Exhibit No.:	
Issues:	*Incentive Compensation* *Payroll Overtime*
Witness:	*Keith A. Majors*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2009-0089*
Date Testimony Prepared:	*April 7, 2009*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

KEITH A. MAJORS

Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2009-0089

Jefferson City, Missouri
April 2009

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KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2009-0089

Q. Please state your name and business address.

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

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

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

Q. Are you the same Keith A. Majors that contributed to the Missouri Public Service Commission Staff's Cost of Service Report Case No. ER-2009-0089 filed on February 11, 2009?

A. Yes. I contributed to the Staff Cost of Service Report filed on February 11, 2009 in this case relating to Kansas City Power & Light Company (KCPL or Company). In addition, I contributed to the Staff Cost of Service Reports filed on February 13, 2009 for KCP&L Greater Missouri Operations Company (GMO) for MPS and L&P, and L&P Steam. I also provided rebuttal testimony in this case on March 11, 2009 and rebuttal testimonies in the GMO rate cases ER-2009-0090 and HR-2009-0092.

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

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Company witness Barbara Curry on the issue of incentive compensation and the rebuttal testimony of Company witness John Weisensee on the issue of payroll overtime costs.

EXECUTIVE SUMMARY

Q. Please summarize Staff's position in the areas of incentive compensation and payroll overtime costs.

A. It is Staff's position that due to the circumstances concerning the short-term incentive compensation plans for the past two years that no incentive compensation should be included in the Company's cost of service.

On the issue of overtime costs, Staff finds no evidence supporting the gross-up of overtime labor costs for payroll increases for Staff's three-year average of such costs to be included in the cost of service.

INCENTIVE COMPENSATION

Q. In general respecting Ms. Curry's rebuttal testimony, what is Staff's <u>primary</u> reason for the disallowance of short-term incentive compensation?

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

Q. On line 16, page 3 of Ms. Curry's rebuttal testimony, Ms. Curry refers to "Staff's unrealistic assumption that the Company will not incur any short-term incentive compensation expenses going forward." Is Staff's assumption "unrealistic"?

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

Q. On lines 19-23 on page 3 and lines 1-2 on page 4 of Ms. Curry's rebuttal testimony, Ms. Curry elaborates on the history of incentive compensation, specifically the fact that the initial design of incentive compensation for most companies was to augment or replace base salary increases. Do any of the short-term incentive compensation plans augment or replace base salary increases?

A. No. No <u>base</u> salaries at KCPL are "at risk". By their very nature KCPL's incentive compensation plans are not a part of any employee's base salary. Staff examined the Company's methodology for development of salary levels, in particular, salary surveys from compensation consultants including Mercer. It is Company policy to set base salaries at the median market level which means that half of the sampled salaries should be higher than the market average and half of them should be lower. Staff is unaware of any recent time where the Company's base salaries were not increased by the Company for wage and salary payroll increases.

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

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

A. No. In fact, the plan documents which were attachments to my rebuttal testimony clearly stated "*There is no payment for any KCP&L or Divisional performance goals if the KCP&L EPS threshold is not met.*" It is Staff's opinion that awarding incentive compensation when goals for that compensation are not met is contrary to the basis and theory surrounding incentive compensation. Staff agrees that goals of SAIDI (System Average Interruption Duration Index), JD Power Customer Satisfaction surveys, and an electric utility's safety record are indeed appropriate performance criteria. However, such unpredictable discretionary payments are no way to establish rates on a going forward basis.

Q. On lines 13-21 on page 4 of Ms. Curry's rebuttal testimony, she states, "[T]he Company is changing this annual incentive structure effective in 2009." Was the Staff aware of this development prior to the receipt of Ms. Curry's rebuttal testimony?

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

Q. On lines 5-6 on page 6 of Ms. Curry's rebuttal testimony, Ms. Curry states, "Staff appears to believe that achieving financial objectives does not significantly benefit customers and does not improve utility operations as a whole". Is this Staff's position?

A. No. Staff's objective is to establish rates that allow the utility an opportunity to achieve a reasonable rate of return on its investment. It is Staff's position that awards solely based on earnings per share do not directly benefit ratepayers and should be paid by shareholders. Staff is not promoting any form of incentive program over another nor is it seeking to dictate what goals an incentive program should have other than the program should provide a benefit to ratepayers. However, if the Company determines that it will award amounts based on the direct benefit of shareholders, those costs should be borne by those shareholders. The Commission has generally supported incentive plans that were based on benefits to customers, and has not typically allowed those incentive plans that were based on direct financial performance of the Company, such as earnings per share measures.

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

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

Q. Has the Staff and the Company resolved the issue of long-term incentive compensation?

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

PAYROLL OVERTIME

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

A. Staff annualized KCPL and Great Plains Energy Corporation (GPE) overtime by using a three-year average of total overtime costs using the years 2005, 2006, and 2007. Additionally, Staff annualized overtime billed to joint partners and Wolf Creek billed overtime on a three-year average for the same time period. Staff examined both overtime hours and costs for these years.

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

A. The Company utilized the same time period and used a three-year average, but included a 6.5% wage increase to 2005 overtime dollars and a 3.25% wage increase to 2006 overtime dollars in attempt to equate these dollars to 2007 dollars as described on lines 5 through 8 on page 21 of John Weisensee's rebuttal testimony.

Q. Did the Company apply this methodology to all historical labor costs?

A. No. The Company did not apply the wage increases to payroll billed to joint partners or overtime billed to joint partners. The annualized amounts of joint partner billings reduce payroll charged to the Company, and ultimately to ratepayers, but by less than would be the case if the joint partners were charged the wage increases. There is an inconsistency in the way the Company is approaching overtime costs to be included in rates with those overtime costs charged to its joint partners. In effect, the Company has applied wage increases to items that increase expense to be recovered from ratepayers, but not to corresponding items that decrease expense to be recovered from ratepayers. Additionally, the Company did not apply wage increases to temporary and intern payroll for which an average of the same time period was taken.

Q. Upon what evidence did Staff rely to not include the wage increases?

A. Staff analyzed overtime dollars and hours for KCPL overtime and came to the conclusion that the average dollar rate per hour of overtime fluctuated over the specified period and did not follow a distinct pattern. Specifically, the average hourly rates for 2005, 2006, and 2007, for KCPL overtime were $52.98, $54.29, and $51.96, respectively. However, Staff noted that total overtime dollars were increasing from year-to-year.

Therefore, Staff used a three-year average of total overtime dollars with no gross-up for wage increases. To be consistent, Staff used the same methodology for GPE, Wolf Creek, and joint partner's overtime and straight time labor normalizations.

The amount of KCPL overtime hours and costs appears below:

Year	Expense	Hours	Average $	% increase
2005	$ 18,605,838	351,177	$ 52.98	
2006	$ 19,955,798	367,571	$ 54.29	2.472%
2007	$ 21,655,529	416,812	$ 51.96	-4.303%
2008	$ 22,309,539	410,117	$ 54.40	4.702%

Because the current 2008 average hourly rate is only slightly higher than the 2006 rate, Staff's average of 2005, 2006, and 2007 total unadjusted dollars is still appropriate. Therefore, there is no support or justification for applying a percentage increase for historical overtime costs in this case.

Q. Does Staff have any other issues specifically related to overtime?

A. Yes. Staff is aware that the 2008 Wolf Creek outage was abnormally extended and is consequently investigating overtime costs to determine if a deferral is necessary similar to the non-wage maintenance deferral agreed to by Staff. This determination will be made in Staff's true-up case.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power and Light Company for Approval to Make Certain Changes in its Charges for Electric Service To Continue the Implementation of Its Regulatory Plan.	)))))	Case No. ER-2009-0089

AFFIDAVIT OF KEITH A. MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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 8 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
Keith A. Majors

Subscribed and sworn to before me this 6TH 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

Nikki Senn
Notary Public