007	ER-2006-0314	11.250%
2008	6.99%	7.69%		1/1/2008	ER-2007-0291	10.750%
2009	6.80%	6.15%				10.750%
2010	7.15%	6.91%		9/1/2009	ER-2009-0089	Settlement
2011	6.22%	5.09%		5/4/2011	ER-2010-0355	10.000%

Reflects cancellation of the final four years of the Wolf Creek phase-in plan after 5-5-1987 and earnings reductions effective 1-1-1994, 7-9-1996, 1-1-1998 and 3-1-1999.

KCP&L Greater Missouri Operations - MPS
2012 RATE CASE - True Up August 2012
TY 9/30/11; Update TBD; K&M 8/31/12

CS-126 Property Tax Expense
Accounts 708

MPS	From MPS True Up Workpapers ER-2010-0356 01/01/2009 Plant Original Cost	01/01/2010 Plant Original Cost	1/01/2011 Plant Original Cost	Based on DR-27R 1/01/2012 Plant Original Cost		From MPSC True Up Workpapers ER-2010-0356 2009 Property Taxes Paid	2010 Property Taxes Paid	2011 Property Taxes Paid
Plant in Service before Allocation from ECORP	$ 1,783,078,423	2,006,941,387	2,388,837,290	2,098,623,981		$ 11,481,001	$ 13,621,234	$ 16,175,829
Add unit Trains						41,172	93,374	12,815
Remove South Harper	(118,638,876)	(119,178,818)	(120,379,190)	(121,850,200)		(241,832)	(241,832)	(241,832)
Remove Crossroads	(118,803,402)	(118,976,111)	(132,707,545)	(132,692,782)		(258,000)	(258,000)	(258,000)
Remove Vehicles/Pwr Oper Equip, tax not charged to A/C 708	$ (15,665,162)	(17,396,635)	(18,421,517)	(19,413,538)				
Add ECORP Plant Allocated to MPS		(21,055)	262,023,670	264,730,945				
Remove Iatan 2			(347,422,382)		(B)			
Add Iatan 2 2011 MO juris prop taxes deferred to Reg Asset								848,954
Total Plant, excl plant subject to PILOTs	$ 1,529,970,983	$ 1,751,368,768	$ 2,031,930,326	$ 2,089,398,406				
Total O&M, excl PILOTs						$ 11,022,341	$ 13,214,776	$ 16,537,766
Tax as a Percentage of Cost						0.7204%	0.7545%	0.8139%

Total MPS System Plant:	1/01/2012
Plant Per DR-27R	2,363,354,926
Remove ECORP Plant Allocated to MPS	(264,730,945)
Total MPS System Plant	2,098,623,981

	Test Year Prop Tax 12 mo Ended 9/30/11	1/01/2012 Projected Prop Tax
Projected Plant		$ 2,089,398,406
2011 Ratio of Taxes Paid		0.8139%
Prop Tax based on ratio		$ 17,005,614
Add South Harper PILOT		241,832
Add Cross Roads PILOT		258,000
Annualized Amount	$ 16,040,367	$ 17,505,446
Company Adjustment		$ 1,465,079
		CS-126 Account 708

2011 Property Taxes Recap:		
Total Property Taxes Billed - including PILOTs	$ 17,594,657	
Amount charged to Fleet (Vehicles/Pwr Operated Equip)	(198,502)	
Amount charged Capital	(16,528)	
Amount charged to Fuel Inv (Unit Train)	(12,815)	
Amount charged to Non-Utility & Meter Treaters	(48,413)	
O&M - Before MO juris Iatan 2 deferral to Reg Asset	17,318,399	
Allocation of ECORP General Plant Property Tax	156,319	(A) See Calc Below
Amount of MO portion of Iatan 2 deferred to Reg Asset	(1,298,889)	Booked 100% MPS
Expected Prop Tax to be booked to A/C 708 - 2011	$ 16,175,829	

Allocation of Iatan 2 Deferral between MPS and L&P:		
65.36%	34.64%	100%
848,954	449,935	1,298,889
MPS	L&P	

(A) Allocation of 2011 ECORP General Plant Property Tax:

ECORP General Plant Property Tax:			
Total ECORP General Plant Property Tax			$ 219,997
Remove Non-Utility			$ (18,685)
Total ECORP Utility Property Tax			$ 201,312
Allocate to:	ECORP General Plant @ 1/01/2011	Allocation % Based on ECORP Plant @ 1/01/2011	ECORP Prop Tax Allocation
MPS	$ 28,300,515	77.65%	$ 156,319 (A)
L&P	$ 8,144,416	22.35%	$ 44,993
Total	$ 36,444,931	100%	$ 201,312

(B) Adjustment posted to Remove Iatan 2 is not required for 1/1/12 since the Iatan 2 plant was moved in plant records to ECORP.

KCP&L Greater Missouri Operations - L&P Elec
2012 RATE CASE - True Up August 2012
TY 9/30/11; Update TBD; K&M 8/31/12

CS-126 Property Tax Expense
Accounts 708

L&P Electric	01/01/2009 Plant Original Cost	01/01/2010 Plant Original Cost	1/01/2011 Plant Original Cost	1/01/2012 Plant Original Cost	2009 Property Taxes Paid	2010 Property Taxes Paid	2011 Property Taxes Paid
	From L&P True Up Workpapers ER-2010-0356			Based on DR-27R	From L&P True Up Workpapers ER-2010-0356		
Plant in Service before Allocation from ECORP	$ 429,427,405	530,852,476	558,264,999	594,006,803	$ 3,388,568	$ 4,492,003	$ 5,036,606
Add unit Trains					7,440	1,434	41,018
Remove Steam	$ (3,636,876)	(3,631,258)	(4,129,848)	(4,133,803)	(27,934)	(33,146)	(34,851)
Remove Vehicles/Pwr Oper Equip, tax not charged to A/C 708	(5,405,527)	(5,423,298)	(6,416,801)	(6,339,129)			
Add ECORP Plant Allocated to L&P			130,166,508	131,782,800			
Add Iatan 2 2011 MO juris prop taxes deferred to Reg Asset							449,935
							0
Total Plant, excl plant subject to PILOTs	**$ 420,385,002**	**$ 521,797,920**	**$ 677,884,858**	**$ 715,316,671**			
Total O&M, excl PILOTs					**$ 3,368,074**	**$ 4,460,291**	**$ 5,492,709**
Tax as a Percentage of Cost					0.8012%	0.8548%	0.8103%

Total System Plant:	1/01/2012
Plant Per DR-27R	725,789,602
Remove ECORP Plant Allocated to L&P	(131,782,800)
Total System Plant	594,006,803

	Test Year Prop Tax 12 mo Ended 9/30/11	1/01/2012 Projected Prop Tax
Projected Plant		$ 715,316,671
2011 Ratio of Taxes Paid		0.8103%
Total O&M (excluding PILOTs)		5,796,211
2012 Annualized Amount	$ 5,538,158	$ 5,796,211
Company Adjustment (C)		$ 258,053
		CS-126
		Account 708
		Excl Ind Steam
		See Ind Stm entry

(C) Projected plant and property taxes include amounts for Lake Road. Adjusted property tax in A/C 708120 will be allocated between Electric and Steam in the Model.

2011 Property Taxes Recap:		
Total Property Taxes Billed - including PILOTs	$ 5,142,817	
Amount charged to Fleet (Vehicles/Pwr Operated Equip)	$ (63,134)	
Amount charged Capital	$ (41,126)	
Amount charged to Fuel Inv (Unit Train)	$ (41,018)	
Amount charged to Non-Utility & Meter Treaters	$ (5,926)	
O&M - Before MO juris Iatan 2 deferral to Reg Asset	$ 4,991,613	
Allocation of ECORP General Plant Property Tax	$ 44,993	(A) See Calc Below
Amount of MO portion of Iatan 2 deferred to Reg Asset	$ -	Booked 100% MPS
Expected Prop Tax to be booked to A/C 708 - 2011	$ 5,036,606	

Allocation of Iatan 2 between MPS and L&P		
65.36%	34.64%	100%
848,954	449,935	1,298,889
MPS	L&P	

(A) Allocation of 2011 ECORP General Plant Property Tax:

ECORP General Plant Property Tax:			
Total ECORP General Plant Property Tax			$ 219,997
Remove Non-Utility			$ (18,685)
Total ECORP Utility Property Tax			$ 201,312
Allocate to:	ECORP General Plant @ 1/01/2011	Allocation % Based on ECORP Plant @ 1/01/2011	ECORP Prop Tax Allocation
MPS	$ 28,300,515	77.65%	$ 156,319
L&P	$ 8,144,416	22.35%	$ 44,993 (A)
Total	$ 36,444,931	100%	$ 201,312