Exhibit No.:
Issue: Merger Synergy Tracking and Transition Cost Recovery
Witness: Darrin R. Ives
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2009-0089
Date Testimony Prepared: April 7, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0089

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
April 2009

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2009-0089

Q: Are you the same Darrin R. Ives who submitted Direct and Rebuttal Testimony in this case on behalf of Kansas City Power & Light Company ("KCP&L" or the "Company")?

A: Yes, I am.

Q: What is the purpose of your Surrebuttal Testimony?

A: I will address assertions made by Missouri Public Service Commission ("Commission") Staff ("Staff") witness Charles R. Hyneman in his rebuttal testimony regarding the Company's demonstration of synergy tracking in accordance with the Commission's Report and Order in Case No. EM-2007-0374 ("Merger Report & Order"). I will also address Mr. Hyneman's recommendation that the Company utilize natural regulatory lag to recover transition costs in this case.

SYNERGY SAVINGS TRACKING PROCESS

Q: Do you agree with Mr. Hyneman's assertion at page 2, line 2 of his Rebuttal Testimony that the Company has not yet provided to Staff an analysis of tracked merger synergies in accordance with the Merger Report & Order?

A: No, I do not. As more fully discussed in my Rebuttal Testimony in this case starting on page 7, line 4 through page 10, line 7, we have implemented a synergy tracking process consistent with the Commission's Merger Report & Order. As described to Staff in multiple meetings on this topic, because the acquisition occurred on July 14, 2008, the

Company determined that synergy savings would have to be tracked differently for 2008 than in 2009 and beyond. Essentially, a two-phase approach is required to track synergy savings. On December 10, 2008, the Company had its first meeting with Staff regarding synergy savings and transition costs, and outlined the two-phase approach we were taking, which is fully described in my Rebuttal Testimony. On January 10, 2009, the Company provided the database of the Phase 1 project charter synergy tracking as well as the underlying project charters. The Phase 1 project charter process is more fully described in my Rebuttal Testimony on pages 7-8. On January 12, 2009, a follow-up meeting was held with Staff to address additional questions they had regarding synergy savings and transition costs. Additional follow-up meetings regarding synergy savings and transition costs were held with Staff on January 22, 2009 and February 6, 2009.

Q: What additional synergy tracking information has the Company provided to Staff?

A: On April 1, 2009, the Company provided to Staff its first view of the Phase 2 synergy tracking document and supporting schedules, which compares non-fuel operations and maintenance ("NFOM") expenses for base year 2006, as adjusted for inflation and other known and measurable changes, to budgeted 2009 combined company NFOM expenses. Lastly, on April 6, 2009, the Company provided to Staff an updated database of the Phase 1 project charter synergy tracking and indicated that the underlying project charters and support were available for review at the Company's offices.

Q: Do the Phase 1 and Phase 2 synergy tracking schedules provided to Staff in April demonstrate synergy savings projected to the true-up date in this case that exceed the transition cost amortization projected to be included in the true-up in this case?

A: Yes, both schedules project synergy savings in excess of transition costs recovery. The Phase 2 schedule comparing the 2006 base year NFOM costs, as inflated and adjusted for known and measurable changes, to budgeted 2009 combined company NFOM reflects 2009 total regulated projected synergies of $40.6 million. The Phase 1 project charter synergy tracking database shows total regulated synergy savings of $20.7 million in 2008. Additionally, for the test to be completed at the true-up date in this case to demonstrate synergy savings exceed transition costs amortization, the Phase 1 database will reflect four months of additional synergy savings in 2009. Both schedules clearly demonstrate synergy savings well in excess of the total regulated annual transition costs amortization of approximately $9 million projected by the Company based on actual transition costs through the true-up date of this case.

Q: Has Staff worked with you or your team in conducting a review of the Phase 1 project charter database and underlying project charters that were provided on January 10, 2009?

A: No. I am not aware of any significant audit work performed by Staff on the project charter information provided on January 10, 2009.

Q: Please respond to Mr. Hyneman's assertion on page 2, lines 9-18 of his Rebuttal Testimony that the Company has not provided support for the comparison provided in Schedule DRI-2 of your direct testimony.

A: As I described in my Direct Testimony on page 4, lines 1-8 and page 8, lines 1-13, the amounts included on Schedule DRI-2 represent projected synergy savings based on comparing combined Company budgets through March 31, 2009, compared to base year 2006 NFOM costs of Aquila, Inc. ("Aquila") and KCP&L on a stand-alone basis adjusted for known and measurable changes. On page 8 of my Direct Testimony I go on to state that it is the Company's intent to reflect annualized, recurring synergy savings based on actual known and measurable synergies realized up to the true-up date in this case. This is also consistent with the discussions the Company has had with Staff, as described above. Therefore, the projected synergy savings included in the Company's direct filing in this case are not relevant to actual synergy savings that will be included in the true-up to this case. In my meetings with Staff, I indicated that the measure of synergy savings that needed to be considered in this case was the Phase 1 project charter database and underlying project charters. As I indicated above, the Company provided the database and underlying charters on January 10, 2009.

Q: Mr. Hyneman states in his Rebuttal Testimony at page 3, lines 2-5 that KCP&L has not provided any analysis to Staff that compares 2006 base year costs to either actual or budget post-integration costs. Is that correct?

A: No, it is not. The project charter database and underlying project charters provided on January 10, 2009, calculate synergy savings based on a comparison to 2006 base year costs adjusted for inflation and other known and measurable changes. Additionally, on April 1, 2009, the Company provided Staff with the 2009 Phase 2 synergy tracking document to give Staff a view of how synergy tracking will evolve as we move forward in the synergy tracking process. The Company also provided on April 6, 2009, an updated Phase 1 project charter database.

Q: Do you agree with Mr. Hyneman's Rebuttal Testimony on page 3 that it would take two auditors approximately 45 to 60 audit work days to review the synergy savings analysis?

A: No, I do not. With the structure of the project charter database and the documentation contained in the project charters, I believe that with help from Company personnel that such a timetable could be shortened. I would reiterate though that we provided the project charter database and underlying project charters to Staff initially on January 10, 2009. I am not aware of any significant audit work performed on the information provided to date. That was roughly 90 calendar days before the submission of this Surrebuttal Testimony.

Q: Please summarize your Surrebuttal Testimony regarding the Company's synergy savings tracking process.

A: I believe that through our two-phase approach to track synergy savings, the Company has implemented an effective synergy savings tracking mechanism, as ordered by the Commission in the Merger Report & Order, which achieves the appropriate objective. The Company has held multiple meetings with Staff where we discussed the Company's process for tracking synergy savings. The Company first provided the Phase 1 project charter database and underlying project charters on January 10, 2009, approximately 90 calendar days before the submission of this Surrebuttal Testimony. I am not aware of any active audit work performed by Staff on the synergy savings project charter information provided to them in January. I do not believe that the Company's request for recovery of amortization of transition costs in this case should be impeded by Staff's failure to audit the synergy savings Phase 1 project charter database provided to Staff three months ago.

RECOVERY OF TRANSITION COSTS

Q: Do you agree with Staff's position, as stated in Mr. Hyneman's Rebuttal Testimony at pages 4-5, that the Company should recover transition costs through natural regulatory lag?

A: No, I do not.

Q: Do you believe Staff's position for recovery of transition costs is consistent with the Commission's Merger Report & Order?

A: No, I do not. I provided in my Rebuttal Testimony starting on page 1, line 10 through page 7, the reasons why Staff's position to recover transition costs through natural regulatory lag is not appropriate, is not consistent with Staff's position for recovery of transition costs in previous merger proceedings and rate cases, and is clearly not consistent with the intent of the Merger Report & Order.

Q: Are there any specific points made in your Rebuttal Testimony that you would like to reiterate now?

A: Yes. In the Conclusions of Law section of the Merger Report & Order on page 241 under the subheading "Final Conclusions Regarding Transaction and Transition Cost Recovery," the Commission stated that "the uncontested recovery of transition costs is appropriate and justified." The Commission went on to declare on page 241: "If the Commission determines that it will approve the merger when it performs its balancing test (in a later section in this Report and Order), the Commission will authorize KCPL and Aquila to defer transition costs to be amortized over five years."

Q: What conclusions do you draw from the Commission's declarations on page 241 of the Merger Report & Order?

A: I draw two primary conclusions. First, the Commission found that the Company's request to defer transition costs and to amortize them over a five-year period beginning with the first rate cases post transaction for Aquila and KCP&L subject to 'true up' of actual transition and transaction costs in those future cases was not disputed or contested as related to transition costs.

Second, the Commission did approve the merger after performing its balancing tests (on pages 255-262 of the Merger Report & Order, finding that the applicants had met their burden of proof that the merger was not detrimental to the public interest), and authorized KCP&L and Aquila (now KCP&L Greater Missouri Operations Company) to defer transition costs to be amortized over five years.

Q: Are there other indications of the Commission's intent on this issue?

A: Yes. I believe there is clear and substantial evidence in the Merger Report & Order that the Commission acknowledged that the "regulatory lag" proposed by the Applicants in the merger case was intended to provide the Company's shareholders an ability to share in synergy savings before new rates were ordered by the Commission that reflected the benefits of the synergy savings to ratepayers. I do not believe it was the Commission's intent to use "regulatory lag" to recover transition costs or that "regulatory lag" is the appropriate mechanism to use to recover transition costs based on statements in Section F of the Findings of Fact and in Section C of the Conclusions of Law. Additionally, adoption of Staff's position to utilize regulatory lag to recover transition costs would shift the burden for all of the costs to achieve synergies to shareholders, which is inconsistent with the Commission's discussion on page 241 of the Merger Report & Order.

Therefore, the Commission should adopt the Company's proposal to amortize transition costs over five years.

Q: Does that conclude your Surrebuttal Testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariffs to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2009-0089

AFFIDAVIT OF DARRIN R. IVES

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

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

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

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of eight (8) pages, all of which 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 7th day of April 2009.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07[illegible]200