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Compensation
Payroll Overtime
Witness: *Keith A. Majors*
Sponsoring Party: *MoPSC Staff*
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Case No.: *ER-2009-0090*
Date Testimony Prepared: *April 9, 2009*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

KEITH A. MAJORS

Great Plains Energy, Incorporated
GREATER MISSOURI OPERATIONS
GMO-MPS AND GMO-L&P ELECTRIC

CASE NO. ER-2009-0090

Jefferson City, Missouri
April 2009

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Great Plains Energy, Incorporated
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GMO-MPS AND GMO-L&P
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2 **SURREBUTTAL TESTIMONY**

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4 **KEITH A. MAJORS**

5 **Great Plains Energy, Incorporated**
6 **GREATER MISSOURI OPERATIONS COMPANY**
7 **GMO-MPS AND GMO-L&P ELECTRIC**
8 **CASE NO. ER-2009-0090**

9 Q. Please state your name and business address.

10 A. Keith A. Majors, Fletcher Daniels State Office Building, Room G8,
11 615 E. 13th Street, Kansas City, Missouri 64106.

12 Q. By whom are you employed and in what capacity?

13 A. I am a Utility Regulatory Auditor with the Missouri Public Service
14 Commission (Commission or PSC).

15 Q. Are you the same Keith A. Majors that contributed to the Missouri Public
16 Service Commission Staff's Cost of Service Report Case No. ER-2009-0090 filed on
17 February 13, 2009?

18 A. Yes. I contributed to the Staff Cost of Service Report filed on
19 February 13, 2009 in this case relating to Kansas City Power & Light Greater Missouri
20 Operations Company (GMO or Company), MPS and L&P divisions. In addition,
21 I contributed to the Staff Cost of Service Reports for KCP&L Company (KCPL) and
22 KCP&L Greater Missouri Operations Company L&P Steam. I also provided rebuttal
23 testimony in this case on March 13, 2009 and rebuttal testimonies in the KCP&L rate case
24 ER-2009-0089 and GMO L&P Steam HR-2009-0092.

Surrebuttal Testimony of
Keith A. Majors

1 Q. What is the purpose of your surrebuttal testimony in this proceeding?

2 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
3 of Company witness Barbara Curry on the issue of incentive compensation and to the rebuttal
4 testimony of Company witness Ronald Klote on the issue of payroll overtime costs.

5 **EXECUTIVE SUMMARY**

6 Q. Please summarize Staff's positions in the areas of short-term incentive
7 compensation and payroll overtime costs.

8 A. It is Staff's position that no short-term incentive compensation should be
9 included in the Company's cost of service because the Company's short-term incentive
10 compensation programs have not paid out for the past two plan years and its short-term
11 incentive compensation program is being changed for 2009, and if the Company's proposed
12 three-year average of short-term incentive compensation is determined to be appropriate by
13 the Commission, the basis for disallowances previously made by the Commission should
14 continue to be applied by the Commission.

15 On the issue of overtime costs, Staff finds no evidence supporting the gross-up of
16 overtime labor costs proposed by GMO to be used in Staff's three-year average of overtime
17 labor costs to be included in the cost of service if the Commission accepts the Staff's position.
18 The Commission should not use for overtime costs the test year 2007 expense proposed by the
19 Company.

20 **INCENTIVE COMPENSATION**

21 Q. What short-term incentive compensation costs is the Company proposing for
22 rate recovery in this case?

Surrebuttal Testimony of
Keith A. Majors

1 A. Because all former Aquila employees are now KCPL employees, the Company
2 has adopted a new methodology described on lines 7-15 on page 13 of the rebuttal testimony
3 of Ronald Klote. For MPS and L&P, the Company is now proposing \$1,545,869 and
4 \$665,999, respectively, short-term incentive compensation costs for rate recovery in this case.
5 In its direct filing, the Company proposed test year 2007 short-term incentive compensation
6 expenses for MPS and L&P of \$2,703,414 and \$843,729, respectively, net of transfer to
7 capital.

8 Q. Has the Company used a different methodology in rebuttal testimony for
9 normalizing incentive compensation costs from the methodology used in its direct filing?

10 A. Yes. In its direct filing the Company requested the test year level of short-term
11 incentive compensation expense for the cost of service. Staff did not include this amount nor
12 did Staff include any amount of short-term incentive compensation expense in the cost of
13 service for GMO. Because the Company has included short-term incentive compensation on
14 the basis of KCPL historical costs, the inclusion of short-term incentive compensation in the
15 cost of service must be determined on the merits of those plans. Additionally, the allocation
16 was based upon the KCPL expense net of capital which does not account for the different
17 capitalization ratios of MPS and L&P. The remainder of my surrebuttal testimony will
18 address the merits of KCPL's short-term incentive plans as allocated to GMO by Mr. Klote.
19 The only element of this methodology with which Staff agrees is the use of payroll allocators
20 presented in Staff's direct filing to allocate short-term incentive costs.

21 Q. In respect to Ms. Curry's rebuttal testimony, what is Staff's primary reason for
22 the disallowance of short-term incentive compensation?

Surrebuttal Testimony of
Keith A. Majors

1 A. For plan years 2007 and 2008, the short-term incentive compensation plans did
2 not pay any awards. Additionally, because the current short-term incentive compensation
3 plans are designed to be funded solely on the earnings per share of the Company, a metric that
4 can fluctuate largely year-to-year, Staff cannot estimate what amount, if any, the short-term
5 incentive compensation plans would pay for the 2009 plan year.

6 Q. On lines 14-15 on page 2 of Ms. Curry’s rebuttal testimony, Ms. Curry refers
7 to “[Staff’s] unrealistic assumption that the Company will not incur any short-term incentive
8 compensation expenses going forward.” Is Staff’s assumption “unrealistic”?

9 A. Given the fact that the Company has not met funding thresholds
10 for two years in a row for its short-term incentive compensation plans, Staff does not believe
11 this assumption is in any way “unrealistic”. In fact, Staff has recently been informed
12 via Ms. Curry’s rebuttal testimony that KCPL itself is considering making changes to its
13 incentive plans due to the inability of the Company to meet those thresholds.
14 The Company’s normalized level of incentive compensation is based upon historical costs
15 related to the Company’s current short-term incentive plans. If indeed the Company
16 is redesigning these plans, then the historical costs would not be representative of costs to be
17 incurred in the future.

18 Q. On lines 17-23 on page 2 and lines 1-8 on page 3 of Ms. Curry’s
19 rebuttal testimony, Ms. Curry elaborates on the history of incentive compensation,
20 specifically on the fact that the initial purpose of incentive compensation plans for most
21 companies was to augment or to replace base salary increases. As applied to KCPL, do any of
22 the short-term incentive compensation plans augment or replace base salary increases?

Surrebuttal Testimony of
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1 A. No. Base salaries at KCPL are not “at risk”. By their very nature
2 KCPL’s incentive compensation plans are not a part of any employee’s base salary.
3 Staff examined the Company’s methodology for development of salary levels, in particular,
4 salary surveys from compensation consultants, including Mercer. It is Company policy to set
5 base salaries at the median market level, meaning that half of the sampled salaries should be
6 higher than the market average and half of the sampled salaries should be lower.
7 Staff is unaware of any recent time where the Company’s base salaries were not increased by
8 the Company for wage and salary payroll increases.

9 The Company has awarded base salary increases to all classes of employees for some
10 time. In fact, according to lines 8-10 of page 3 of Ms. Curry’s rebuttal testimony
11 in KCPL Case No. ER-2009-0089, the latest salary increases for management and union
12 employees averaged 3%-3.8% per year from 2005-2008 for KCPL. Because it is Company
13 policy to establish salaries at the median market amount, Staff has no evidence to counter
14 Staff’s assumption that salary increases are not reduced because the Company employs short-
15 term incentives in addition to base salary.

16 Q. On lines 2-16 on page 5 of Ms. Curry’s rebuttal testimony,
17 Ms. Curry describes the 2007 discretionary employee bonus. Was this related in any way to
18 the short-term incentive compensation plans?

19 A. No. In fact, the plan documents which were attachments to my rebuttal
20 testimony in KCPL Case No. ER-2009-0089 clearly stated that “*There is no payment for any*
21 *KCP&L or Divisional performance goals if the KCP&L EPS threshold is not met.*”
22 It is Staff’s opinion that awarding incentive compensation when goals for that compensation
23 are not met is contrary to the basis and theory surrounding incentive compensation.

Surrebuttal Testimony of
Keith A. Majors

1 Staff agrees that goals of SAIDI (System Average Interruption Duration Index),
2 JD Power Customer Satisfaction surveys, and an electric utility's safety record are indeed
3 appropriate performance criteria. However, such unpredictable discretionary payments are
4 not appropriate expenses for consideration in the establishment of rates.

5 Q. On lines 16-17 on page 3 of Ms. Curry's rebuttal testimony, Ms. Curry states,
6 "[T]he Company is changing this annual incentive structure effective in 2009."
7 Was Staff aware of this development prior to the receipt of Ms. Curry's rebuttal testimony?

8 A. No. The Company did not inform Staff of its consultation with Mercer nor of
9 the redesign of the Company's short-term incentive compensation programs. In fact, Staff's
10 first knowledge of this development was through Ms. Curry's rebuttal testimony. Prior to the
11 receipt of this testimony, Staff had several meetings with the Company regarding payroll and
12 incentive compensation and at no time was it ever brought to Staff's attention that the
13 Company believed its incentive compensation programs were in need of revision. In response
14 to Staff discovery, the Company stated that changes to the short-term incentive plans would
15 be incorporated for the 2009 plan year but that those changes have not been finalized at this
16 time. However, any award based on the projected changes to the short-term incentive plans
17 for 2009 to be paid in 2010 would fall outside of the scope of this rate case.

18 Q. On lines 1-2 on page 5 of Ms. Curry's rebuttal testimony, Ms. Curry states,
19 "Staff appears to believe that achieving financial objectives does not significantly benefit
20 customers and does not improve utility operations as a whole". Is this Staff's position?

21 A. No. Staff's objective is to establish rates that allow the utility an opportunity
22 to achieve a reasonable rate of return on its investment. It continues to be Staff's position that
23 compensation awards solely based on earnings per share do not directly benefit ratepayers and

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1 should be paid by shareholders. Staff is not promoting any form of incentive program over
2 another nor is Staff seeking to dictate what goals an incentive program should have other than
3 to provide a benefit to ratepayers. However, if the Company determines that it will award
4 incentive compensation payouts based upon a direct benefit of shareholders, those costs
5 should be borne by those shareholders. The Commission has generally supported incentive
6 plans that were based on benefits to customers, and has not typically allowed those incentive
7 plans that were based on direct financial performance of the Company, such as earnings per
8 share measures.

9 Q. Is a portion of Staff's disallowance of short-term incentive compensation based
10 on earnings per share?

11 A. No. As stated previously, Staff is disallowing short-term incentive
12 compensation because the Company's programs have not paid out for the past two plan years.
13 Staff's issue with the Company on the earnings per share measure lies within the Company's
14 three-year average of short-term incentive compensation. The Company did not remove the
15 earnings per share and discretionary portion of the amounts awarded in 2005 and 2006
16 to form its average. As summarized in my rebuttal testimony in Case No. ER-2009-0089, the
17 Commission has previously ruled in the favor of Staff's disallowance of awards based on
18 earnings per share and discretionary qualifiers in the last two KCPL rate cases. If a three-year
19 average of short-term incentive compensation is determined to be appropriate, amounts
20 previously disallowed by the Commission should not comprise a portion of that average.

21 Q. Have Staff and the Company resolved the issue of long-term incentive
22 compensation?

1 A. Yes. The Company is no longer requesting long-term incentive compensation
2 expense in its cost of service.

3 **PAYROLL OVERTIME**

4 Q. What methodology did Staff use to annualize overtime costs in this case?

5 A. Staff annualized MPS and L&P overtime by using a three-year average of total
6 overtime costs using the years 2005, 2006, and 2007. This is the same methodology Staff
7 used to annualize payroll overtime for KCPL in Case No. ER-2009-0089. This created a
8 difference between Company and Staff of \$43,856 and \$192,526 for MPS and L&P,
9 respectively.

10 Q. What methodology did the Company use to annualize overtime costs in this
11 case?

12 A. In its direct filing, the Company proposed that test year overtime costs be
13 included in the cost of service. These amounts for MPS and L&P are \$4,175,958 and
14 \$1,636,620, respectively, net of the L&P 2007 Ice Storm AAO.

15 Q. What is the Company currently proposing?

16 A. On lines 5-12 of page 11 of Mr. Klote's rebuttal testimony, he states that if
17 Staff is to use a historical average, it should apply payroll increases to historical dollars to
18 equate them with current dollars assuming a 3% payroll increase per year. The Company
19 itself is not proposing a three year inflated average but rather proposes the inclusion of wage
20 increases if Staff is to use a three year average.

21 Q. Why did Staff not include a wage increase for its historical average of overtime
22 costs?

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Keith A. Majors

1 A. For consistency, Staff utilized a three year average of overtime costs in both
2 KCPL and GMO cases. The advantage of using a historical average is to account for
3 year-to-year fluctuations in various aspects of overtime costs.

4 The amount of GMO overtime hours and costs appears below:

MPS	Year	Expense	Hours	Average \$	% Change
	2005	\$ 4,220,356	115,100	\$ 36.67	
	2006	\$ 3,957,911	105,425	\$ 37.54	2.39%
	2007	\$ 4,108,165	94,455	\$ 43.49	15.85%
	2008	\$ 5,043,638	105,915	\$ 47.62	9.49%
L&P		Expense	Hours	Average \$	% Change
	2005	\$ 1,740,349	57,174	\$ 30.44	
	2006	\$ 2,065,309	66,376	\$ 31.12	2.22%
	2007	\$ 1,571,570	43,604	\$ 36.04	15.84%
	2008	\$ 2,340,076	56,542	\$ 41.39	14.83%
		*All amounts overtime only, net of 2007 AAO			

5 Staff did not include a wage increase in the KCPL case because the average hourly rate
6 fluctuated over the three year period in Staff's average of such costs with a decrease for 2007.
7 The same is not true in the case of MPS and L&P costs. However, when examining the total
8 dollar amounts in the above tables, the total dollar amounts do fluctuate. Therefore, Staff did
9 not apply a percentage increase for historical overtime costs in this case.

10 Q. Does this conclude your surrebuttal testimony?

11 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

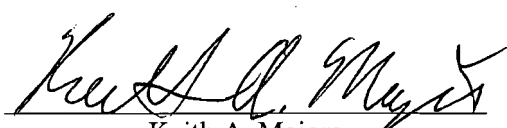
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L)
Greater Missouri Operations Company for)
Approval to Make Certain Changes in its)
Charges for Electric Service.)
Case No. ER-2009-0090

AFFIDAVIT OF KEITH A. MAJORS

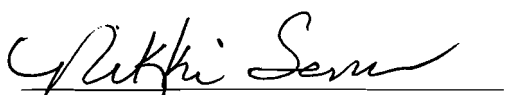
STATE OF MISSOURI)
)
COUNTY OF COLE)
) ss.

Keith A. Majors, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Keith A. Majors

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

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016


Notary Public