

Exhibit No.:
Issue: Short Term Incentive Compensation
Witness: Ronald A. Klote
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri
Operations Company
Case No.: HR-2009-0092
Date Testimony Prepared: April 9, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0092

SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
April 2009**

SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. HR-2009-0092

1 **Q. Are you the same Ronald A. Klote who submitted Direct and Rebuttal Testimony in**
2 **this case on behalf of KCP&L Greater Missouri Operations Company (“GMO” or**
3 **the “Company”)?**

4 A. Yes, I am.

5 **Q. What is the purpose of your Surrebuttal Testimony?**

6 A. The purpose of my testimony is to respond to the Rebuttal Testimony of Staff witness
7 Keith Majors regarding his position on short term incentive compensation.

8 **Short Term Incentive Compensation**

9 **Q. What position on short term incentive compensation has Staff witness Keith Majors**
10 **repeated in his Rebuttal Testimony?**

11 A. Staff witness Keith Majors has proposed to disallow short term incentive compensation
12 costs on the basis that the short term incentive compensation costs in the GMO
13 jurisdiction are based off the Aquila variable compensation program. Since the Aquila
14 variable compensation program no longer exists, Staff has disallowed the entire short
15 term incentive compensation costs from this rate case proceeding.

16 **Q. Do you agree with Mr. Majors’s position?**

17 A. I agree only in part with Mr. Majors that the Aquila variable compensation program no
18 longer exists, but short term incentive compensation costs are still a part of GMO’s cost

1 of service. As such, I disagree that the entire amount of short term incentive
2 compensation costs should be removed from the cost of service in this rate case
3 proceeding.

4 **Q. Why do you disagree with Staff's adjustment to eliminate short term incentive**
5 **compensation?**

6 A. On page 5 of Staff witness Majors's Rebuttal Testimony, Mr. Majors acknowledges that
7 previous Aquila employees are covered under KCP&L's short term incentive program.
8 In fact, he goes on to say the following, "If short term incentive compensation is included
9 in GMO's cost of service, it should be calculated under KCP[&]L plans and the same
10 allocation basis Staff used for payroll will be used to allocate these costs between
11 KCP[&]L and GMO entities." On a going forward basis, the payroll and short term
12 incentive compensation costs for the GMO jurisdictions are comprised of the assignment
13 and allocation of KCP&L employee costs. As such, short term incentive costs are
14 incurred by the GMO jurisdiction even though the Aquila variable compensation program
15 no longer exists. I agree with Mr. Majors that the Aquila variable compensation program
16 no longer exists and should not be the basis for calculating going forward short term
17 incentive compensation costs. Yet, I believe his position has completely ignored the fact
18 that short term incentive compensation is still a part of an employee's overall
19 compensation package and is a cost the GMO jurisdictions will incur on a going forward
20 basis.

21 **Q. Has the issue of short term incentive compensation been addressed in previous**
22 **testimony?**

1 A. Yes. On page 2 of Company witness Barbara Curry's Rebuttal Testimony, short term
2 incentive compensation is explained. Ms. Curry explains the background and purpose of
3 the short term incentive compensation component of an employee's compensation
4 structure.

5 **Q. What level of short term incentive compensation expense should the GMO**
6 **jurisdictions be allowed to include in this rate case proceeding?**

7 A. The amount that should be included in this rate case proceeding should be based on the
8 KCP&L incentive compensation program and averaged over a 3-year period. By
9 averaging over a 3-year period, the calculation will reflect a more normalized level of
10 expense to be included in cost of service. In fact, Mr. Majors appears to indicate he could
11 support this notion in his Rebuttal Testimony on page 5 when he states that if short term
12 incentive compensation costs are included in this rate case proceeding then they should
13 be calculated using KCP&L incentive compensation plans. On page 10, lines 14 - 23 and
14 page 11, lines 1 - 3 of my Rebuttal Testimony, I discuss how the short term incentive
15 compensation costs should be calculated and what amount should be included in this rate
16 case proceeding.

17 **Q. Does this amount differ from the amount of short term incentive compensation that**
18 **was included in your direct filing?**

19 A. Yes it does. As I have stated previously, I agree with Mr. Majors that the Aquila variable
20 compensation does not exist and should not be the basis for calculating going forward
21 short term incentive compensation costs as it was presented in the direct filing. But, I do
22 not agree with his position that the going forward cost level is \$0. This ignores a cost
23 component of an employee's compensation package which is an ongoing cost of the

1 Company. As such, the KCP&L compensation plans should be used as the basis for
2 calculating the short term incentive compensation costs to be included in the GMO
3 jurisdictional cost of service. I have explained this calculation in my Rebuttal Testimony
4 on page 10 - 11.

5 **Q. Does this conclude your Surrebuttal Testimony?**

6 **A.** Yes it does.

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

In the Matter of the Application of KCP&L Greater)
Missouri Operations Company to Modify Its Steam) Case No. HR-2009-0092
Tariffs to Effectuate a Rate Increase)

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Ronald A. Klote, being first duly sworn on his oath, states:

1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Manager, Regulatory Accounting.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of four (4) 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.

Ronald A. Klote
Ronald A. Klote

Subscribed and sworn before me this 9th day of April 2009.

Nicole A. Wehry
Notary Public

My commission expires: Feb 4, 2011

