Exhibit No.:	
Issue:	Regulatory lag, acquisition detriments, tracker requests, merger transition costs recovery, and ORVS program costs recovery
Witness:	Darrin R. Ives
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2012-0174
Date Testimony Prepared:	September 5, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

REBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
September 2012

REBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2012-0174

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 Testimony in this matter?

A: Yes, I am.

Q: What is the purpose of your Rebuttal Testimony?

A: I am providing Rebuttal Testimony for Kansas City Power & Light Company ("KCP&L" or the "Company") in response to certain sections of the Missouri Public Service Commission Staff's ("Staff") Revenue Requirement and Cost of Service Report ("Report"). Specifically, I will be providing Rebuttal Testimony regarding implications to the Company's on-going concerns regarding regulatory lag based upon the Direct Testimony filed by Staff. Additionally, I will primarily be addressing Staff testimony regarding acquisition detriments they assert in several cost areas, continued recovery of merger transition costs as ordered by the Commission in KCP&L's last rate case (Case No. ER-2010-0355) ("2010 Rate Case"), deferral and recovery of costs incurred to implement Organizational Realignment and Voluntary Separation Program ("ORVS"), and exclusion from their direct case of new trackers as requested by the Company in our direct filing in this case.

I will also be providing Rebuttal Testimony in response to the Direct Testimony of Missouri Industrial Energy Consumers and Midwest Energy Consumers Group ("MIEC/MECG") witness Greg Meyer, who took the position that the Commission should not allow recovery of the costs incurred to implement the ORVS and his recommendations regarding trackers requested by the Company, specifically the Renewable Energy Standard ("RES") tracker and the property tax tracker. I will also provide Rebuttal Testimony in response to MIEC/MECG witness James Dauphinais' position on KCP&L's request for a transmission tracker.

Regulatory Lag

Q: You mention regulatory lag concerns. Please elaborate.

A: As I mentioned in my Direct Testimony, over the last several years we have been experiencing extensive regulatory lag that prevents the Company from realizing an earned return on equity that is reasonable and expected based on the allowed return on equity authorized by this Commission in previous cases. While allowed returns do not represent a guarantee of a return, investors in our Company certainly have an expectation that earned returns will be reasonable in relation to the allowed returns. Investors understand the limitations of the regulatory framework caused by the use of historical test years and the lag that is inherent due to capital investments placed in-service between rate cases; however, our recent experience in earned returns has not been reflective of the expected relationship between earned and allowed returns. Our return performance from 2007-2011 is provided:

Kansas City Power & Light Company Authorized vs Actual Return on Equity 2007 through 2011				
Source: Rate Orders and Annual Missouri Surveillance Reports				
Case No.	**Date Rates Effective**	**Authorized ROE**	**Calendar Year**	**Earned ROE**
ER-2006-0314	1/1/2007	11.25%	2007	10.04%
ER-2007-0291	1/1/2008	10.75%	2008	7.69%
ER-2009-0089	9/1/2009	Settlement	2009	6.15%
			2010	6.91%
ER-2010-0355	5/4/2011	10.00%	2011	5.94%

The discrepancy shown in the table above between earned and allowed returns has certainly been a contributor to the fact that KCP&L's parent company, Great Plains Energy Incorporated ("GPE"), has lagged behind a majority of the Edison Electric Institute ("EEI") member companies in regard to Total Shareholder Returns provided to its investors over the last several years.

Q: **How has GPE ranked in comparison to the EEI peer group as compiled by EEI over the past several years based on total shareholder returns?**

A: Based on the EEI Total Shareholder Returns information as provided in Schedule DRI-2, GPE ranks 44 of 55 for the latest 2 year returns, 46 of 55 for the latest 3 year returns and 51 of 55 for the latest 5 year returns.

Q: **Is regulatory lag an issue isolated to KCP&L?**

A: No. While it is certainly an important issue for us in our current regulatory environment, it is an issue impacting utilities across the industry. Regionally, I am aware that Union Electric Company d/b/a Ameren Missouri in Missouri and Westar Energy in Kansas have also been voicing concerns about the extent that regulatory lag is impacting their companies. Over the last year or so, I have also attended a conference in Columbia, Missouri, sponsored by Financial Research Institute ("FRI") and multiple conferences sponsored by National Association of Regulatory Utility Commissioners ("NARUC") where regulatory lag concerns have been discussed at a broader, industry level.

Q: What factors contribute to regulatory lag for KCP&L?

A: There are several. First and foremost, the regulatory models in Missouri and Kansas are built primarily on historical financial information. From a cost of service perspective, the process utilizes historical test year costs, updated or trued-up for known and measurable changes. Regardless of the update or true-up period, this model results in rates being set on historical costs that were incurred in a range anywhere from 5 months to 27 months prior to the date rates are effective. This model not only ignores cost increases that have occurred between the historical test year used and the date rates are effective, it also ignores the fact that in a rising cost environment, costs to serve our customers continue to increase from the date rates are effective, with little ability to synchronize recovery with costs incurred other than to initiate another expensive and time-consuming rate case.

In certain cost of service cost categories, costs can vary significantly from year-to-year and when such costs are a material cost of service component they can have a dramatic impact to the Company as a result of regulatory lag. In its direct filing in this case, in addition to its current pension/other post-employment benefits ("OPEB") tracker and Iatan 2/Common operations & maintenance tracker, the Company identified other cost of service components it believes warrant tracker treatment including Missouri RES costs, transmission costs and property taxes. I will provide more Rebuttal Testimony regarding parties' positions on requested trackers later in this testimony.

From a capital investment perspective, when a utility is in a substantial capital investment cycle, as is occurring across the country today, significant regulatory lag is produced. This lag is a result of the same historical model that I discussed regarding cost of service. Capital investments are generally reflected in a rate case based on assets placed in-service as of the update or true-up of the case. In this case, it means capital assets will be five months outdated at the time rates from this case are effective. Additionally, while utilities are allowed to record an Allowance for Funds Used During Construction ("AFUDC") to recover financing costs associated with construction work in process, assets placed in-service subsequent to the update or true-up of the case, receive no financing cost recovery until the utility files another expensive and time-consuming rate case to reflect the assets in rate base. During the entire time the assets are in-service but not reflected in rates, the Company is recording depreciation expense for the utilization of the assets. Such depreciation expense is not reflected in rates and, except for specific, infrequent circumstances in which construction accounting authority has previously been provided for large generation investments, there is not currently a mechanism in Missouri or Kansas to routinely recover that lost depreciation expense. These regulatory lag effects of capital investment are significant to KCP&L, and other similar utilities, that are in a substantial capital investment cycle where annual capital additions significantly exceed the annual depreciation expense of the company.

Q: What other factors contribute to regulatory lag for KCP&L?

A: Another factor significantly contributing to regulatory lag for KCP&L is the continuing effect of the current economic recession. Historically, KCP&L, and other regional utilities have experienced load growth (increased kWh usage) in a range of 2% to 3% annually. In the historical-based regulatory model, this increased kWh usage on the Company's system sometimes resulted in revenues that exceeded the revenues that rates were based on. Utilities like KCP&L were able to utilize the increased revenue to offset cost of service and capital investment regulatory lag. Today, KCP&L is not experiencing load growth consistent with historical levels. In fact, as our direct case demonstrates, since rates were last set, KCP&L has experienced demand destruction (decreased kWh and kW usage). This demand destruction adds to and exacerbates the cost of service and capital investment regulatory lag previously discussed.

Finally, KCP&L's current ratemaking for Off-System Sales ("OSS") margins has significantly contributed to regulatory lag since rates effective in the 2010 Rate Case. As described in more detail in the Direct Testimony of Company witness Tim Rush, in the 2010 Rate Case, OSS margins were established as a reduction to retail rates based on using the 40^{th} percentile derived from the direct testimony of Company witness Michael Schnitzer. Mr. Schnitzer's model utilizes projected annual data to project the level of OSS margin the Company could obtain at various percentiles based upon a number of variables. Once retail rates were established in the 2010 Rate Case based upon the 40^{th} percentile, any annual shortfall in OSS margin from this level creates regulatory lag. In part due to extensive and extended 2011 Missouri River flooding during the annual measurement period, and significantly due to the dramatic decline in wholesale power prices, driven by a combination of greater than expected soft demand and greater than expected reductions in natural gas prices, KCP&L's OSS margin over the annual period following rates effective in the last case were below the amounts utilized to build the 40^{th} percentile retail rate offset by over $20 million. Under KCP&L's existing ratemaking treatment in Missouri, this significant regulatory lag will never be recovered – it is a direct loss to shareholders.

Q: Do you have any additional regulatory lag concerns based on the Report filed by Staff?

A: Yes. Several positions by Staff in its cost of service are based on flawed theory and, if accepted by the Missouri Public Service Commission ("MPSC" or the "Commission"), will create additional regulatory lag in an environment that is already producing earned returns on equity well below those authorized by the Commission. In particular, I will address the following:

- Acquisition detriment – cost of debt;
- Acquisition detriment – general plant retirements;
- Acquisition detriment – advanced coal credit;
- No additional Company proposed trackers included;
- Stoppage of authorized merger transition costs recovery; and
- No recovery of ORVS program costs.

Q: Please summarize your regulatory lag Rebuttal Testimony.

A: In summary, as indicated in the Company's direct filing in this case, we have significant concerns regarding the extensive regulatory lag we have been experiencing. We continue to believe that customers benefit from the services provided from a financially-stable utility. Customers benefit when the Company is able to attract investors willing to invest funds in our Company that can be used to maintain and update the significant capital infrastructure required to provide the reliable service that customers expect. We recognize that the return on equity authorized by this Commission is not guaranteed, but believe strongly in a ratemaking philosophy that is fair and reasonable. Such a philosophy provides us an opportunity to realize an earned return on equity that is fair and reasonable in relation to the authorized return, and is not only good for our investors but also provides us access to equity capital that can be used to invest in our systems in Missouri in order to sustain the levels of service reliability expected, and historically experienced, by our customers.

Therefore, I request that the Commission consider the effects of regulatory lag in making its decision in this case. Providing the expense trackers that we have requested will help to address regulatory lag associated with these areas of volatile expenses, particularly for costs imposed on the Company which are largely outside of the Company's management discretion. Trackers for volatile and less manageable costs ensure that prudently-incurred costs are recovered appropriately. Trackers ensure full cost recovery but they also ensure that customers do not pay more than the actual cost incurred. Tracker recovery ensures that customers pay for the cost incurred by the utility for the specific expense – no more and no less. While trackers result in a delay in cash recovery for the utility in a rising cost environment, they are a mechanism available to this Commission that can mitigate the cost of service regulatory lag and corresponding earnings drag. I also request the Commission reject the arguments made by Staff regarding acquisition detriments, stoppage of merger transition costs recovery and ORVS cost recovery. Their arguments are flawed for the reasons discussed later in this Rebuttal Testimony and will only exacerbate regulatory lag experienced by KCP&L and widen the gap between our earned return on equity compared to the return on equity authorized by this Commission.

Acquisition Detriments

Q: In its Report in this case, Staff makes adjustments in its direct case for several acquisition detriments related to the merger of Aquila, Inc. ("Aquila") with a special-purpose subsidiary of GPE. Didn't the Commission already approve this merger?

A: Yes. I was quite surprised to not only see discussion of acquisition detriments by the Staff, but shocked to see specific adjustments for acquisition detriments in this case. The Commission approved this merger in a Report and Order in Case No. EM-2007-0374 ("Merger Report and Order") issued July 1, 2008 – over four years ago. I would also note that KCP&L and KCP&L Greater Missouri Operations Company ("GMO") have each had two prior retail rate cases in Missouri since the Merger Report and Order, with the 2010 rate cases (Case Nos. ER-2010-0355 and ER-2010-0356, respectively, with the former being referred to hereinafter as the 2010 Rate Case") having significant testimony and determinations made by this Commission regarding merger synergy savings. The Commission authorized the companies to recover merger transition costs over five years beginning with rates effective from the 2010 rate cases. The acquisition detriments asserted by the Staff appear to me to be an attempt to take another bite from a very old apple.

Q: Can you please summarize the Commission's ruling regarding the "Not Detrimental to the Public Interest" standard in the Merger Report and Order?

A: Yes. On page 261 of the Merger Report and Order, the Commission provided a section titled, "Final Conclusions Regarding the Application of the "Not Detrimental to the Public Interest" Standard." That section stated:

> The Commission finds that approving the proposed merger, with the conditions that it plans to impose, is not detrimental to the public interest. The Commission concludes the Applicants met their burden of establishing that there is no detriment to the public interest if the Commission authorizes the proposed merger. The Commission shall authorize the proposed merger subject to the conditions already contemplated and will consider other conditions requested by various parties to this action in other sections of this Report and Order.
>
> Additionally, the Commission observes that synergy savings compose only one factor in the multi-factor "not detrimental to the public interest" balancing test. ***Given the number of positive benefits associated with the transaction, and the fact that no credible evidence establishes any negative effects from the merger (especially in light of the conditions imposed by the Commission as being necessary for approval), the Commission further concludes that even if it had not weighed the projected synergy savings when performing its balancing test, the Applicants still met their burden of proof that the proposed merger is not detrimental to the public interest.*** [emphasis added]

Q: Does it make sense at this juncture, or at any time, for the Staff to propose that the Company recognize in its financial records specific acquisition adjustments?

A: No. As I just mentioned, the Commission in 2008 ruled that the merger was not detrimental to the public interest. It performed an analysis and balancing test of all evidence in the record in making their determination. Additionally, the Commission indicated that it would have determined that the merger was not detrimental to the public interest even if it had not weighed the projected synergy savings identified by the Company. Staff's acquisition arguments in this case are, quite simply, illogical.

Q: Do you think acquisition detriments should be weighed, and reflected as adjustments to rates, on an issue by issue basis?

A: Absolutely not. Mergers such as the one with Aquila are large and complex. Integration of activities is likewise very complicated. It is not likely that every single area and every single cost category will see synergy and benefit from the merger and integration. Therefore, much as the Commission looked at the transaction in total in concluding that there was no detriment to the public interest, acquisition detriments must be looked at in conjunction with synergy savings being unlocked by the merger (*i.e.*, net basis). It is nonsensical to suggest, as the Staff has done in its Report in its direct filing in this case, that the Company and its shareholders should be responsible for acquisition detriments in individual areas and cost categories, yet significant synergy savings should fully flow through to customers without consideration of these supposed acquisition detriments identified by Staff four years after the Commission's order approving this merger.

Q: Do you agree with the individual acquisition detriments that Staff has asserted in their Report?

A: No. In this Rebuttal Testimony, I discuss the legitimacy of the claimed acquisition detriments. I also respond to Staff's attempt to disallow amortization recovery of merger transition costs as ordered by this Commission in the Company's 2010 Rate Case. I will also demonstrate that even if the Commission concludes that all of the acquisition detriments identified by Staff should be considered in this case, the benefit of annual synergy savings to customer – net of the annual effect of the identified acquisition detriments – is still more than sufficient to cover the annual amortization of transition costs ordered by the Commission in the 2010 Rate Case. Demonstrating that net synergy savings to customers more than offsets the requested annual recovery of transition costs is the bottom line test ordered by the Commission in the Merger Report and Order.

Q: Please address the first acquisition detriment listed earlier in this Rebuttal Testimony regarding the cost of debt.

A: In this instance, Staff made an adjustment in this case to lower the debt cost for three issuances of debt by GPE to support the regulated utility operations. This is the first instance of Staff adjusting a specific area of costs under the guise of an acquisition detriment while allowing merger synergies to fully flow through to customers. Staff provides much testimony in this area. However, in summary Staff argues that because GPE guarantees the debt of GMO, and because GPE, which has a lower unsecured debt rating than KCP&L, issued these three tranches of debt, the rates charged to customers is higher than could have been achieved by issuing debt at the utility (KCP&L and GMO) level.

There are many incorrect assumptions underlying Staff's conclusion. Let's start though by remembering how we got here. Prior to 2007, Aquila experienced severe financial issues as a result of, among other reasons, significant losses in non-regulated business activities. Aquila's debt ratings, as accurately described by Staff, had fallen as low as CCC+, which was only one category above default. There was no debate at the time of the proposed merger in 2007, and related asset sales proposed by Aquila concurrently with the merger and prior to the merger, that Aquila was in significant financial distress. There were significant reasons that Aquila was pursuing asset sales and the acquisition by GPE of the remainder of the business, including Missouri regulated electric operations. There was no assurance at that time that Aquila could continue as a going concern – and certainly no assurance that Aquila could obtain an investment grade rating on its debt – without significant change to its corporate structure.

With that background, it is my belief that acquisition detriments should be a component of the balancing test utilized in determining no detriment to the public interest, not as a single event to be accounted for discreetly from the overall benefit of the merger transaction. Additionally, acquisition detriments should be evaluated considering effects after the merger as compared to effects that would have occurred had the merger not been consummated. As I describe above, and as provided in Staff's Report – Aquila's debt ratings were below investment grade prior to the transaction – and for anyone that followed the merger case in front of this Commission – there were no assurances that Aquila could recover investment grade status on a stand-alone basis.

Q: Please discuss Staff's assertion on page 34 of its Report that the Commission's Merger Report and Order should be considered in this area.

A: Staff refers to the section of the Commission's order that states, "the Commission conditions its authorization of the transactions….upon a requirement that any post-merger financial effect of a credit downgrade of Great Plains Energy Incorporated, Kansas City Power & Light Company, and/or Aquila, Inc., that occurs as a result of the merger, shall be borne by the shareholders of said companies and not the ratepayers." In addressing this comment, it is important to review the credit ratings of the entities before the merger and currently.

As is shown in Schedule DRI-3, there have been credit downgrades by Moody's Investor Service ("Moody's) from pre-merger levels for GPE and KCP&L. While there have been downgrades, it is clear from the Moody's ratings action reports attached as Schedules DRI-4 and DRI-5, that the downgrades were made as a result of regional economic weakness, large construction project risks and a need for continued improvement in credit metrics. In the March 2010 Moody's ratings action report, Moody's also mentions their implementation of a widening of the notching between most senior secured debt and senior unsecured debt. While KCP&L's senior unsecured debt was downgraded, its senior secured rating did not change. As the merger is mentioned nowhere by Moody's in its ratings action reports, Staff's reference to the Commission's condition is irrelevant and there is no support for an adjustment to the cost of debt as a result of credit rating concerns. Company witness Kevin Bryant will be providing additional cost of debt Rebuttal Testimony to address other Staff assertions in their Report.

In response to the Staff's assertion of an acquisition detriment related to the cost of debt, for the reasons provided above, the Commission should reject Staff's assertion. Further, in the event that there was a future credit downgrade, more than five years since the announcement of the proposed merger, I would argue that it would be virtually impossible from this point forward to affirmatively state that a credit downgrade could be attributed to the merger, without specific evidence to the contrary. The business environment is not static and much has happened in the region and industry over the last five years that goes well beyond the merger of these entities.

Q: Please address the second acquisition detriment listed earlier in this Rebuttal Testimony regarding general plant unrecovered reserves.

A: In this instance, Staff has asserted that a depreciation reserve shortfall of just under $4.9 million exists in KCP&L's general plant accounts as a result of the acquisition of Aquila. They assert that this shortfall should be treated as an acquisition detriment. Their recommendation is an adjustment in this rate case to increase reserves in the general plant accounts by the approximate $4.9 million. Consistent with my testimony above, this proposed treatment flies in the face of the overall balancing test that was conducted by the Commission in its 2008 approval in the Merger Report and Order. It similarly lacks symmetry in treatment, as the Staff proposes to penalize the Company and its shareholders for individual asserted acquisition detriments, but Staff is comfortable flowing through gross annual synergy savings to customers.

Q: Please describe the plant retirements discussed by Staff that drive this unrecovered reserve.

A: The general plant retirements creating this approximate $4.9 million unrecovered reserve balance represent assets that were retired in conjunction with consolidations of facilities that were made after close of the merger. Additionally, after the merger, GPE made the decision to close and sell the former Aquila corporate headquarters and ultimately determined it should enter into a new lease for the combined companies' corporate headquarters in different office space than KCP&L and GPE occupied prior to the merger.

Q: Are synergies from building closures and facilities consolidations flowing through to customers today?

A: Yes, at this juncture the synergies derived from the closures and consolidations are flowing through to customers. In the 2010 Rate Case, where the Commission evaluated merger synergies and approved amortization of merger transition costs, the annual synergies related to these activities estimated to be flowed through to customers with rates effective from the 2010 Rate Case were approximately $7.0 million annually.

Q: How does this level of annual synergy savings relate to the annual depreciation effect of the related retired general plant assets?

A: Utilizing the Staff workpapers to analyze the approximately $4.9 million reserve impact, the annualized depreciation impact had the retirements not been made would be approximately $0.6 million. Therefore, the annual depreciation impact of the retirements (asserted acquisition detriment) is estimated to be $6.4 million less than the related closure and consolidation synergies currently being flowed through to customers. This is calculated as an annual impact of depreciation for the assets retired assuming all assets would have remained in service over the full five years that synergies are evaluated. This is a very conservative view as it is likely that some assets would have been retired during the synergy period regardless of the building closures and consolidations.

Q: Based on the analysis just described, do you believe there is any foundation for adopting Staff's adjustment to increase reserves in the general plant accounts for the $4.9 million?

A: Absolutely not. For the reasons provided earlier in my testimony, acquisition detriments should not be evaluated on an individual or cost category basis. Acquisition detriments should be evaluated as a component of the overall balancing test when determining whether there is no detriment to the public interest. As noted, there is no symmetry in penalizing the Company and its shareholders for individual cost category acquisition detriments, but flowing through gross synergy savings to customers. Finally, even when looking at this individual cost category, synergy savings provided to customers as a result of the facilities closures and consolidations far exceed the acquisition detriment asserted by the Staff for general plant retirements. Therefore, in response to the Staff's assertion of an acquisition detriment related to general plant unrecovered reserves, for the reasons provided above, the Commission should reject Staff's assertion.

Q: Is there anything else you would like to add on this topic?

A: Yes. I would like to point out that the Company followed the FERC Code of Federal Regulations ("CFR") and Chart of Accounts in recording the retirements. Our treatment on the books is fully consistent with mass asset accounting and generally accepted accounting principles.

Q: Is there another way to look at recovery of these general plant retirement costs?

A: Yes. While our treatment is consistent with the FERC CFR and generally accepted accounting principles, if the Staff asserts that these costs are related to the acquisition, and are part of the costs necessary to unlock synergies for customers as a result of the closures and consolidations, then these costs should be looked at not as acquisition detriments but as merger transition costs. If they were considered merger transition costs, these $4.9 million in costs would be eligible to be recovered over five years from the effective date of rates from the 2010 Rate Case. I would point out that based upon the synergy tracker model results utilized in the Commission's approval of transition cost recovery in the 2010 Rate Case, annualized synergy savings to customers would continue to significantly exceed transition costs amortization, even after amortizing the $4.9 million over the remainder of the five-year amortization recovery period, which would amount to $1.5 million annually.

Q: Please address the third acquisition detriment listed earlier in this Rebuttal Testimony regarding the Iatan 2 Qualifying Advanced Coal Project Credits.

A: In this third assertion by Staff of an acquisition detriment, the Staff asserts that "absent the acquisition, Aquila (GMO) would have been in a position to take part in the arbitration process and, more importantly, it would have requested a share of the Coal Credits when the IRS was requested to reallocate Coal Credits to Empire." They go on to assert that GMO faced an acquisition detriment as a result of certain of the events surrounding the Coal Credits occurring after the acquisition of Aquila by GPE.

Q: Is the Company rebutting the Staff's assertions of imprudence regarding the Coal Credits and their recommendations for treatment in this case?

A: Yes. The Company certainly disagrees with the Staff's positions and recommended treatment for this issue. Company witness Melissa Hardesty addresses the Staff's positions and assertions in her rebuttal testimony and Company witness Salvatore Montalbano addresses Staff's recommended treatments in his Rebuttal Testimony. I will be addressing Staff's assertion of an acquisition detriment regarding the Coal Credits.

Q: Is Staff's assertion of an acquisition detriment appropriate?

A: No. For many of the reasons I provided earlier discussing asserted acquisition detriments, it is not. Staff's treatment flies in the face of the Commission's decision in the Merger Report and Order, where the Commission clearly determined that the merger was not detrimental to the public interest. Additionally, as I discussed earlier in this testimony, much as the Commission looked at the transaction in total in concluding that there was no detriment to the public interest, acquisition detriments must be looked at in conjunction with synergy savings being unlocked by the merger (*i.e.*, net basis).

Q: Are there other points that you would like to make regarding Staff's assertion of acquisition detriment regarding the Coal Credits?

A: Yes. First, KCP&L is currently eligible to utilize $107.3 million of Coal Credits. If GMO would have received a proportionate share of the credits, GMO would have received $26.6 million of Coal Credits with KCP&L's share reduced to $80.7 million. In other words, the combined company would be eligible to utilize $107.3 million of Coal Credits – the same level available to KCP&L today. This results in a jurisdictional difference depending on which Company is eligible to utilize the Coal Credits, but there is no reduction of Coal Credits for the combined company as a result of the acquisition – or in other words, no acquisition detriment.

Second, this Coal Credit dispute began before the acquisition, when KCP&L applied for and received the credits and neither Empire nor Aquila requested Coal Credits. Company witness Melissa Hardesty discusses the timeline and sequence of events in more detail in her Rebuttal Testimony. The point here; however, is the Coal Credit issue developed before the acquisition. While it is certainly an issue being discussed in the companies' last rate cases and again in this one – the fact that the issue pre-dates the acquisition, and that the credits available to the combined company are no different than pre-acquisition, makes it difficult to understand Staff's argument for this to be considered an acquisition detriment.

Q: If Staff's assertion for the Coal Credits were supportable, would this detriment make the entire merger detrimental to the public interest?

A: Absolutely not. In the first full year post-merger, 2009, the companies' proved an annual amount of synergy savings to regulated operations of $48.5 million, all of which are currently flowing through to customers. The $48.5 million of annual savings determined utilizing the synergy tracking model ordered by the Commission to justify beginning amortization of transition costs in rates is comprised of many sustainable savings benefits to customers for years to come including employee and benefit cost reductions, savings from building closures and consolidations, etc. The $48.5 million represents, on an annual basis, approximately 4 times the requested annual transition costs recovery.

As noted above, on a combined company basis, there is no difference in credits available to be utilized, $107.3 million. However, if, for argument sakes, you just isolate the proposed reallocation of credits to GMO, the GMO impact is $26.6 million, to be provided to customers over the life of Iatan 2 of approximately 47 years, as computed for tax credit purposes. While the credits available to customers would not flow to customers on a straight-line basis, less are able to be utilized for the next several years, let's assume that all were available to be utilized in year 1 and would flow to customers over the 47 year life, computed for tax credit purposes, of Iatan 2. That would equate to less than $0.6 million available to customers annually. While, this amount is not inconsequential, it does not jeopardize at all the significant amount of synergies being provided to customers as a result of the merger, nor does it jeopardize the companies' ability to demonstrate that synergies, net of asserted acquisition detriments, continue to significantly exceed the annual transition cost amortization.

Tracker Requests

Q: You stated earlier that Staff did not include Trackers in their Report consistent with the newly requested Trackers by the Company in its Direct case. Please explain.

A: Yes, Staff did not provide testimony in its Report providing Trackers consistent with the newly requested Trackers by the Company in its Direct case. While Staff has not yet had to provide Rebuttal Testimony to the Company's Direct filed case, it is telling that Staff has had the Company's Direct filed case for over five months and did not provide for the newly requested Trackers in its Report.

Q: You stated earlier that one purpose of your Rebuttal Testimony is to respond to Mr. Meyer regarding his Direct Testimony on the utilization of a property tax tracker. What was Mr. Meyer's position regarding use of a tracker for property tax expense?

A: Mr. Meyer did not support use of a tracker for property tax expense as he indicated that "the Company has significant control over when it begins construction projects and adds new plant to its base."

Q: Do you agree that the Company has control over its level of property taxes?

A: No. While the Company may have some control over the timing of certain projects, this control would, at best, only impact for a short-term the timing of changes in the property tax liabilities. What is certain is that the Company has little control over the actual property tax valuations, the mill levy tax rates and thus the ultimate property taxes to be paid. Property taxes are determined on an annual basis and, due in part to budgetary issues of state and local governments such taxes, can and have changed significantly over the past several years as noted in my Direct Testimony and the Direct Testimony of Company witness Harold "Steve" Smith.

Q: Did Mr. Meyer suggest an alternative to the tracker for property tax expense?

A: Yes, Mr. Meyer indicated that the Company can file a rate case and/or time its rate case filings to address significant changes in property tax expense or the Company could pursue an Accounting Authority Order ("AAO") to address such changes.

Q: Please explain why these are not acceptable alternatives to the tracker for property tax expense.

A: First, an AAO would not be an appropriate method for recovery of property tax expense. Such an Order is normally used for one-time, unusual or non-recurring items which normally would not include property taxes. As noted, property taxes are determined on an annual basis and can vary significantly from year to year.

Second, property taxes are a significant component of the Company's cost of service and as the level of such taxes can and has changed significantly from year to year with little control by the Company, it makes sense to address such recovery through a defined mechanism such as a tracker. This method would also assure that rate payers would receive the benefit of any decrease in property taxes as both tax increases and decreases would be appropriately tracked.

Q: Mr. Meyer also addressed the Company's proposal to implement a RES tracker didn't he?

A: Yes, he did. Regarding the RES tracker, Mr. Meyer recommended prudently incurred costs through March 31, 2012 be included in rate base and the operating expenses reflect a six-year amortization. He further recommends these amounts be trued-up as of August 31, 2012, and the normalized level of solar rebate costs allowed in the last rate case be discontinued. He recommends future costs be deferred and addressed in a future case, rather than allowing the use of a tracker.

Q: Why is the Company requesting the use of a tracker rather than deferring the costs until the next rate case?

A: While the Company received approval for the Commission for its requested AAO to defer RES costs for recovery consideration in this case, it is imperative that the Company not only receive a tracker for the RES costs but that a reasonable amount be established in rates in this case to be utilized as a base for the tracker. With the significant growth in RES costs being experienced by the Company as a result of the RES legislation and rules, deferral only, without a reasonable amount included in base rates in this case, will result in substantial cash regulatory lag for the Company that is unreasonable in light of the legislative mandate that is driving the need for the Company to incur these significant costs.

Q: Did the Company propose a transmission tracker in this case?

A: Yes it did.

Q: Did MIEC/MECG witness Mr. Dauphinais provide Direct Testimony regarding this request?

A: Yes, he did. He recommends the Commission deny KCP&L's request for a transmission tracker.

Q: Why did the Company request a transmission tracker?

A: Transmission expenses are one category of expenses that tends to be volatile and for the most part imposed on the Company and are largely outside of the Company's management discretion. A tracker allows recovery of these volatile expenses with Customers paying no more or less than the actual cost the Company incurs. My Direct Testimony in this case and the Direct Testimony of Company witness John Carlson in this case both discuss the rationale for the Company's request for a transmission tracker in this case.

Q: Have conditions changed for the Company since Direct Testimony was filed in this case regarding the necessity of a transmission tracker?

A: They have not.

Q: Please summarize your Rebuttal Testimony in regard to the parties' positions on trackers requested by the Company.

A: While the Staff did not address the newly requested trackers in their Report and MIEC/MECG witnesses opposed the newly requested trackers in their filed cases, the Company continues to feel strongly that these trackers are necessary and appropriate to address regulatory lag impacts in these areas. The costs covered by these requested trackers are becoming significant impacts to the Company's cost of service, have been increasing in recent periods greater than annual inflation or customer load growth, and most importantly are costs largely outside of the Company's management discretion as they are costs imposed by third parties, legislative or regulatory actions.

The Company believes that in circumstances such as this, trackers are valuable tools. Use of trackers in these circumstances can help to mitigate the regulatory lag caused by these items on Company earnings. Use of a tracker also ensures that in the years between rate cases the utility does not under-recover or over-recover its costs in these areas. In other words, a tracker works to ensure that a dollar spent in these areas results in a dollar recovered, no more and no less. It should be noted that while a tracker helps provide the Company an opportunity to earn closer to its authorized ROE, the

Company still has a regulatory cash lag related to trackers due to the delay in recovery of costs through the tracker.

Merger Transition Costs

Q: Can you summarize the testimony of Staff witness Keith A. Majors with regard to Transition Cost Recovery Mechanism?

A. Yes, Mr. Majors recommends that the continued amortization of transition costs through KCP&L's cost of service, which was ordered in the 2010 Rate Case be discontinued in this case for the following reasons:

1. KCP&L has not maintained the detailed synergy tracking model that was produced in the 2010 Rate Case,
2. Staff believes that KCPL has some of the highest administrative and general ("A&G") expenses in the region,
3. KCPL has retained significant corporate synergy benefits without a comparable amount of regulated synergy benefits being flowed through to ratepayers, and
4. There were "significant acquisition detriments" that offset the benefits realized through the acquisition.

Q: What else did Mr. Majors include in Staff's Report regarding transition cost recovery?

A: Mr. Majors also argues that if the Commission authorizes the continued amortization of transition costs, they should:

1. Reduce the transition costs by any retained savings related to 2011 ORVS program, and

2. The beginning date of the amortization should retroactively be changed to September 4, 2009, the effective date of rates in Case No. ER-2009-0089.

Q: What is your response to Staff's position?

A: I strongly disagree with Staff's position presented in Mr. Majors' testimony. This issue was definitively decided by the Commission in the 2010 Rate Case in which the Company was granted a 5 year amortization of identified transition costs. Frankly, the Company is frustrated by the Staff's continued insistence on litigating transition cost recovery after the Commission has rendered a definitive decision on the issue.

Q: Please explain the history of transition costs as discussed in the Merger Report and Order in Case No. EM-2007-0374.

A: In paragraphs 167 and 168 of the Merger order, the Commission made a distinction between transaction costs and transition costs:

> Examples of transaction costs include investment banker fees, consulting and legal fees associated with the evaluation, bid, negotiation and structure of the deal. Transition-related costs are comprised of the costs incurred to integrate Aquila into Great Plains. They are those costs necessary to ensure that the synergy savings are achieved and that the merger process is effective. These costs include severance and retention costs associated with process integration.

The Commission's Final Conclusion Regarding Transaction and Transition Cost Recovery from page 241 of the Merger order is as follows:

> Substantial and competent evidence in the record as a whole supports the conclusions that: (1) the Applicants' calculation of transaction and transition costs are accurate and reasonable; (2) in this instance, establishing a mechanism to allow recovery of the transaction costs of the merger would have the same effect of artificially inflating rate base in the same way as allowing recovery of an acquisition premium; and (3) the uncontested recovery of transition costs is appropriate and justified. The Commission further concludes that it is not a detriment to the public interest to deny recovery of the transaction costs associated with the merger and not a detriment to the public interest to allow recovery of transition costs of the merger.

> If the Commission determines that it will approve the merger when it preforms 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.

Footnote 930 to this decision stated:

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

Q: Did the Commission find that the synergy savings projected in the Merger application were accurate and reasonable?

A: Yes, on page 238 of the Merger Report and Order, the Commission found that,

> "the projected synergies are accurate, realistic and achieveable at a very high level of confidence and probability," and

> "the synergies actually realized from the merger have a very high probability of exceeding the Applicants' estimates".

Q: How were transition costs handled in the 2010 Rate Case.

A: In that rate case, the Company presented a Synergy Tracking Model (Tracker), which the Commission noted on page 153, paragraph 449 of the Report and Order ("2010 Order"),

> … demonstrated that the merger synergy savings for non-fuel operations and maintenance expense exceed the amortization of merger transition costs.

In fact, the Tracker showed $48.5 million of synergies compared to $10.4 million annual amortization of transition costs in all jurisdictions (KCP&L Missouri and Kansas and GMO MPS and L&P). This demonstrated that in one year the amount of synergies retained were almost as great as the entire amount of transition costs to be amortized.

The Company also presented a synergy project charter database (Database) that tracked all synergies on a project-by-project basis for internal purposes. The Commission noted on page 153, paragraph 451 of the 2010 Order that,

> Staff's analysis showed that the amount of synergies in the synergy project database exceeded those in the Commission-ordered tracking system.

This statement is true when you compare the amounts in the Database to the Tracker because the database contained ALL synergies from the merger, whereas the Tracker by design only analyzed non-fuel operations and maintenance ("NFOM") synergies. The amount of NFOM synergies in the Database exceeded synergies in the Tracker by $8,000 or less than .02%.

Additionally, the Company and Staff presented evidence that the Commission noted on page 154, paragraph 454 of the 2010 Order that,

> KCP&L and GMO project that total synergy savings through 2013 will be $344 million. Of that amount, KCP&L and GMO project that ratepayers will receive $150 million.

As noted above, the Commission believed in the Merger Order that there was a high probability of the $305 million of synergy benefits projected in the merger application being exceeded and this provided evidence to validate that belief.

Q: Did any party to the 2010 Rate Case challenge the reasonableness or prudence of the merger transition costs?

A: On page 154, paragraph 457, the Commission noted that,

> No party challenged the reasonableness or prudence of incurring the merger transition costs. In addition, Staff's witness stated that the transition costs incurred by the company were not unreasonable or imprudent.

Q: In the 2010 Rate Case, did the Commission find that the Company had complied with Merger Order as it related to recovery of merger transition costs?

A. Yes, in the Conclusions of Law-Transition Cost Recovery, page 156, paragraph 45, the Commission stated,

> The Companies accumulated all transition costs consistent with the Merger Order. The Commission concludes that the Companies have complied with the Merger Order as it relates to recovery of transition costs.

Q: In the 2010 Rate Case, did the Commission give any credence to the Staff's arguments regarding regulatory lag in the context of transition cost recovery?

A. No, the Commission did not. In fact, in the Commission's Decision-Transition Cost Recovery, page 157, it was stated,

> No party to this proceeding has challenged the reasonableness and prudence of the claimed transition costs or challenged the amount of synergy savings. While true that the Companies' shareholders have enjoyed the benefit of regulatory lag in retaining synergy savings since the merger was consummated, the Commission finds that this outcome was specifically contemplated in its consideration of the appropriate treatment for synergy savings in the merger case and as set out in the Merger Order. The Commission also finds that it specifically contemplated that synergy savings would be higher than predicted.

Q: In the 2010 Rate Case, did the Commission find that the Company had demonstrated that synergy savings exceeded transition costs?

A. The Commission directly states on page 157 of the 2010 Order,

> The Commission expected that recovery would only occur if the Companies incurred the costs prudently and reasonably and demonstrated that the synergy savings were more than the transition costs. **The Companies have done this**. (emphasis added)

Q: In the 2010 Rate Case, did the Commission agree with Staff's argument that amortization of transition costs should have begun with the date rates were effective in the first rate case after the merger, i.e. September 4, 2009?

A. No, the Commission did not. In fact, the Commission laid out its reasoning on page 158 of the 2010 Order as follows,

> Staff also argues that the companies should have begun amortizing these costs in the previous rate cases per the Merger Order. At first glance, the Merger Order does imply that the five-year amortization will begin from the first rate case after the transaction is consummated. **However, that statement is just a restatement of what the Companies were proposing**. **The Commission never specifically orders that treatment.** Furthermore those rate cases were resolved through settlement and this issue was not addressed in that settlement so the issue never came before the Commission for consideration. **Thus, this is the first opportunity for the amortizations to begin and Commission determines they will be amortized over five years beginning with this rate case**. (emphasis added)

Q: Based on these various conclusions drawn by the Commission, what was its final decision regarding recovery of merger transition costs?

A: On page 158 of the 2010 Order, the Commission stated,

> The evidence in this case supports the Commission's original findings in the Merger Order that the Companies should be permitted to recover the merger transition costs in rates over five years beginning with rates effective from this case.

Q: On page 249 of his Direct Testimony, Mr. Majors argues that "without the Commission Ordered Synergy Savings Tracking Model, Staff cannot determine whether the annual synergy savings . . . exceed the amortized transition costs." Did the Commission order that the Tracker be prepared in rate cases subsequent to the 2010 Rate Case?

A: Again, on page 158 of the 2010 Order, the Commission stated,

> The evidence in this case supports the Commission's original findings in the Merger Order that the Companies should be permitted to recover the merger transition costs in rates over five years beginning with rates effective from this case.

It is the Company's position that the Commission could not have been any clearer in its ruling on this issue. The Commission believed that the Company had met all requirements to recover merger transition costs, ordered that they be recovered over five years beginning with the effective dates for rates in the 2010 Rate Case and did not order that the Tracker be completed in subsequent years in order to justify continuing amortization. If the Commission had intended that the Company complete the Tracker each year through 2016, the Company believes that it would have explicitly ordered this. Note, also, that had the Commission required this, the measurement period would have exceeded the five year period through June 30, 2013 contemplated in the Merger Order.

Q: Has the Company stopped tracking synergies?

A: No, it has not. In fact, Mr. Majors acknowledges in his Direct Testimony that the Company has continued to track synergies through the preparation of the Database. The Company believes that it is important that it meet all synergy benefits promised in the merger application and continues to track all benefits to ensure that it is meeting its obligations.

Q: Does the Company believe that it is still generating synergy benefits in excess of merger transition costs?

A: Yes, without a doubt. The Company believes it is generating synergy benefits far in excess of merger transition costs. In fact, in this case the Company has not presented any new transition costs to be amortized that were not already ordered in the 2010 Rate Case.

Q: What were the synergy savings that were proven in the 2010 Rate Case?

A: As demonstrated in the previous case and accepted by Staff, in 2009 alone over $48.5 million of NFOM synergies were realized, according to the Tracker and Database. In other words, in one year, the Companies generated enough synergies to cover 93% of the $52.0 million in total transition costs that are flowing through rates in all jurisdictions.

Q: Does the Company believe that there are certain synergies that are subject to little debate, even without preparation of the Tracker?

A: Yes, the Company believes that there are several such synergies. For instance, even if the Company were unable to prove any other synergy savings going forward, there should be little debate that headcount was reduced and has remained below pre-merger levels or that several buildings and service centers were consolidated and sold. The annual level of synergies related to these items proven in the 2010 Rate Case was $15.0 million. Being conservative and assuming no inflation, for the period of 2010 through 6/30/13 those synergies alone would total $52.4 million. Combined with the 2009 synergies already accepted by Staff, the total of $100.9 million would be almost double the total transition costs.

Q: Does the Company believe that it demonstrated in the 2010 Rate Case that the Tracker and Database were highly correlated?

A: As noted earlier, the Tracker presented in the 2010 Rate Case demonstrated $48.5 million of synergies related to 2009 NFOM, while the Database was higher by only $8,000. For 2010 and 2011, the Database tabulated $57.6 million and $59.9 million of synergies, respectively for the NFOM projects that were highly correlated to the Tracker in the 2010 Rate Case.

Q: Does the high correlation between the Tracker and Database provide the Company and this Commission with comfort that it is still generating synergies in excess of merger transition costs?

A. Based on the high correlation, the Company believes that any Tracker that would be produced would show synergies that were well in excess of the annual transition cost amortization and, in fact, would be higher in each year than the total transition costs of $52.0 million.

Q: Has the Company performed any other analysis that demonstrates that synergy savings still exceed transition costs?

A: As noted above, in the 2010 Rate Case, the Commission and Staff noted that $344 million of regulated synergy savings was projected over 5 years, with $150 million going to ratepayers. I noted in my Surrebuttal Testimony in the 2010 Rate Case on page 6, line 17 that this Staff analysis was made using an ultra-conservative assumption that no synergy savings were realized by customers until rates were effective in the 2010 Rate Case. Using the same methodology through the March 31, 2012 Database provided to Staff in DR 196.1 of the current case, the Company now projects $364 million of regulated synergy savings over 5 years, with $168 million going to ratepayers.

Q: What conclusions can be drawn from the correlation between the Tracker and Database, the current Database results and the updated analysis performed using Staff's methodology?

A: As all methods noted have shown increased synergies from those presented in the 2010 Rate Case, the Company believes that the only conclusion that can be drawn is that synergy savings still significantly exceed merger transition costs.

Q: Mr. Majors states in his testimony (on pages 252-253), "The fact is that KCPL and GMO, while enjoying significant corporate retained benefits, have not flowed a comparable amount of regulated synergy savings to its regulated electric utility operations." Is Mr. Majors' assertion relevant?

A: No, it is not. As noted above, based on his own methodology, the Company is giving more synergies to ratepayers than was even contemplated in the 2010 Rate Case, when the Commission clearly stated on page 157 of the 2010 Order,

> The Commission expected that recovery would only occur if the Companies incurred the costs prudently and reasonably and demonstrated that the synergy savings were more than the transition costs. The Companies have done this.

Additionally, on page 157 of the 2010 Order, the Commission states,

> While true that the Companies' shareholders have enjoyed the benefit of regulatory lag in retaining synergy savings since the merger was consummated, the Commission finds that this outcome was specifically contemplated in its consideration of the appropriate treatment for synergy savings in the merger case and as set out in the Merger Order.

Q: Did Mr. Majors make a similar argument regarding corporate retained synergy benefits in the 2010 Rate Case?

A: Yes, in the 2010 Rate Case, he also argued that the Company had retained a significant amount of corporate benefits while not flowing a comparable amount to ratepayers.

Q: Did the Commission address this argument in the 2010 Order?

A: The Commission focused exclusively on the reasonableness and prudence of the transition costs incurred and whether or not regulated synergy savings exceeded these costs. It did not in any way address this argument.

Q: Do you believe that the Commission should give any weight to this argument in the current case?

A: No, I do not. As I argued on pages 9 and 10 of my Rebuttal Testimony in the 2010 Rate Case,

> The amount of corporate retained synergies referenced by Staff witness Majors is accurate and consistent with projected amounts identified by the Applicants in the Merger case. However, an understanding of the transaction is necessary to understand corporate retained synergies. Synergies are determined by first looking at 2006 base year costs for Aquila and KCP&L. GPE acquired the legal entity Aquila, Inc. not just the regulated Missouri operations. In 2006, there were significant costs incurred by Aquila, Inc. that were either corporate retained costs (not allocable to any regulated jurisdictions) or costs that were allocated to regulated jurisdictions other than Missouri. These costs were not subject to recovery from Missouri ratepayers prior to the acquisition and would not be eligible to be recovered from Missouri ratepayers post-acquisition. Therefore, the risks of not realizing these synergy savings were fully borne by the Company and its shareholders and the resultant synergy savings achieved should similarly fully benefit the Company and its shareholders. It is inappropriate to view those savings as an offset to costs the Commission said the Company could recover.

Q: Has there been any change in the nature of corporate retained synergies since the 2010 Rate Case?

A: No, there has not. My testimony is still accurate and applicable.

Q: Is Mr. Majors omitting any other relevant information?

A: Mr. Majors is also neglecting to take into account that once synergy benefits were taken into account in previous rate cases (both Case No. ER-2009-0089 and the 2010 Rate Case), they are perpetual benefits to the ratepayers with no further retention by the Company and shareholders. Therefore, the Company and shareholders have already retained the maximum amount of synergy savings and all benefits are now flowing to ratepayers.

Q: If the Commission had ordered continuation of the Tracker in the 2010 Rate Case, would you have had any concerns with its continued use?

A: Yes, the Tracker does have one major inherent limitation. The business environment that the Company operates in is not static, as the Commission acknowledged in the Merger Report and Order on page 97, paragraph 244:

> Tracking synergy savings with any degree of accuracy is problematic at best. Business operations are not conducted in a static environment, but rather under constant change, including customer growth, technological improvements, etc. Tracking will become more difficult each successive year after the merger.

As the Commission noted, the more time that passes from 2006, the more the model relies on management assumptions. As an example, the 2009 model that was accepted by Staff and the Commission contained over 30 separate adjustments to 2006 costs to make them comparable to 2009, including an adjustment to account for inflation. Additional adjustments that would be required in the 2010 or 2011 models would include operating costs for Iatan 2, Spearville 2 and ORVS program costs, among others. Each year that passes means more adjustments must be made to the Tracker in order to make the current period comparable to the business as it existed in 2006. In other words, each year out from 2006 entails more and more assumptions on the part of management.

Q: In summary, what is the Company's position with regard to the Tracker?

A: The Company believes that there was no requirement in the 2010 Order to continue preparing the Tracker. In any event, the Company believes that it has a responsibility to ensure that it is meeting its promised synergy targets and has prepared reasonable documentation of synergies through its Synergy Tracker Database which has been provided to Staff and demonstrates a consistent amount of synergy savings as was contemplated in case number ER-2010-0356. Finally, the Company believes that the

Tracker has an inherent limitation that limits its usefulness as each year after 2006 passes. Based on all of these beliefs, maintaining a Tracker model in addition to the Synergy Tracker Database was not required.

Q: Did Staff make an argument in the 2010 Rate Case that the Company's A&G expenses were high compared to other comparable utilities?

A: Yes, Staff did.

Q: Did the Commission find the Staff's position on A&G expenses persuasive?

A: On page 158 of its 2010 Order, the Commission stated,

> Staff also argues that the A&G expenses of the Companies were higher than average and attempted to make a connection to the transition costs being unreasonable. The Commission gives little weight to that argument since Staff's witness testified that these transition costs were not incurred unreasonably or imprudently.

Q: Should an argument that KCP&L's A&G costs are high have any impact on the recovery of merger transition costs?

A: Consistent with the Commission's decision in the 2010 Rate Case, it should not have any impact. As the Commission stated on page 157 of the 2010 Order the Company was required to demonstrate two things with regard to recovery of merger transition costs. The Commission expected that recovery would only occur if (1) the Companies incurred the costs prudently and reasonably and (2) the Companies demonstrated that the synergy savings were more than the transition costs. The Companies have done this.

Q: Did Mr. Majors present any new evidence with regard to the beginning date of amortization in his Direct Testimony as compared to the 2010 Rate Case?

A: No, he did not.

Q: What did the Commission find in the 2010 Rate Case when presented with the same arguments that Staff is presenting in this case with regards to the beginning of amortization?

A: Again, the Commission on page 158 of the 2010 Order stated,

> Staff also argues that the companies should have begun amortizing these costs in the previous rate cases per the Merger Order. At first glance, the Merger Order does imply that the five-year amortization will begin from the first rate case after the transaction is consummated. However, that statement is just a restatement of what the Companies were proposing. The Commission never specifically orders that treatment. Furthermore those rate cases were resolved through settlement and this issue was not addressed in that settlement so the issue never came before the Commission for consideration. Thus, this is the first opportunity for the amortizations to begin and Commission determines they will be amortized over five years beginning with this rate case.

Q: Please summarize the Company's position with regard to the beginning of amortization for transition costs.

A: The Commission could not have spoken any more clearly on this issue. Again, why this issue is being raised by Staff without any new evidence or arguments to support a position that was clearly addressed by the Commission in the 2010 Rate Case is not clear.

Q: Mr. Majors asserts that there are several "acquisition detriments" related to the Aquila acquisition. What is the Company's position with regard to these items?

A: As stated previously in my testimony, the Company vigorously disagrees with the Staff's position that any of the asserted acquisition detriments are, in fact, detriments related to the merger.

Q: While the Company's position is clear that these items are not "acquisition detriments", what would be the impact if an annual amortization was included to offset synergy benefits?

A: If you add $2.9 million on an annual basis for these "acquisition detriments" to the annual transition cost amortization of $10.4 million, you still don't even approach the annual synergy amount of $48.5 million that was proven in the 2009 Tracker, let alone the increased synergy amounts for 2010 and 2011 included in the Database.

Q: What did the Company promise in synergy benefits in the Merger Application?

A: The Company promised $305 million of synergies over 5 years while estimating it would incur $58.9 million of transition costs to achieve those synergies.

Q: What has the Company delivered through March 31, 2012 in synergy benefits?

A: Through March 31, 2012, the Company has realized $269.5 million of synergies and projects a total of $364.7 million over five years, while incurring $52.0 million of transition costs to achieve the synergies. In other words, the Company is on track to deliver almost 20% more synergies than promised at a cost that is almost 12% lower than originally estimated.

Q: Is there anything else that the Commission should consider about synergies and recovery of merger transition costs?

A: As stated above, while transition costs are amortized over five years, once synergy benefits were taken into account in previous rate cases (both the 2009 and 2010 cases), many are perpetual benefits to the customers with no further retention by the Company and shareholders.

Q: Please summarize the Company's request on the transition cost issue.

A: The Company believes that it has previously met all requirements to receive recovery of transition costs through amortization over five years beginning with rates effective in the 2010 Rate Case. The Company's belief is based on the Commission's decision in that case's Report and Order. Given that there has been no change in the facts, we simply request that the Commission reject Staff's request for the stoppage of transition costs amortization recovery and reaffirm its previous decision that the Company has already demonstrated compliance with all transition cost requirements and should be allowed to continue to amortize and recover the costs over five years.

<u>Organizational Realignment and Voluntary Separation Cost Amortization</u>

Q: You mentioned the Organizational Realignment and Voluntary Separation Program ("ORVS") earlier in your testimony. What position did Staff and MIEC/MECG witness Greg Meyer take in their Direct Testimony?

A: Staff and Mr. Meyer recommended removal of the costs associated with ORVS from KCP&L's revenue requirement.

Q: What was the basis of their recommendations?

A: Both argued that KCP&L will have already recovered these costs through regulatory lag by the time rates are in effect for this case.

Q: Do you agree with this rationale?

A: No I do not. Regulatory lag is the time interval between when a charge or credit originates and when it becomes a part of the charge for service approved by the regulatory agency, resulting in the inability to have rates adequately reflecting the current level of operating costs or throughput. Rates generally reflect costs incurred in a historical test period. Regulatory lag can be positive or negative and can span all areas of cost of service. In other words, regulatory lag is purely the difference between actual results and amounts used in the determination of rates – mostly driven by changes from the historical-based test year utilized in the determination of rates. It is not appropriate to pick an area of positive regulatory lag and attempt to utilize it to cover specific costs; there are many other cost of service areas that experience negative regulatory lag. It can be seen from the comparison of earned returns to authorized returns provided earlier in my testimony that the Company has been impacted by negative regulatory lag over the prior five years by a much greater extent than it has benefitted from any areas of positive regulatory lag.

Q: Has the Commission previously recognized positive regulatory lag?

A: Yes. In particular, in its Report and Order in the 2010 Rate Case, in the Findings of Fact section of the Report, the Commission found in paragraph 442 the following:

> As a result of regulatory lag, if a utility experiences a cost decrease, there is a lag in time until that reduced cost is reflected in rates. During that lag, ***the Company shareholders reap, in the form of increased earnings, the entirety of the benefit associated with the reduced costs***. The Company shareholders also reap, in the form of decreased earnings, the entirety of the loss associated with the increased costs. (***emphasis added***)

Q: Are the Staff and MIEC/MECG positions related to ORVS consistent with the above cited excerpt from the Commission's Report and Order in the 2010 Rate Case?

A: No, they are not. Their positions attempt to take the shareholder benefit from positive regulatory lag noted by the Commission and utilize that benefit to cover the one-time costs that were incurred to create the short-term benefits to shareholders and the long-term, perpetual benefits to customers once the benefits are reflected in rates in this rate case.

Q: Has the Staff provided recovery for any of the ORVS costs in their case?

A: Yes, they have. While they have not provided recovery for any of the one-time program costs, they have held to their commitment in the Nonunanimous Stipulation and Agreement Regarding Pensions and Other Post-Employment Benefits entered into in the 2010 Rate Case that provided for the deferral and recovery of pension settlement costs required by Statement of Financial Accounting Standard No. 88 ("FAS 88"). FAS 88 requires immediate recognition of certain costs arising from settlements of defined benefit plans, such as that for ORVS, rather than the normal slower recognition of these pension costs over the employees' remaining service lives. The pension costs recognized immediately under FAS 88 are being amortized over five years beginning with the new rates in this case and the normal ongoing pension costs in this case have been reduced.

Q: Under the companies' proposal, will the ORVS program provide substantial benefits to customers over the proposed five-year recovery of program costs?

A: Yes, as demonstrated in the table below, assuming all employees departed on May 1, 2011, and looking at benefits and costs from that point to the end of the proposed five-year recovery period, the benefits to customers are significant. In fact, the benefits to customers, net of FAS 88 and the amortization of one-time program costs, totals over $74 million, which is over 2 times the benefits retained by shareholders in the period prior to inclusion of the savings in rates. Further, the over $74 million of net benefits to customers over the first five years included in rates is almost 3 times the requested cost recovery over the same period.

	2011	2012	2013	2014	2015	2016	2017	Total
	(in millions)							
Shareholder Benefit Retained	13.5	20.2	1.7					35.4
Customer Benefit: Gross			18.5	20.2	20.2	20.2	20.2	99.3
Less: ORVS Cost Amortization			(2.4)	(2.6)	(2.6)	(2.6)	(2.6)	(12.7)
Less: ORVS FAS 88 Impact			(2.3)	(2.5)	(2.5)	(2.5)	(2.5)	(12.2)
Customer Benefit: Net			13.9	15.1	15.1	15.1	15.1	74.4

Q: Are there any other points you would like to make regarding the ORVS program?

A: Yes. It is clear from the table above and the Direct Testimony of Company witness Kelly Murphy that the ORVS program will provide substantial benefits to customers over the requested period of cost recovery. I would also note that once the costs are fully recovered, customers will see the full benefit for as long as the positions are not refilled, which the Company has no plans to do. The companies are merely requesting to recover, on a delayed basis, the one-time costs incurred to provide these substantial customer benefits. I would note to the Commission that the Company incurred these costs in 2011, and if its proposal is granted, the costs won't be fully recovered until 2017. Thus, while the companies' proposal addresses earnings regulatory lag, the companies will still experience several years of cash regulatory lag. Therefore, I request the Commission reject the ORVS arguments put forth by Staff and MIEC/MECG in their Direct Testimony.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2012-0174

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 Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of forty-three (43) 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.

D R Ives
Darrin R. Ives

Subscribed and sworn before me this 5th day of September, 2012.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2015

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2015
Commission Number: 11391200

EEI Index Rankings for 1/1/2010 through 12/31/2011, 2-Year Total Return

Rank	Company	Return	Rank	Company	Return
1	CENTRAL VERMONT PUBLIC SERVICE C	81.7	29	NSTAR	39.0
2	EL PASO ELECTRIC CO	75.5	30	UNITIL CORP	38.5
3	NISOURCE INC	71.1	31	BLACK HILLS CORP	38.4
4	OGE ENERGY CORP	64.2	32	DTE ENERGY CO	37.2
5	ALLIANT ENERGY CORP	59.1	33	VECTREN CORP	35.9
6	PNM RESOURCES INC	54.9	34	PORTLAND GENERAL ELECTRIC	35.6
7	CMS ENERGY CORP	53.5	35	PEPCO HOLDINGS INC	35.5
8	SOUTHERN CO	52.8	36	AMEREN CORP	32.2
9	PROGRESS ENERGY INC	52.3	37	SCANA CORP	31.7
10	CENTERPOINT ENERGY INC	52.1	38	AMERICAN ELECTRIC POWER CO	30.9
11	NORTHWESTERN CORP	50.9	39	AVISTA CORP	30.8
12	CH ENERGY GROUP INC	50.3	40	TECO ENERGY INC	29.8
13	CONSOLIDATED EDISON INC	50.0	41	EDISON INTERNATIONAL	27.6
14	NORTHEAST UTILITIES	49.6	42	UNISOURCE ENERGY CORP	25.9
15	WISCONSIN ENERGY CORP	49.5	43	NEXTERA ENERGY INC	24.6
16	CLECO CORP	48.9	44	GREAT PLAINS ENERGY INC	22.3
17	DOMINION RESOURCES INC	48.4	45	EMPIRE DISTRICT ELECTRIC CO	21.9
18	WESTAR ENERGY INC	46.5	46	CONSTELLATION ENERGY GROUP INC	19.1
19	PINNACLE WEST CAPITAL CORP	45.6	47	PUBLIC SERVICE ENTERPRISE GROUP INC	8.1
20	INTEGRYS ENERGY GROUP	43.9	48	FIRSTENERGY CORP	6.5
21	DUKE ENERGY CORP	42.3	49	SEMPRA ENERGY	5.0
22	XCEL ENERGY INC	42.0	50	PPL CORP	0.9
23	IDACORP INC	41.6	51	PG&E CORP	0.4
24	UIL HOLDINGS CORP	41.3	52	OTTER TAIL CORP	-0.7
25	NV ENERGY INC	41.2	53	EXELON CORP	-2.0
26	ALLETE INC	41.2	54	ENTERGY CORP	-2.2
27	MGE ENERGY INC	41.0	55	MDU RESOURCES GROUP INC	-3.2
28	HAWAIIAN ELECTRIC INDUSTRIES INC	40.6			

EEI Index Rankings for 1/1/2009 through 12/31/2011, 3-year Total Return

Rank	Company	Return
1	NISOURCE INC	158.3
2	CMS ENERGY CORP	147.1
3	OGE ENERGY CORP	146.4
4	PNM RESOURCES INC	103.8
5	EL PASO ELECTRIC CO	96.8
6	CENTERPOINT ENERGY INC	86.3
7	CONSOLIDATED EDISON INC	85.5
8	CLECO CORP	85.1
9	NV ENERGY INC	83.5
10	WISCONSIN ENERGY CORP	83.0
11	TECO ENERGY INC	81.2
12	DTE ENERGY CO	78.4
13	PINNACLE WEST CAPITAL CORP	77.2
14	NORTHWESTERN CORP	77.1
15	ALLIANT ENERGY CORP	74.3
16	DUKE ENERGY CORP	73.5
17	CONSTELLATION ENERGY GROUP INC	72.9
18	XCEL ENERGY INC	70.8
19	DOMINION RESOURCES INC	69.6
20	PROGRESS ENERGY INC	67.0
21	NORTHEAST UTILITIES	67.0
22	CENTRAL VERMONT PUBLIC SERVICE CORP	66.3
23	WESTAR ENERGY INC	65.1
24	UNITIL CORP	64.3
25	IDACORP INC	60.5
26	MGE ENERGY INC	59.3
27	INTEGRYS ENERGY GROUP	52.7
28	AVISTA CORP	52.4

Rank	Company	Return
29	ALLETE INC	51.5
30	PORTLAND GENERAL ELECTRIC	49.1
31	SCANA CORP	47.3
32	NSTAR	46.8
33	BLACK HILLS CORP	45.5
34	SOUTHERN CO	45.3
35	AMERICAN ELECTRIC POWER CO	44.6
36	EDISON INTERNATIONAL	43.6
37	UNISOURCE ENERGY CORP	43.6
38	HAWAIIAN ELECTRIC INDUSTRIES INC	42.3
39	SEMPRA ENERGY	42.2
40	VECTREN CORP	42.1
41	UIL HOLDINGS CORP	41.6
42	EMPIRE DISTRICT ELECTRIC CO	39.9
43	PEPCO HOLDINGS INC	38.5
44	NEXTERA ENERGY INC	35.4
45	CH ENERGY GROUP INC	30.5
46	GREAT PLAINS ENERGY INC	29.1
47	PUBLIC SERVICE ENTERPRISE GROUP I	28.5
48	PG&E CORP	20.7
49	AMEREN CORP	18.1
50	OTTER TAIL CORP	11.2
51	PPL CORP	11.0
52	MDU RESOURCES GROUP INC	9.2
53	FIRSTENERGY CORP	7.2
54	ENTERGY CORP	0.1
55	EXELON CORP	-10.1

EEI Index Rankings for 1/1/2007 through 12/31/2011, 5-year Total Return

Rank	Company	Return	Rank	Company	Return
1	CENTRAL VERMONT PUBLIC SERVICE CORP	80.4	29	NORTHWESTERN CORP	29.5
2	CLECO CORP	80.2	30	HAWAIIAN ELECTRIC INDUSTRIES INC	28.6
3	OGE ENERGY CORP	72.8	31	PINNACLE WEST CAPITAL CORP	25.7
4	WISCONSIN ENERGY CORP	69.8	32	AVISTA CORP	24.0
5	NSTAR	68.9	33	UNISOURCE ENERGY CORP	22.8
6	CONSOLIDATED EDISON INC	67.0	34	AMERICAN ELECTRIC POWER CO	22.1
7	SOUTHERN CO	59.5	35	PUBLIC SERVICE ENTERPRISE GROUP INC	20.2
8	MGE ENERGY INC	56.2	36	BLACK HILLS CORP	14.9
9	DOMINION RESOURCES INC	55.9	37	PORTLAND GENERAL ELECTRIC	14.7
10	CMS ENERGY CORP	55.7	38	ALLETE INC	13.9
11	CENTERPOINT ENERGY INC	55.2	39	SEMPRA ENERGY	13.5
12	NORTHEAST UTILITIES	51.4	40	EMPIRE DISTRICT ELECTRIC CO	12.6
13	PROGRESS ENERGY INC	51.3	41	NV ENERGY INC	12.3
14	XCEL ENERGY INC	50.1	42	UIL HOLDINGS CORP	12.1
15	UNITIL CORP	48.5	43	EDISON INTERNATIONAL	6.8
16	EL PASO ELECTRIC CO	46.1	44	PG&E CORP	6.1
17	DTE ENERGY CO	45.1	45	PEPCO HOLDINGS INC	3.0
18	ALLIANT ENERGY CORP	45.0	46	PPL CORP	1.0
19	DUKE ENERGY CORP	43.7	47	MDU RESOURCES GROUP INC	-4.1
20	WESTAR ENERGY INC	43.4	48	ENTERGY CORP	-4.9
21	TECO ENERGY INC	42.9	49	FIRSTENERGY CORP	-7.8
22	SCANA CORP	41.6	50	OTTER TAIL CORP	-10.5
23	CH ENERGY GROUP INC	40.0	51	GREAT PLAINS ENERGY INC	-10.8
24	VECTREN CORP	37.8	52	EXELON CORP	-14.8
25	INTEGRYS ENERGY GROUP	34.9	53	AMEREN CORP	-18.1
26	NEXTERA ENERGY INC	32.7	54	PNM RESOURCES INC	-27.2
27	IDACORP INC	31.9	55	CONSTELLATION ENERGY GROUP INC	-32.5
28	NISOURCE INC	30.8			

	Senior Unsecured Credit Ratings											
	Standard & Poor's						Moody's					
	GPE		KCPL		GMO (Aquila)		GPE		KCPL		GMO (Aquila)	
Date	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
As of 12/31/2006	No Rating	Stable	BBB	Stable	B	Positive	Baa2	Stable	A3	Stable	B1	Stable
Current Credit Rating	BBB-	Stable	BBB	Stable	BBB	Stable	Baa3	Stable	Baa2	Stable	Baa3	Stable

Moody's Investors Service

Global Credit Research
Rating Action
11 MAR 2009

Rating Action: Great Plains Energy Incorporated

Moody's Downgrades Great Plains, KCPL, KCPL GMO; Affirms KCPL's P-2 CP Rating

New York, March 11, 2009 -- Moody's Investors Service today downgraded the long term ratings of Great Plains Energy Incorporated ("Great Plains") as well as the ratings of Great Plains' operating subsidiaries, Kansas City Power and Light Company ("KCPL") and KCPL GMO ('GMO"). At the same time Moody's affirmed KCPL's short-term commercial paper rating at P-2. The rating outlook for all entities remains negative.

The downgrades capture our concerns that the company's consolidated financial profile, recently weakened, may experience a prolonged period of soft credit metrics due to regional economic weakness along with regulatory, financial and operational challenges related to current and future construction projects. These risks will need to be carefully managed over the next 12-to-24 months in order to avoid any further rating action.

Ratings downgraded today include:

Great Plains senior unsecured rating to Baa3 from Baa2;

KCPL GMO (formerly Aquila, now guaranteed by Great Plains) senior unsecured rating to Baa3 from Baa2;

KCPL senior secured rating to A3 from A2; senior unsecured rating to Baa1 from A3

Ratings affirmed include:

KCPL's short-term rating for commercial paper at Prime-2

We note that Great Plains operating results in fiscal 2008 included only a partial year's contribution of cash flow from the former "Aquila" assets and while some improvement may be possible in 2009, increased negative headwinds could delay any meaningful changes. One key metric, consolidated CFO (pre-w/c) to adjusted debt is likely to remain in the low-teens percentage range over the next 12-18 months, a level considered soft for the Baa2 rating, particularly in a jurisdiction where regulatory lag is common. We expect KCPL to achieve only slightly better credit metrics on a stand-alone basis.

Moody's has continued to maintain the two-notch rating between Great Plains and KCPL due to the higher leverage associated with the debt at KCPL GMO (the rated obligations guaranteed by Great Plains following its acquisition of Aquila's Missouri electric operations). The incremental debt notwithstanding, we note there is little in the way of ring-fencing provisions for bondholders at the KCPL level and that with the recent inclusion of additional regulated electric generating assets under Great Plains ownership (KCPL GMO), the combined operations now come under common management and increasingly operate as a combined system; if not considered one for rate-making purposes. At December 31, 2008, KCPL's balance sheet debt of $1.8 billion accounted for 55% of Great Plains consolidated debt.

Although affirmed, liquidity and financial flexibility will continue to be an area of concern for maintaining the P-2 short-term rating at KCPL. The company's $600 million commercial paper program is fully backstopped by a $600 million credit facility expiring in May 2011. It has been KCPL's strategy to borrow short-term to meet capital spending needs and refinance with periodic common equity infusions from Great Plains and the issuance of long-term debt. At year-end 2008 KCPL reported CP borrowings of $380 million and the company has continued to rely on short-term borrowings to fund spending for new generation and environmental capex. Although Great Plains maintains a separate $400 million credit line at the parent level and an additional $400 million line at KCPL GMO, commercial paper borrowings at KCPL will need to be reduced with new long-term debt or new equity in order to maintain financial flexibility appropriate for the P-2 rating. The current negative outlook notwithstanding, recent bondholder friendly actions, including the recent

Schedule DRI-4
Page 1 of 3

cut in common dividends and moderate planned scaling back of capital spending should help to conserve cash.

Downward pressure on Great Plains' rating could result if consolidated credit metrics deteriorate to a level where the company's CFO (pre w/c) to adjusted debt ratio declines below the low-teen percentage range for an extended period. The rating at KCPL could have similar pressure should this same metric weaken to below the mid-teen range for an extended period. Additionally, the successful inclusion of various capital projects into rate-base, particularly related to the Iatan facilities, will continue to be an important rating consideration going forward.

The last rating action on Great Plains, KCPL, and KCPL GMO was on July 15, 2008 when the ratings were affirmed with a negative outlook. The principal methodology used in rating these issuers was Global Regulated Electric Utilities, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that have been considered in the process of rating these issuers can also be found in the Credit Policy & Methodologies directory.

Headquartered in Kansas City, Missouri, Great Plains Energy is an electric utility holding company. Through its primary operating subsidiaries, Kansas City Power and Light Company, and KCPL GMO, it is primarily engaged in providing the generation, transmission, distribution and supply of electricity to approximately 820,000 customers in Missouri and Kansas. Great Plains reported revenue of $1.7 billion in 2008.

New York
James O'Shaughnessy
Analyst
Global Infrastructure Finance
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
William L. Hess
Managing Director
Global Infrastructure Finance
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Moody's Investors Service

Rating Action: **Moody's Downgrades KCPL; Affirms Ratings of Great Plains Energy and GMO; Outlook Stable**

Global Credit Research - 12 Mar 2010

New York, March 12, 2010 -- Moody's Investors Service today downgraded the senior unsecured rating of Kansas City Power and Light (KCPL) one notch to Baa2 from Baa1, and affirmed KCPL's A3 senior secured rating, and Prime -2 short-term commercial paper rating. At the same time Moody's affirmed KCPL's parent, Great Plains Energy Incorporated (Great Plains) at Baa3 senior unsecured, and its operating subsidiary, KCPL Greater Missouri Operations (GMO) at Baa3 senior unsecured. The rating outlooks at Great Plains, KCPL, and GMO were all changed to stable from negative.

KCPL's operating results in 2009 were challenged by weakness in the Missouri economy as well as atypically cool summer weather. Although there was modest improvement in credit metrics during the year we believe the credit profile of KCPL looking prospectively is more reflective of the Baa2 rating category given the challenges the company has faced in executing its two Iatan construction programs. The key issues in stabilizing the outlook for the ratings in our view, are related; successfully transition of Iatan 2 to rate base, and continued improvement in the credit metrics.

At year-end 2009, Great Plains reported $1.5 billion of construction work in progress on its balance sheet (18% of the company's total assets). A large component of that is attributable to KCPL, and principally related to the construction of Iatan 2, an 850MW supercritical coal plant nearing completion in Weston, Missouri (Great Plains' electric operations own 73% of the project). Because the project's ultimate cost will be higher than its initial estimate and will likely be placed into service two months behind schedule the risk of some regulatory disallowance is heightened. Offsetting this risk to some extent is the fact that in 2005 Great Plains and the Missouri Public Service Commission agreed on a framework under which the prudence of construction would be viewed and that a modest portion of construction costs have already been recovered under the "additional amortization" component of rates.

Nevertheless, the regulatory lag associated with recovery of the sizable capital investment cited above continues to pressure credit metrics. With one key metric, CFO (pre-w/c) to debt, we would expect to see utility issuers in the "Baa" range demonstrate results between 12%-22%. In 2009, Great Plains and KCPL reported just 11% and 15%, respectively, which are levels considered soft for the ratings, particularly for KCPL. In affirming the ratings and stable outlook at this time we consider that in 2010 the company, on a consolidated basis, will receive a full year's benefit from approximately $218 million of rate increases that became effective in Q3-2009, and that further improvement is possible in 2011 given reasonable outcomes of recent rate filings in Kansas and Missouri. The affirmation of KCPL's A3 senior secured rating is consistent with Moody's implementation of a widening of the notching between most senior secured debt ratings and the senior unsecured debt ratings or Issuer Ratings of investment grade regulated utilities to two notches from one previously last year. See Moody's press release dated August 3, 2009

In 2010 we expect negative free cash flow at both Great Plains and KCPL due to the continued elevated level of capital expenditures; however, we believe the company will maintain a comfortable level of external liquidity for meeting its needs in the near term. At December 31, 2009, Great Plains reported total company availability under its credit lines of $902 million. We continue to maintain a Prime -2 short-term rating at KCPL where the company's $600 million commercial paper program is fully backstopped by a $600 million credit facility expiring in May 2011. Longer-term, we note the company has a series of large debt maturities to address from 2011-2012 (approximately $984 million in total).

The last rating actions on Great Plains, KCPL, and KCPL GMO occurred on March 11, 2009, when the respective ratings for each of the entities were downgraded one notch with a negative outlook. The principal methodology used in rating these issuers is "Regulated Electric & Gas Utilities", published in August 2009, and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Kansas City, Missouri, Great Plains Energy is an electric utility holding company. Through its primary operating subsidiaries, Kansas City Power and Light Company, and KCPL GMO, it is primarily engaged in providing the generation, transmission, distribution and supply of electricity to approximately 820 thousand customers in Missouri and eastern Kansas.

New York
James O'Shaughnessy
Analyst
Infrastructure Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
William L. Hess
Managing Director
Infrastructure Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653