

Exhibit No.:

*Issues: Rate Case Expense,
Iatan Construction Audit and
Prudence Review,
Iatan Regulatory Assets*

Witness: Keith A. Majors

Sponsoring Party: MoPSC Staff

Type of Exhibit: True-Up Direct Testimony

*File Nos.: ER-2010-0355
and ER-2010-0356*

Date Testimony Prepared: February 22, 2011

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

KEITH A. MAJORS

**KANSAS CITY POWER & LIGHT COMPANY and
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

FILE NOS. ER-2010-0355 and ER-2010-0356

Jefferson City, Missouri

February 22, 2011

**** Denotes Highly Confidential Information ****

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1 A. Staff is proposing adjustments to rate case expense for both Kansas City
2 Power & Light (KCPL) and Kansas City Power & Light Greater Missouri Operations (GMO)
3 to be recovered through a two-year amortization through the respective cost of service. The
4 adjustments are based upon subsequent information provided by the Companies concerning
5 initially inadequate invoice support from them.

6 Staff is proposing true-up adjustments to the Iatan regulatory assets based upon
7 adjustments proposed in Staff's Construction Audit and Prudence Review true-up filed
8 concurrently with this testimony.

9 **RATE CASE EXPENSE**

10 Q. Why is Staff proposing adjustments to KCPL and GMO rate case expense in
11 the true-up of these proceedings?

12 A. KCPL initially did not provide adequate invoice support for certain legal and
13 other rate case expenses. KCPL initially provided to Staff invoices for some rate case
14 expenses with in essence no detail. Subsequently, invoice support has been received from
15 KCPL and GMO and reviewed by Staff, and Staff is proposing adjustments to costs paid to
16 certain vendors charged to Missouri rate case expense. Throughout the filing of Staff's direct
17 case and rebuttal and surrebuttal testimony and the hearings in February the rate case expense
18 issue has developed as a true-up issue.

19 Q. When did Staff receive complete invoices?

20 A. Staff received complete invoices from Stinson, Morrison & Hecker, Morgan,
21 Lewis & Bockius, and Pegasus Global Holdings on November 29, 2010. In that same
22 response, KCPL and GMO identified Schiff Hardin invoices that were charged to rate case
23 expense but which were previously provided to Staff under another file number, File No.

1 EO-2010-0259. The initial response for the request for invoices included “face sheets”,
2 one of which is attached as Schedule 1, provided in Data Request No. 141.1, File No.
3 ER-2010-0355. I have also attached a complete invoice from Morgan, Lewis & Bockius
4 provided on November 29, 2010 as Schedule 2.

5 Q. Can you summarize the total amount of KCPL and GMO Missouri rate case
6 expense through December 31, 2010?

7 A. This table summarizes the expenses paid to legal services vendors and other
8 vendors for a total amount of Missouri rate case expense of \$7.7 million. It does not include
9 any deferred expenses after December 31, 2010.

Company	Total
KCPL	4,593,427
MPS	2,001,855
L&P	1,175,870
Total Through 12/31/2010	\$ 7,771,151

11
12 Q. What adjustments Staff previously propose to rate case expense?

13 A. Staff proposed to remove all legal expenses from vendors Stinson,
14 Morrison & Hecker, Schiff Hardin, Pegasus Global, and Morgan, Lewis, & Bockius. Staff at
15 that time did not have complete invoices for a complete review. For GMO, Staff at the time
16 of filing its Cost of Service Report did not include any rate case expense from the current case
17 as no invoices had been provided for any rate case expense. Additionally, Staff proposed to
18 remove consulting fees from a KCPL witness whose full salary and benefits are still in the
19 Company’s cost of service.

1 Q. What are the adjustments Staff is proposing after its review of the invoices
2 subsequently provided?

3 A. Staff is proposing to remove all legal expenses from Morgan, Lewis & Bockius
4 in both KCPL and GMO. Staff is also proposing in both cases an adjustment to rate
5 case expenses charged by Schiff Hardin and an adjustment for services relating to
6 witness preparation.

7 **Adjustment for Morgan, Lewis & Bockius Expenses**

8 Q. Please describe the adjustment related to Morgan, Lewis & Bockius.

9 A. As stated earlier in this testimony, Staff initially removed all charges from this
10 vendor due to lack of invoice support. Upon review of the invoices, Staff has several issues
11 with the costs from this vendor. Of the attorneys on the attached invoice, Schedule 2, several
12 of them are significantly higher than the highest paid attorney from a Missouri firm,
13 Karl Zobrist of SNR Denton, formerly Sonnenshein, Nath & Rosenthal, at ** ____ ** per
14 hour. As noted in the invoice, attorneys “F.F. Fielding” and “A.C. Lambert” charged
15 ** ____ ** and ** ____ ** per hour respectively. Neither of these attorneys is known to be
16 involved in the current KCPL and GMO rate cases. Along with these two attorneys, Barbara
17 Van Gelder also charged legal fees related to “Iatan Rate Proceeding” at ** ____ ** per
18 hour. It is noteworthy that the proceedings Ms. Van Gelder was involved in were related to
19 the investigatory docket EO-2010-0259, *In The Matter Of The Construction Audit and*
20 *Prudence Review Of Enivonmental Upgrades To Iatan 1 Generating Plant, and Iatan*
21 *Common Plant, and the Iatan 2 Generating Plant, Including All Additions Necessary For*
22 *These Facilities To Operate*, and not a ratemaking proceeding. KCPL and GMO have booked

1 | these costs as well as other legal fees related to that proceeding to rate case expense for
2 | deferral and amortization.

3 | During the April 2010 proceedings related to File. No EO-2010-0259, several KCPL
4 | outside attorneys were present for these matters. Mr. Riggins, formerly general counsel at
5 | KCPL, an attorney from SNR Denton, an attorney from Fischer & Dority, an attorney from
6 | Stinson, Morrison & Hecker, and an attorney from Morgan, Lewis & Bockius were present at
7 | one time or another during the April hearings. Initially, Staff removed charges related to
8 | Morgan, Lewis & Bockius due to lack of invoice support, and after a complete review of the
9 | invoices, Staff maintains that the charges should remain removed from rate case expense
10 | because the rates charged are excessive compared to local attorneys, and KCPL retained three
11 | other outside counsel during those proceedings.

12 | Q. Has the Commission in a prior case disallowed in whole or in part the fees
13 | charged by outside attorneys?

14 | A. Yes. In the Commission's Report and Order in Case No. GR-2004-0209, the
15 | rate case expense incurred by Missouri Gas Energy was reduced for attorney fees. In that
16 | Report and Order, the Commission recognized the unfairness of charging ratepayers high
17 | attorney fees:

18 | In this case, MGE, or perhaps Southern Union, chose to hire the
19 | Kasowitz, Benson, Torres & Friedman law firm out of New York.
20 | MGE explained that it chose that firm because it had previously
21 | represented Southern Union in other complex litigation and the
22 | company was very pleased with the results obtained in that case. The
23 | other litigation for which the Kasowitz firm had represented Southern
24 | Union was, however, a merger and acquisition case and this case was
25 | the firm's first litigated regulatory rate case.

26 | Eric Herschmann and Michael Fay of the Kasowitz firm did a good job
27 | of representing their client at the hearing. But the firm charged up to
28 | \$690 per hour for its work. That rate is far higher than the typical rates
29 |

1 charged by lawyers appearing before this Commission. The company
2 is certainly entitled to hire lawyers with whom it is comfortable, but it
3 would not be fair to require ratepayers to pay such high rates. The
4 Commission will reduce the rate to \$200 per hour, which is the rate
5 charged by MGE's local counsel. The \$16,250.75 in expenses incurred
6 by the Kasowitz firm will be allowed. The total allowed for
7 representation by Kasowitz, Benson, Torres & Friedman is
8 \$188,200.75.

9 (Footnotes Omitted)

10 Re Missouri Gas Energy, 12 Mo.P.S.C.3d 581, 625 (2004).

11 The Commission also recognized that duplicative attorney work should be removed
12 from rate case expense:

13 Public Counsel urges the Commission to disallow \$47,522 in fees
14 charged by the Austin Texas firm of Watson Bishop London and
15 Brophy. Public Counsel contends that the work done by that firm did
16 was duplicative of the work done by Kasowitz, Benson, Torres &
17 Friedman and MGE's Missouri counsel, Brydon, Swearingen &
18 England. MGE explained that Christine Dodds, an attorney with
19 Watson Bishop, served as second chair for Eric Herschmann at the
20 hearing. She assisted Herschmann in preparation of witnesses, issues,
21 and cross-examination questions. The Commission does not wish to
22 disparage the work done by the Watson Bishop firm, but \$47,522 is
23 more than ratepayers should pay for the services performed by the firm.
24 The fees charged by Watson Bishop will be disallowed in their entirety.
25 (Footnotes Omitted)

26 Re Missouri Gas Energy, 12 Mo.P.S.C.3d 581, 625-26 (2004).

27 **Adjustment for Schiff Hardin Expensese**

28 Q. Please describe the adjustment to invoices from Schiff Hardin.

29 A. Schiff Hardin provided legal services charged to rate case expense, along
30 with Fischer & Dority, SNR Denton, The Cafer Law Office, Duane Morris, Morgan
31 Lewis & Bockius, Polsinelli Shalton Flanigan & Suelthaus, Spencer Fane Britt & Browne,
32 and Stinson Morrison & Hecker. KCPL and GMO also employ in-house counsel that
33 performs legal work. Additionally, Schiff Hardin employed three expert witnesses that
34 provided testimony on Iatan Prudence in these proceedings. It is reasonable to assume that

1 | some of the services Schiff Hardin provided were duplicative of other attorney's services,
2 | given the number of attorneys retained in these proceedings.

3 | Pegasus Global Holdings provided services to KCPL and GMO in the form of an
4 | expert witness on the prudence of the Iatan Construction Project. Invoices from Pegasus
5 | included hourly rates from several other Pegasus employees aside from Dr. Kris Nielsen who
6 | were involved in Pegasus' evaluation of the Iatan Construction Project. Both Dr. Nielsen,
7 | Kenneth Roberts, Daniel Meyer, and Steven Jones filed testimony on the prudence and
8 | reasonableness of expenditures relating to the Iatan Construction Project. Both Pegasus and
9 | Schiff Hardin vendors charged rate case expense to KCPL and GMO.

10 | Staff recommends that the services provided by Schiff Hardin be reduced to the
11 | amount paid to Pegasus Global Holdings. Pegasus' senior consultants charged an hourly rate
12 | of ** ____ ** per hour to evaluate Iatan prudence and provide testimony in the current rate
13 | cases. Schiff Hardin witnesses provided Iatan prudence testimony but charged significantly
14 | higher rates. This adjustment reduces the amount Schiff Hardin charged to rate case expense
15 | to the amount paid to an outside consultant that provided testimony on Iatan Prudence. The
16 | residual disallowance reflects both Schiff Hardin's higher attorney fees and any duplicative
17 | legal services.

18 | Q. Why is Staff's adjustment reasonable?

19 | A. Given the amount of attorneys retained by KCPL and GMO, it is a reasonable
20 | assumption there were duplicative legal expenses charged to rate case expense. Attorneys and
21 | consultants from Schiff Hardin charged up to ** ____ ** per hour for their services. The
22 | Commission, in its Report and Order in Case No. GR-2004-0209, disallowed excessive legal
23 | fees in part and some duplicative fees in total. The adjustment reduces legal and consulting

1 expenses incurred by KCPL and GMO to a more reasonable level. Additionally, this is an
2 increase in expense as compared to Staff's initial level of rate case expense for both
3 Companies.

4 **Adjustment for NextSource Expenses**

5 Q. Does Staff have an update to the adjustment for the NextSource contractor
6 discussed in your rebuttal testimony in this case?

7 A. Yes. Part of the amount listed in my surrebuttal was charged to KCPL and part
8 was charged to KCPL GMO-MPS and KCPL GMO-L&P rate case expenses. Staff has not
9 quantified any additional costs related to Mr. Giles' contracting fees. However, Staff
10 proposes to reallocate the total adjustment using the payroll factors for labor expenses used in
11 Staff's payroll annualization. This results in an allocation of 67%, 23%, and 10%,
12 respectively, of the disallowance of Mr. Giles fees.

13 **Adjustment for The Communication Counsel of America Expense**

14 Q. Does Staff propose any other rate case expense adjustments?

15 A. Yes. Staff is recommending expenses related to The Communication Counsel
16 of America be removed from KCPL and GMO rate case expense. The services provided by
17 this vendor relate to witness development and coaching, routine tasks typically performed by
18 counsel, internal or otherwise. These expenses were invoiced in the October-November 2010
19 timeframe and were subsequently provided to Staff for review on December 30, 2010 and
20 January 27, 2011.

21 Q. Can you provide a summary of Staff's rate case expense adjustments by
22 regulatory jurisdiction?

1 Q. The following table is the amount of deferred rate case expenses in total and
2 Staff' proposed adjustments.

	KCPL	GMO-MPS	GMO-L&P
Total Deferred Expenses	4,593,427	2,001,855	1,175,870
Communication Counsel of America	(17,737)	(16,195)	(4,627)
Morgan Lewis & Bockius	(194,938)	(110,931)	(60,634)
Schiff Hardin	(415,603)	(45,759)	
NextSource	(226,937)	(78,943)	(32,357)
Adjusted Rate Case Expense	3,738,211	1,750,026	1,078,252

4
5 GMO-L&P's Pegasus charges exceeded the amount for Schiff Hardin, therefore there was no
6 adjustment. Staff's proposed adjustments remove approximately 15% of total rate case
7 expense for KCPL and GMO.

8 **IATAN CONSTRUCTION AUDIT AND PRUDENCE REVIEW**

9 Q. For the adjustments you sponsored in Staff's Iatan Construction Audit and
10 Prudence Review, have you updated your adjustments through October 31, 2010?

11 A. Yes. I was responsible for calculating Allowance for Funds Used During
12 Construction (AFUDC) accrued for Staff's disallowances, in addition to other accounting
13 adjustments. To the extent that these adjustments accrued AFUDC through the in-service
14 date of Iatan 2, I have updated the amounts from June 30, 2010 through August 26, 2010.
15 In addition, I performed the AFUDC calculation on any updated adjustments. Staff witness
16 Charles R. Hyneman has included the updated calculations for AFUDC in his true-up
17 direct testimony.

1 **IATAN REGULATORY ASSETS**

2 Q. Please summarize your true-up rebuttal testimony concerning the Iatan
3 regulatory asset.

4 A. Staff has included the Iatan 2 and Iatan Common Plant regulatory asset in rate
5 base and an amortization thereof in the cost of service for KCPL and GMO, net of Staff's
6 updated Iatan Construction Audit and Prudence Review adjustments.

7 Q. Please describe the components of the regulatory assets.

8 A. For Iatan 1 and Iatan Common Plant, the regulatory assets only include the
9 depreciation costs and carrying costs of plant balances not included in rates at April 30, 2009
10 in the KCPL and GMO general rate cases, File Nos. ER-2009-0089 and ER-2009-0090. For
11 Iatan 2, the regulatory asset includes the depreciation costs and carrying costs of plant
12 balances beginning at the in-service date of August 26, 2010, as well as, property taxes,
13 operation and maintenance expenses, and credits for test power. Prior to the in-service date of
14 August 26, 2010, these costs would have been capitalized to the proper accounts while the
15 plant was still under construction.

16 Q. How do Staff's adjustments in the Iatan Construction Audit and Prudence
17 Review affect the regulatory assets?

18 A. The adjustments to the Iatan 2 and Iatan Common Plant regulatory assets
19 remove a portion of the carrying cost of these two regulatory assets based upon Staff's
20 proposed disallowances. This carrying cost is calculated in a similar fashion as AFUDC.
21 The Iatan 1 regulatory asset was not included in its entirety due to the amount of Staff's
22 proposed disallowances.

23 Q. Does not including the regulatory asset for Iatan 1 create an issue with the
24 depreciation reserve?

1 A. Yes. Staff has corrected for this issue by removing from depreciation reserve
2 the amount of reserve accrued related to the regulatory asset. Essentially, the net effect is not
3 including the carrying cost related to the asset.

4 Q. How does Staff propose to amortize the regulatory asset?

5 A. Staff has amortized the regulatory assets by the aggregate depreciation rates
6 attributable to Iatan Common and Iatan 2, respective of the regulatory asset.

7 Q. If the Commission rejects in whole or in part Staff's adjustments from the Iatan
8 Construction Audit and Prudence Review, should the carrying costs removed be added back
9 to the regulatory assets?

10 A. Yes. Similar to AFUDC, the adjustments to the Iatan 2 and Iatan Common
11 regulatory assets are dependent on the actual proposed disallowances and should be included
12 or rejected based on those adjustments.

13 Q. Does that conclude your true-up direct testimony?

14 A. Yes, it does.

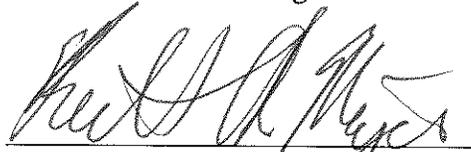
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Kansas City Power & Light Company for)
Approval to Make Certain Changes in its) File No. ER-2010-0355
Charges for Electric Service to Continue the)
Implementation of Its Regulatory Plan)

AFFIDAVIT OF KEITH A. MAJORS

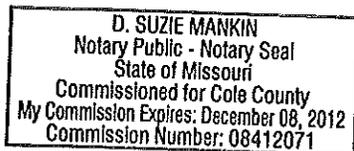
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Keith A. Majors, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing True-Up Direct 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 22nd day of February, 2011.





Notary Public

SCHEDULE 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

SCHEDULE 2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY