Exhibit No.:	
Issue:	Transition Cost Recovery; Synergy Tracking; and Asset Retirements
Witness:	Darrin Ives
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	ER-2009-0090
Date Testimony Prepared:	March 13, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0090

REBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
March 2009

REBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2009-0090

1 **Q: Are you the same Darrin R. Ives who submitted Direct Testimony in this case on**
2 **behalf of KCP&L Greater Missouri Operations Company ("GMO" or "Company")**
3 **on or about September 5, 2008?**
4 A: Yes, I am.
5 **Q: What is the purpose of your Rebuttal Testimony?**
6 A: The purpose of my testimony is to rebut testimony provided in the Missouri Public
7 Service Commission Staff ("Staff") Report under the headings "Transition Cost Recovery
8 Mechanism" and "Acquisition Detriment – Depreciation", as prepared by Staff witness
9 Charles R. Hyneman and related acquisition detriment testimony prepared by Staff
10 witness Rosella L. Schad.
11 **TRANSITION COST RECOVERY**
12 **Q: Do you agree with Staff's position to use an indirect rate recovery method for GMO**
13 **to recover transition costs through regulatory lag?**
14 A: No, I do not.
15 **Q: How do you believe transition costs recovery should be addressed in this case?**
16 A: As I stated in my direct testimony, deferred transition costs should be recovered by
17 amortizing the balance over five years as long as synergy savings are sufficient to cover

1 the transition cost amortization. This is consistent with the Commission's Report and
2 Order in Case No. EM-2007-0374 ("Merger Report & Order").

3 **Q: Why do you believe amortization of transition costs over five years is consistent with**
4 **the Commission's Merger Report & Order?**

5 A: In the Conclusions of Law section of the Merger Report & Order on page 241 under the
6 subheading "Final Conclusions Regarding Transaction and Transition Cost Recovery,"
7 the Commission stated in part, "the uncontested recovery of transition costs is appropriate
8 and justified." The Commission went on to state, "If the Commission determines that it
9 will approve the merger when it performs its balancing test (in a later section in this
10 Report and Order), the Commission will authorize KCPL and Aquila to defer transition
11 costs to be amortized over five years.[930]"

12 Footnote 930 reads as follows:

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

18 **Q: How do you believe this section of the Merger Report & Order relates to Staff's cite**
19 **of the Ordered paragraph 13 where the Commission stated that "nothing in this**
20 **order shall be considered a finding by the Commission of the value for ratemaking**
21 **purposes of the transactions herein involved," and in paragraph 14 where the**
22 **Commission said it "reserves the right to consider any ratemaking treatment to be**
23 **afforded the transactions herein involved in a later proceeding."**

24 A: I interpret page 241 to state that in approving the merger, the Commission was providing
25 authorization to defer transition costs to be amortized over five years. Footnote 930 was
26 attached to the sentence to align that authorization with paragraphs 13 and 14 cited by

1 Staff, and clearly states that the Commission will give consideration to the recovery of
2 transition costs in future rate cases by evaluating reasonableness and prudence, which is
3 what we are doing in this case.

4 **Q: Do you believe there is additional evidence in the Merger Report & Order that the**
5 **Commission's intention was to consider deferral and amortization of transition costs**
6 **and that synergy savings were intended to be shared between shareholders and**
7 **ratepayers based on regulatory lag?**

8 A: Yes, I do. In the "Conclusions of Law Regarding Transaction and Transition Cost
9 Recovery" section of the Merger Report & Order on page 240, specifically "Transition
10 Cost Recovery," in part, the Commission stated, "No party has opposed the deferral and
11 amortization of transition costs in this proceeding…" and "[c]onsequently, the
12 Commission will allow recovery of transition costs."

13 Additionally, in the "Conclusions of Law – Final Conclusions Regarding
14 Projected Synergy Savings" section on pages 237 and 238, the Commission stated,

15 The Commission further determines that substantial and competent
16 evidence in the record as a whole supports the conclusions that … (3) the
17 synergies exceed transaction and transition costs and the method proposed
18 for recovery of transaction and transition costs does not place the
19 ratepayers at risk … and (4) because the Applicant's have agreed to
20 recover any merger savings through 'regulatory lag' as part of the
21 traditional ratemaking process there is no net detriment to customers….

22 **Q: Can you please reiterate the method proposed for recovery of transaction and**
23 **transition costs?**

24 A: Yes. In the Direct Testimony provided by Lori Wright in Case No. EM-2007-0374 at
25 page 4, she stated:

26 The Joint Applicants request costs to achieve be allocated to Great Plains
27 Energy's various regulatory units (Kansas City Power & Light Company,
28 Aquila Networks-MPS, Aquila Networks-L&P and St. Joseph Industrial

> Steam), booked as a regulatory asset and amortized into cost of service over five (5) years, beginning on January 1, 2008, or the month immediately following consummation of the Merger, whichever occurs later.

In the body of the Merger Report & Order costs to achieve were defined to have two components, transaction and transition costs.

In the Additional Supplemental Direct Testimony provided by Terry Bassham in Case No. EM-2007-0374 at page 5, he updated the Applicants' request for recovery of transaction and transition costs as follows:

> Joint Applicants request that the Commission allow the surviving entities to defer both transaction and transition costs and to amortize them over a five-year period beginning with the first rate cases post transaction for Aquila and KCP&L subject to 'true up' of actual transition and transaction costs in those future cases.

On pages 6 and 7 he added:

> If the Commission so desires, Great Plains Energy is willing to track synergy savings achieved. The synergies achieved can be compared to the transaction and transition cost amortization and to the extent the synergies do not cover the amortization, the cost would continue to be deferred until such time that the demonstrated savings from the merger exceeds the related cost.

Q: How do you interpret Conclusion (4) included in the first full paragraph on Page 238 of the Merger Report & Order?

A: Conclusion (4) indicates the Commission determined that for shareholders to retain synergy savings through "regulatory lag" as part of the traditional ratemaking process would not result in a net detriment to customers. This seems clear since the Applicants will not be allowed to recover transition costs unless synergies equal or exceed the level of such amortized costs.

Q: Has the Staff been supportive of deferral of transition costs and recovery through amortization in previous merger proceedings and rate cases?

1 A: Yes, in several instances Staff witnesses have acknowledged that some recovery of costs

2 to achieve synergy savings is acceptable. For example:

3 Staff witness Hyneman in Direct Testimony in Aquila Inc. Case No. ER-
4 2005-0436 on page 36, lines 1-7: "The Staff's position is that transition
5 costs found to be prudent and appropriate should be amortized above-the-
6 line to expense over an appropriate period of time. The Staff has proposed
7 a 10-year amortization period in the past. The Staff believes that there is a
8 correlation between the transition costs, which facilitate the joining of two
9 utilities and the merger savings that result following the completion of the
10 integration process. At that point, Aquila's customers should share in any
11 savings that are generated from the merger, and therefore, should also pay
12 for prudent "costs to achieve" these savings."

13 Staff witness Hyneman in Rebuttal Testimony in Aquila Inc. Case No.
14 ER-2001-672 on page 33, lines 6-15: "… transition costs, if prudent and
15 reasonable, typically are included in a utility's cost of providing service…
16 The Staff does not believe it is reasonable to exclude, in rates, the actual
17 costs incurred to achieve the merger savings (transition costs), while
18 simultaneously flowing through all the merger savings in rates to the
19 ratepayers. Consistent with this belief is the Staff's position that
20 reasonable and prudent transition costs actually incurred should be
21 reflected in rates to be recovered from ratepayers."

22 Staff witness Oligschlaeger on page 3, line 4 of his Rebuttal Testimony in
23 Aquila Inc. Case No. ER-2001-672: "The Staff is not opposed in general
24 to recovery of merger transition costs, if the recovery is in the form of an
25 amortization of these costs to expense."

26 Staff witness Oligschlaeger in Rebuttal Testimony in the UtiliCorp-St.
27 Joseph Light & Power Merger Case (Case No. EM-2000-292) on page 39,
28 lines 16-18: "…to the extent that assignment of a reasonable portion of
29 merger savings to MPS [Missouri Public Service division of UtiliCorp]
30 would mean that a similar portion of prudent above-the-line merger costs
31 (i.e., 'costs to achieve') should also be assigned to MPS, the Staff would
32 support such an assignment."

33 **Q: Did the Staff provide testimony in its Report indicating a concern that synergy**

34 **savings would not be sufficient to cover the transition cost amortization?**

35 A: No, it did not. In fact, the Staff Report indicated that the Company has already enjoyed

36 the benefits of synergy savings through regulatory lag. Additionally, Staff provided

37 examples of synergy savings being realized by the Company including payroll and

1 benefits costs for Aquila employees who were terminated as of the acquisition date. Staff
2 noted other realized savings, including rents and leases that have been terminated, board
3 of directors' fees and insurance premiums.

4 **Q: Has the Company updated the value of synergy savings to be considered in this**
5 **case?**

6 A: Yes, I have included the synergy savings value in the update to this case as demonstrated
7 on Schedule DRI-6. We expect to calculate the synergy savings value to ratepayers at the
8 true-up date.

9 **Q: Will the ratepayers benefit from these synergies quantified by the Company?**

10 A: Yes. In fact, GMO proposes to flow these synergies through to ratepayers as part of this
11 rate case in the way of adjustments it has made to rate base and cost of service areas.

12 **Q: Please summarize your rebuttal testimony in this area.**

13 A: I do not agree with the indirect rate recovery method proposed by Staff for the Company
14 to recover transition costs through regulatory lag. Adoption of the Staff's proposed
15 indirect rate recovery method would in effect shift the burden for all of the costs to
16 achieve synergies (i.e., transition costs) to shareholders. Additionally, Staff's position in
17 this case is inconsistent with its position in other merger proceedings and rate cases in
18 which Staff has provided testimony on transition cost recovery. There is significant
19 discussion in the Merger Report & Order to indicate the Commission's intention to allow
20 the Company to defer transition costs to be amortized over five years. I also believe the
21 Merger Report & Order acknowledged that the "regulatory lag" proposed by the
22 Applicants was intended to provide the shareholders an ability to share in synergy
23 savings before new rates are in place providing the benefits of the synergy savings to

1 ratepayers. I do not believe it was the Commission's intent to use "regulatory lag" to
2 recover transition costs or that "regulatory lag" is the appropriate mechanism to use to
3 recover transition costs. I recommend the Commission adopt the Company's proposal to
4 amortize transition costs over five years.

5 **SYNERGY SAVINGS TRACKING PROCESS**

6 **Q: Has the Company implemented a synergy savings tracking mechanism as ordered**
7 **by the Commission in Case No. EM-2007-0374?**

8 A: Yes, we have. As described to Staff in meetings on this topic, as a result of the
9 acquisition occurring on July 14, 2008, the Company determined that synergy savings
10 would have to be tracked differently for 2008 than in 2009 and beyond. Essentially, a
11 two-phase approach is required to track synergy savings.

12 **Q: What Process did the Company put in place to track synergy savings in 2008 (Phase**
13 **1)?**

14 A: We determined that a calendar-year based tracking mechanism was not viable for 2008.
15 Therefore, we developed synergy savings project charters to track specifically identified
16 synergy savings. We maintain a database of the approved project charters and this
17 database and the supporting charters are the foundation for our reporting of progress on
18 projected and actual synergy savings.

19 **Q: Do the synergy savings project charters utilize the 2006 base year to calculate**
20 **synergy savings?**

21 A: Yes. For example, when synergy savings related to insurance costs were submitted for
22 approval, the project charter provided expected Kansas City Power & Light Company
23 ("KCP&L") and GMO costs on a "combined company" basis for post-transaction

1 periods. The charter includes a comparison of the expected costs to the 2006 base year
2 costs incurred for insurance inflated to coincide with the year being valued. The result of
3 this work is recorded and maintained in a project charter database. As time elapses and
4 the synergy savings are realized, the project charters are updated to reflect the actual
5 synergy savings. The database resulting from the approved charters is the 2008 (Phase 1)
6 synergy savings tracking mechanism utilized by the Company. Each specific project
7 charter within the database contains a comparison to 2006 base year costs as adjusted.

8 **Q: Will the project charters still be utilized once Phase 2 of the synergy savings**
9 **tracking mechanism is in place?**

10 A: Yes. We will continue to utilize the project charter process to support the variances
11 identified in the Phase 2 synergy savings tracking mechanism. We believe the specific
12 project charters are essential to the tracking process as they are initiated and completed
13 by the functional field (operational) areas that are ultimately accountable for the
14 execution and realization of the identified expected synergy savings.

15 **Q: Please describe what you mean by the Phase 2 synergy savings tracking mechanism**
16 **the Company will utilize for 2009 and beyond?**

17 A: Our steady state approach to synergy savings tracking is to have an Excel-based model
18 that tracks synergy savings as identified and realized on a "combined company" basis.
19 The tracker looks at non-fuel operations and maintenance ("NFOM") FERC accounts –
20 the same basis utilized to calculate the $305 million in synergy savings over the first five
21 years after acquisition described by the Applicants in Case No. EM-2007-0374. The
22 tracker compares actual results to the 2006 base year, adjusted for known and measurable
23 changes, including inflation. As I mentioned, as a result of the mid-year, mid-month

1 close of the acquisition (July 14, 2008), we determined that a calendar-year based
2 tracking mechanism utilizing 2008 as a reasonable comparison to an adjusted 2006
3 combined base year was not viable. Therefore, the first opportunity to utilize an
4 appropriate calendar year for an NFOM synergy tracking model is 2009. We are now in
5 the process of preparing the first view of the Phase 2 synergy savings tracking
6 mechanism comparing the 2006 base year, as adjusted for known and measurable
7 changes, including inflation, to the 2009 "combined company" budget.

8 **Q: Please elaborate on the process to prepare the first full year view of the synergy**
9 **savings tracking mechanism?**

10 A: There are four distinct steps in preparing this analysis:

11 (1) The 2006 base year NFOM costs of both KCP&L and GMO are input into the
12 Excel model, as well as the 2009 combined Company NFOM budget.

13 (2) In order to have comparative cost data between the 2006 base year costs and
14 the 2009 combined company NFOM, the 2006 base year costs must be adjusted for
15 known and measurable changes, including inflation. This produces a comparative 2006
16 adjusted baseline.

17 (3) The variances determined by comparing the 2006 adjusted baseline costs to
18 the 2009 "combined company" NFOM budget then need to be analyzed to determine the
19 driver of the variance. This analysis could result in additional adjustments that need to be
20 made to make the 2006 base year comparable or can represent expected synergy savings.
21 Significant identifiable synergy savings will be supported by specific synergy savings
22 project charters.

1 (4) Lastly, the 2009 budgeted NFOM costs will be replaced with actual 2009
2 NFOM costs. Any variances between 2009 actuals and 2009 budget will be analyzed,
3 which again could produce additional 2006 base year adjustments or represent additional
4 synergy savings.

5 **Q: When do you expect to have the first full year view of the synergy savings tracking**
6 **mechanism completed?**

7 A: The Board of Directors approved the 2009 budgets for both KCP&L and GMO in early
8 February. We intend to have a first view of the Phase 2 process I just described
9 completed by the end of March.

10 **Q: Staff indicated in its Report that the 2006 baseline tracking mechanism ordered by**
11 **the Commission is not the basis for the Company's acquisition savings calculation in**
12 **Adjustment CS-78. Do you agree?**

13 A: Yes, I do. The Company does not believe that the 2006 baseline tracking mechanism was
14 intended to specifically provide the value of synergy savings to be flowed through to
15 customers in the ratemaking process. We believe the Merger Report & Order supports
16 the concept that the 2006 baseline tracking mechanism is intended to provide the test to
17 demonstrate that synergy savings achieved are in excess of the amortization being
18 requested for recovery of transition costs. Synergy savings should be included in the
19 determination of rates through the traditional ratemaking process. By that I mean that the
20 synergy savings should be reflected in the test year cost of service. The specific citations
21 from the Merger Report & Order that we believe demonstrate this are as follows:

22 On pages 96 and 97, the Commission stated, "The Applicants revised merger plan
23 proposes to rely on the natural regulatory lag that occurs between rate cases to retain any

1 portion of synergy savings. The traditional ratemaking process will be used so that any
2 merger synergy savings in a test year will be passed through to Aquila and KCPL
3 customers in future rate cases."

4 On page 259, the Commission accepted the Company's proposal that it "would
5 not seek recovery of [transition costs] in rates unless the synergies achieved equal or
6 exceed the level of such amortized costs." The Commission relied on this proposal in its
7 conclusion that the merger was not detrimental to the public interest. Therefore, the
8 Company believes it is appropriate to now seek recovery of amortized transition costs as
9 long as the synergies are greater than the amortization.

10 **Q: Have you updated the amounts for synergies and transition costs which were**
11 **included in your direct testimony?**

12 A: Yes. At the time I prepared my direct testimony, these amounts were estimates based on
13 initial work performed by the integration teams. Since that time, significant effort has
14 been made to formulate a synergy tracking process and to review and record actual
15 transition costs.

16 **Q: What are the actual transition costs incurred to date and projected through March**
17 **31, 2009?**

18 A: As outlined in Schedule DRI-7, actual total utility transition costs incurred through
19 December 31, 2008 total $45.4 million, of which $15.4 million has been allocated to
20 KCP&L-Missouri retail operations and $17.5 million to GMO retail operations. In
21 addition, we have projected an additional $3.5 million ($1.4 million GMO retail
22 operations) through March 31, 2009, the expected true-up period in this case. We intend

1 to utilize actual transition costs through March 31, 2009, as the basis for determining the

2 annual amortization to be included in this case.

3 **Q: You have previously referred to 2006 baseline adjustments. Why does the Company**

4 **believe it was the Commission's intent to allow adjustments to the 2006 base year as**

5 **part of the synergy tracker mechanism?**

6 A: In the Merger Report & Order, the Commission ordered on page 282, item 6 c.:

7 Great Plains Energy, Incorporated, Kansas City Power & Light Company,
8 and Aquila, Inc., shall, upon closure of the authorized transactions,
9 implement a synergy savings tracking mechanism as described by the
10 Applicants, and in the body of this order, utilizing a base year of 2006.
11
12 In the body of the Merger Report & Order on page 97, the Applicants description of the

13 synergy savings tracking mechanism is stated in paragraphs 245 and 246 as follows:

14 245. If the Commission requires synergy tracking, the Applicants suggest
15 a simple approach, noting that additional complexity does not improve
16 accuracy. The Applicants suggest establishing base period costs and then
17 comparing each subsequent year's actual costs to the base year costs, as
18 adjusted for inflation. The net decrease in expense would be considered
19 synergy savings.
20
21 246. Consideration for known and measurable changes shall be reflected
22 in the synergy savings computation, including cost escalations, such as
23 wage increases and the effects of inflation among others.

24 It is clear to me that by ordering a tracking mechanism as described by the Applicants,

25 the Commission expects the synergy savings tracking mechanism to reflect adjustments

26 for known and measurable changes, including inflation among others, as described in

27 paragraphs 245 and 246 on page 97 of the Merger Report & Order.

28 **Q: Staff stated that an incomplete draft version of the 2006 baseline "tracking**

29 **mechanism" was provided by the Company and indicated that the required known**

30 **and measurable changes, including inflation, increased the baseline year of 2006 by**

31 **almost $93 million. Why is this level of adjustment to the 2006 baseline necessary?**

1 A: There are several reasons why our first pass at a 2006 baseline adjusted model contained

2 $93 million in adjustments and why this level of adjustments is necessary to develop a

3 comparative 2006 base year. The first reason is inflation, which must be considered in

4 comparing 2006 base year costs to 2009 costs. Consider if a company had two

5 employees that each made $50,000 in 2006 and received merit increases annually on

6 January 1 of 3.1%; their combined labor costs for each year would be as follows:

7	2006	$100,000 (50,000 each)
8	2007	$103,100 (51,550 each)
9	2008	$106,296 (53,148 each)
10	2009	$109,591 (54,796 each)

11 Now assume that on January 1, 2009, an acquisition occurred and as a result one

12 employee's job was able to be eliminated creating synergy savings. If the 2006 base year

13 costs were not adjusted for inflation, the synergy savings calculated in the tracking

14 mechanism would be as follows:

15	2006 base year labor	$100,000
16	2009 post-acquisition labor	54,796
17	Calculated synergy savings	$ 45,204

18 However, as the example illustrates, the synergy savings achieved should be reflected as

19 $54,796 – the actual value of the labor eliminated as a result of the acquisition – not

20 $45,204. By not inflating the 2006 base year costs, the value of synergy savings would

21 be understated by the compounded effect of inflation over the period of time from the

22 base year to the year being evaluated for synergy savings.

23 Similarly, known and measurable adjustments other than inflation are required to

24 effectively analyze synergy savings against the historical 2006 base year. There are two

25 primary reasons why known and measurable adjustments are necessary: (1) New costs

1 reflected in the current year that were not incurred in the 2006 base year, and (2) Other
2 costs that have clearly escalated at a much higher level than inflation.

3 **Q: Please provide an example of new costs reflected in the current year that were not**
4 **incurred in the 2006 base year.**

5 A: In 2008, the Commission adopted new rules regarding vegetation management. The
6 GMO 2009 budget includes $10.7 million for vegetation management. This budget
7 reflects incremental costs to implement the new rules. Since the new vegetation
8 management rules were not in place in 2006, there are no additional compliance costs
9 included in the 2006 base year. If an adjustment to the 2006 base year were not made,
10 the amount of synergy savings depicted by the tracker mechanism would under-value
11 synergy savings by the amount of the additional costs to comply with the new rules.

12 **Q: Please provide an example of other costs that have escalated at a much higher level**
13 **than inflation.**

14 A: Pension costs are a good example. They were included in the 2006 base year for KCP&L
15 and GMO at a combined total of $29.1 million. If an annual inflation index of 3.1% were
16 applied to these costs, the amount inflated to 2009 would be $31.9 million. As a result of
17 the methodology used to determine pension costs to be included in rates in this case,
18 pension costs are actually expected to be $40.1 million. By not making a known and
19 measurable adjustment to the 2006 base year costs, the value of synergy savings would
20 be understated by $11.0 million if no adjustment was made to the 2006 base year costs.
21 Moreover, they would still be understated by $8.2 million if the 2006 base year costs
22 were only adjusted by an annual inflation index of 3.1%.

1 These simple examples clearly demonstrate that if 2006 base year costs are not
2 adjusted for known and measurable changes, including inflation, the value of synergy
3 savings determined through the tracking mechanism would not come close to reflecting
4 the real value of synergy savings provided to the Company and its customers as a result
5 of the acquisition and integration of the operations of the companies.

6 **Q: Please summarize your rebuttal testimony regarding synergy savings tracking.**

7 A: I believe the objective of the synergy savings tracking model is to provide a mechanism
8 to evaluate whether synergy savings achieved exceed the level of amortization requested
9 in cost of service in this case and future cases in order to recover transition costs.
10 Through our two-phase approach to track synergy savings, I believe we have
11 implemented an effective synergy savings tracking mechanism, as ordered by the
12 Commission, which achieves the appropriate objective. By utilizing regulatory lag as a
13 sharing mechanism, synergy savings are shared with ratepayers as the savings are
14 reflected in test-year costs through the normal ratemaking process. Finally, as the
15 examples included in my rebuttal testimony clearly demonstrate, known and measurable
16 changes, including inflation, to the 2006 base year costs are absolutely necessary in order
17 for the tracking mechanism to appropriately value synergy savings provided to the
18 Company and its customers as a result of the acquisition and integration of the operations
19 of the companies.

20 **PLANT RESERVE IMPACT OF CERTAIN ASSET RETIREMENTS**

21 **Q. Staff takes the position that the Company's accounting and ratemaking proposal for**
22 **certain corporate computer hardware and computer software retirements results in**
23 **an acquisition detriment as well as being inconsistent with the requirements of the**

FERC Uniform System of Accounts (USOA) for plant accounting. How do you respond to Staffs assertion?

A. Both Staff's assertion of an acquisition detriment and of plant accounting inconsistent with the FERC USOA are in error.

Staff witness Hyneman does not describe in the Staff Report at page 161 why he believes the retirements result in an acquisition detriment. He merely states that he believes it does. Staff witness Schad states that the retirements of assets before the end of their asset service life result in a detriment to the current ratepayers if ratepayers are required to make up the deficiency. The Company does not believe that this creates an acquisition detriment.

In order to be an acquisition detriment, the retirements would need to cause GMO ratepayers to pay for assets that they would not have paid for had the acquisition not occurred. Had the acquisition not occurred, these computer hardware and computer software assets would have continued to be utilized by stand-alone Aquila and ratepayers would have continued to pay for these assets through depreciation. The acquisition did occur and the Company retired the assets before the end of their asset service life consistent with FERC Electric Plant Instruction 10. This resulted in a net reduction in the associated plant reserve accounts equivalent to the remaining depreciable value of the assets at the time of retirement. This is the same net asset value that would have been subject to depreciation had the acquisition not occurred. The only difference is that the accounting under Electric Plant Instruction 10 will require ratepayers to pay the same amount through depreciation rates in the future because the reserve deficiency will be considered when depreciation rates are determined through a depreciation study that

1 considers the impact of this reserve deficiency. As indicated in the rebuttal testimony of
2 Company witness Ronald Klote, it is anticipated that associated with the completion of
3 construction of Iatan 2 there will be a system wide depreciation study conducted on all
4 KCP&L and GMO operations.

5 The Company's plant accounting for the retirements complied with the applicable
6 FERC USOA guidance which is provided in Electric Plant Instruction 10 – Additions and
7 Retirements of Electric Plant. Paragraph B. (2) of Electric Plant Instruction 10 states:

8 When a retirement unit is retired from electric plant, with or without
9 replacement, the book cost thereof shall be credited to the electric plant
10 account in which it is included….If the retirement unit is of a depreciable
11 class, the book cost of the unit retired and credited to electric plant shall be
12 charged to the accumulated provision for depreciation applicable to such
13 property.

14 This is exactly the plant accounting for the retirements performed by the Company.

15 **Q. Are you aware of why the Staff believes the Company's accounting for the**
16 **retirements was inconsistent with the requirements of the FERC USOA for plant**
17 **accounting?**

18 A. Similar to the assertion of an acquisition detriment, Staff witness Hyneman does not
19 describe in the Staff Report at page 161 why he believes the Company's accounting for
20 the retirements are inconsistent with the requirements of the FERC USOA. He merely
21 states that he believes it is. Based on comments from Staff witness Schad referring to an
22 unusual retirement, such as when a utility's acquisition by another utility results in some
23 plant no longer being needed and retired prematurely, I can only surmise that Staff is
24 trying to apply FERC - Electric Plant Instruction 5 – Electric Plant Purchased or Sold.

25 **Q. Does Electric Plant Instruction 5 apply to the acquisition of Aquila by Great Plains**
26 **Energy?**

1 A: No it does not. Aquila was acquired by Great Plains Energy when Aquila merged with
2 Gregory Acquisition Corporation, a wholly-owned subsidiary of Great Plains Energy
3 created solely for purposes of this transaction. Aquila was the surviving entity of the
4 merger resulting in Aquila (now GMO) becoming a wholly-owned subsidiary of Great
5 Plains Energy. This did not result in an acquisition of electric plant constituting an
6 operating unit or system as provided for in FERC USOA Electric Plant Instruction No. 5,
7 as Aquila was simply the surviving entity in a merger, with no change to plant records.
8 This is consistent with purchase accounting discussions the Company's accounting
9 management has had with its external auditors as well as with the proposed accounting
10 entries submitted to FERC in the federal merger proceeding and with the submission of
11 our proposed final accounting entries as ordered by FERC. Neither set of entries
12 proposed accounting for the transaction as an acquisition of an operating unit or system,
13 which would require accounting for the acquisition of electric plant through FERC
14 account 102, Electric Plant Purchased or Sold.
15 **Q: Does that conclude your rebuttal testimony?**
16 A: Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Aquila, Inc. dba)
KCP&L Greater Missouri Operations Company to) Case No. ER-2009-0090
Modify Its Electric Tariffs to Effectuate a Rate Increase)

AFFIDAVIT OF DARRIN R. IVES

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

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

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

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of eighteen (18) pages and Schedule(s) DRI - 6 through DRI - 7, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Darrin R. Ives

Subscribed and sworn before me this 13th day of March 2009.

Notary Public

My commission expires: Feb. 4 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200

KCP&L-GREATER MISSOURI OPERATIONS **SCHEDULE DRI-6**
CASE NO. ER-2009-0090
ESTIMATED ANNUALIZED SYNERGIES

LINE NO.	DESCRIPTION	TOTAL UTILITY	KCPL-MO	MPS-RETAIL	L&P ELECTRIC	L&P STEAM
	(A)	(B)	(C)	(D)	(E)	(F)
1	For Portion previously allocated to GMO:					
2	Headcount reductions Day 1	13,082,991				
3	Less: Union wage differentials	(4,041,919)				
4	Less: Management wage differentials	(80,529)				
5	Total payroll	8,960,543				
6	Employer Payroll Taxes @ 7.37%	660,392				
7	Employee Benefits-Other @ 17.6%	1,577,056				
8	Total Payroll, payroll taxes & Benefits	11,197,991	4,669,450	1,993,130	692,708	42,440
9						
10	Benefits (excl. Other) @ 35.5%	3,180,993	1,326,442	566,185	196,776	12,056
11	Insurance	3,795,420	1,380,774	1,011,821	230,686	21,482
12	Facilities Retirements or Eliminations:					
13	Aquila Corp. HQ (20 W 9th)	5,933,778	701,671	3,598,939	889,448	143,468
14	Platte City Service Center	156,365	45,301	102,746	8,318	
15	Liberty Service Center	153,926	20,645	129,490	3,791	
16	Lincoln/Omaha	725,765	276,437	166,251	50,760	2,518
17	Travel & Meals-Aquila leadership team	39,470	13,941	11,135	2,045	196
18	Board of Director Fees-Aquila	405,165	143,106	114,306	20,991	2,013
19	Common Use Billings	-	1,631,796	(2,388,151)	(460,970)	(122,210)
20						
21	Total Annual Synergies	$ 25,588,872	$ 10,209,563	$ 5,305,853	$ 1,634,553	$ 101,963
22						
23	Annual Utility Transition Cost Amortization (DRI-7)	$ 9,790,992	$ 3,317,343	$ 2,989,382	$ 750,824	$ 41,157
24						
25	TEST: Annual Synergies Exceed Annual Transition Cost Amortization?	YES	YES	YES	YES	YES

Note: The "Total Utility" column includes other KCP&L and KCP&L-GMO jurisdictions.

KCP&L-GREATER MISSOURI OPERATIONS
CASE NO. ER-2009-0090
TRANSITION COSTS

SCHEDULE DRI-7

LINE NO.	DESCRIPTION	TOTAL UTILITY	KCPL-MO	MPS-RETAIL	L&P ELECTRIC	L&P STEAM
	(A)	(B)	(C)	(D)	(E)	(F)
1	Actual transition costs at 12/31/2008:					
2	Severance and retention costs	$ 11,026,262	$ 3,702,411	$ 3,392,987	$ 852,195	$ 46,714
3	Third party outside services integration costs	27,896,661	9,367,173	8,584,324	2,156,071	118,187
4	Transition employees	1,494,481	501,819	459,880	115,505	6,332
5	Union wage integration costs	1,558,379	523,274	479,542	120,444	6,602
6	KCP&L misc. non-labor integration costs	839,401	430,419	140,851	35,377	1,939
7	CIS integration costs	2,625,404	881,561	807,886	202,912	11,123
8	Total Actual Transition Costs at 12/31/2008	$ 45,440,588	$ 15,406,657	$ 13,865,470	$ 3,482,504	$ 190,897
9						
10	Projected incremental transition costs to 3/31/2009:					
11	Third party outside services integration costs	$ 2,974,080	$ 998,640	$ 915,180	$ 229,860	$ 12,600
12	Transition employees	267,667	89,878	82,366	20,687	1,134
13	Union wage integration costs	272,624	91,542	83,892	21,071	1,155
14	Projected Transition costs to 3/31/2009	$ 3,514,371	$ 1,180,060	$ 1,081,438	$ 271,618	$ 14,889
15						
16	**TOTAL PROJECTED TRANSITION COSTS TO 3/31/2009**	$ 48,954,959	$ 16,586,717	$ 14,946,908	$ 3,754,122	$ 205,786
17						
18	**ANNUAL AMORTIZATION - 5 YEARS**	$ 9,790,992	$ 3,317,343	$ 2,989,382	$ 750,824	$ 41,157

Note: The "Total Utility" column includes other KCP&L and KCP&L-GMO jurisdictions.