Exhibit No.:	
Issue:	*Transition Costs, Rate Case Expense, Iatan 1 Regulatory Asset*
Witness:	*Keith A. Majors*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

KEITH A. MAJORS

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2010-0356

Jefferson City, Missouri
December 2010

TABLE OF CONTENTS

OF THE REBUTTAL TESTIMONY OF

KEITH A. MAJORS

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FILE NO. ER-2010-0356

REBUTTAL TESTIMONY

OF

KEITH A. MAJORS

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2010-0355

Q. Please state your name and business address.

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

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

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

Q. Are you the same Keith A. Majors who direct filed testimony on this issue in the Staff's Cost of Service Report filed in this case on November 17, 2010?

A. Yes, I am.

EXECUTIVE SUMMARY

Q. With reference to File No. ER-2010-0356, please provide a summary of your rebuttal testimony.

A. The purpose of my testimony is to respond to certain positions taken by KCP&L Greater Missouri Operations Company ("GMO") witnesses Darrin Ives and John Weisensee in their direct testimony in this proceeding. Specifically, I address GMO's proposal to recover the costs to integrate its regulated utility operations with Kansas City Power & Light Company ("KCPL") as a result of Great Plains Energy's ("GPE") acquisition of Aquila, Inc. ("Aquila") on July 14, 2008. The Commission approved this acquisition in its

Report and Order in Case No. EM-2007-0374 (the "Acquisition case"). These costs are referred to as "transition costs." I also address John Weisensee's direct testimony concerning rate case expenses and the Iatan 1 regulatory asset.

TRANSITION COST RECOVERY

Q. What level of transition costs is GMO seeking to recover in this case?

A. Total deferred transition cost is $17.7 million for MPS Retail and $4.4 million for L&P Retail. GMO is seeking to recover these amounts over five years for an annual rate recovery of $3.5 million and $0.9 million from its MPS and L&P customers, respectively. This amount can be found in GMO Adjustment CS-95 sponsored by GMO witness Darrin Ives in his direct testimony. The following table is a summary of transition costs related to the GPE's acquisition of Aquila, updated through June 30, 2010:

Jurisdiction	Total	%
KCPL-MO	19,291,888	33.29%
KCPL- KS	15,591,495	26.90%
KCPL-Wholesale	137,352	0.24%
MPS-Retail	17,679,595	30.51%
MPS-Wholesale	69,545	0.12%
L&P Electric	4,440,472.45	7.66%
L&P Steam	243,408.88	0.42%
Corporate Retained - Merchant	500,726.72	0.86%
Total Transition Costs		
At June 30, 2010	**57,954,483**	100.00%

Q. What are transition costs?

A. As it relates to utilities, transition costs are the costs incurred for combining and integrating the operations of the merging utilities. In this case it represents the costs incurred by GMO to integrate the Missouri operations of KCPL and Aquila, Inc., a/k/a GMO, after GPE acquired Aquila.

Q. Did the Commission discuss the recovery of transition costs in its Report and Order in the case where the Commission authorized the acquisition of Aquila, Case No. EM-2007-0374?

A. Yes it did. In footnote 930 on page 241, the Commission stated:

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

Q. Did GMO include any amortization of transition costs in the test year 2009?

A. No. GMO has not amortized any transition costs.

Q. Did the Staff of the Missouri Public Service Commission ("Staff") include any transition costs in its direct case filed November 17, 2010?

A. No. Staff is not proposing rate recovery in the current case from either GMO or KCPL customers for the amortization of transition costs.

Q. Please describe and summarize the Staff's direct testimony concerning the recovery of transition costs.

A. Beginning on page 210 of Staff's Cost of Service report, the Staff's position is that GMO, KCPL and GPE have already recovered all of the incurred and deferred transition costs through regulatory lag.

Q. What is GPE?

A. GPE is the parent company of, and wholly owns, both KCPL and GMO.

Q. Has the holding company for KCPL and GMO has GPE benefitted from acquiring Aquila?

A. Yes. GPE, through KCPL and GMO, has realized significant savings from its acquisition of Aquila that will never be passed on to KCPL or GMO customers. I discuss those savings in this testimony.

Q. How do KCPL, GMO and GPE refer to KCPL and GMO collectively?

A. They use the service mark "KCP&L" to refer to KCPL and GMO collectively. They also use KCP&L to refer to KCPL, but that causes confusion if one does not carefully review the context to know whether they are referring only to KCPL or also to GMO. For clarity and ease, I will only use KCP&L to refer to KCPL and GMO collectively in the remainder of my testimony.

Q. You stated that GPE has already recovered the transition costs from merging the operations of KCPL and Aquila through regulatory lag. What is regulatory lag?

A. Regulatory lag is the difference between when lower or higher costs are measured in one time period and when the lower or higher costs are reflected in rates in a subsequent time period. A good example is employee reductions. In the instant case, No. ER-2010-0356, GMO proposed and the Commission approved a 2009 test year with a June 30, 2010 update. If GMO experienced a reduction in employees occurring October 1, 2008, the day following the update period cutoff in the prior Case, ER-2009-0090, there would be a significant lag in the reduction to the cost of service. The first part of the lag would be the time period between when the reduction occurred and when Staff recognized the reduction and included it in cost of service for GMO. In this case, the date would be June 30, 2010, the update period cutoff in the current case. The second part of the lag is the time between the update period cutoff and the date rates go into effect. The table below summarizes this reduction of labor expense. For purposes of this example it only relates to salaries and wages and does not include any costs for benefits, pension costs - other substantial cost reductions related to the termination of employees. The anticipated lag for GMO is one month longer than the anticipated lag for KCPL because the effective date of rates for GMO is scheduled to be one month later than for KCPL. For this example, one employee making $50,000 who left the Company as of October 1, 2008 would have resulted in a savings of over $133,750 that would not have been reflected in rates due to the 32 month lag:

	October 1, 2008 - June 30, 2010	July 1, 2010 - June 4, 2011		
Annual Salary	Months of First Lag	Months of Second Lag	Total Lag in Months	Flow to Shareholders
$50,000	21	10	32.1	$ 133,750

Q. How does that example relate to the recovery of transition costs?

A. Employee reductions due to the acquisition were a significant cost savings, but the benefits of regulatory lag are not limited to only this category of costs. In fact, any cost reduction that was reflected in rates in the cases immediately prior to the July 14, 2008 acquisition date would flow directly to GPE shareholders. The first table is the relevant dates from the rate cases immediately prior to GPE's acquisition of Aquila and the rate cases since that acquisition:

Company Name	**Case/File No.**	**Test Year**	**Update Cutoff**	**True-Up Cutoff**	**Effective Date of Rates**
Aquila	ER-2007-0004	Calendar 2005	June 30, 2006	December 31, 2006	June 14, 2007
KCPL	ER-2007-0291	Calendar 2006	March 31, 2007	September 30, 2007	January 1, 2008
KCPL	ER-2009-0089	Calendar 2007	September 30, 2008	No True-Up	September 1, 2009
GMO	ER-2009-0090	Calendar 2007	September 30, 2008	No True-Up	September 1, 2009
KCPL	ER-2010-0355	Calendar 2009	June 30, 2010	December 31, 2010	May 4, 2011
GMO	ER-2010-0356	Calendar 2009	June 30, 2010	December 31, 2010	June 4, 2011

The second table below summarizes the length of time that KCPL, GMO, and ultimately GPE shareholders have benefited from retained synergy savings:

Case Number	Type of Savings	Beginning Date Of Savings	Date Flowed Through to Rates	Lag (In Months)
ER-2009-0089, ER-2009-0090	Updated In Test Year Update	July 14, 2008	September 1, 2009	13.6
ER-2010-0355	Post Update Savings, KCPL	October 1, 2008	May 4, 2011	31.1
ER-2010-0356	Post Update Savings, GMO	October 1, 2008	June 4, 2011	32.1
ER-2010-0355	Savings Not in Test Year Update, KCPL	July 14, 2008	May 4, 2011	33.7
ER-2010-0356	Savings Not in Test Year Update, GMO	July 14, 2008	June 4, 2011	34.7
Future Case	Savings Not in Current Test Year Update	January 1, 2010	Unknown	Unknown
Future Case	Post Update Savings, KCPL and GMO	July 1, 2010	Unknown	Unknown
Future Case	Post True-up Savings, KCPL and GMO	January 1, 2011	Unknown	Unknown

Q. Using the above tables in relation to the elimination of labor expenses above, can you provide an example of savings KCP&L have realized?

A. Assuming an expense of $50,000, the table below shows a simple example of the benefit to GPE shareholders due to regulatory lag for savings from the acquisition:

Type of Savings & case	Beginning Date Of Savings	Date Flowed Through to Rates	Lag (In Months)	Savings Retained By Shareholders
Costs in Staff Test Year Update, ER-2009-0089	July 14, 2008	September 1, 2009	13.6	$ 56,712
Post Update Savings, Captured in ER-2010-0355	October 1, 2008	May 4, 2011	31.1	$ 129,452
Post Update Savings, Captured in ER-2010-0356	October 1, 2008	June 4, 2011	32.1	$ 133,699
Savings not captured in the update of ER-2009-0089	July 14, 2008	May 4, 2011	33.7	$ 140,274
Savings not captured in the update of ER-2009-0090	July 14, 2008	June 4, 2011	34.7	$ 144,521

Q. What types of cost reductions, similar to the example, did KCP&L experience after the date of acquisition, July 14, 2008?

A. KCP&L reduced a myriad of costs due to combining the operations of KCPL and Aquila: employee headcounts, employee benefits (such as pensions, OPEBs, medical insurance), payroll tax reductions, redundant utility expenditures and maintenance fleet reductions are a few examples of cost reductions KCP&L have experienced, retained and not immediately reflected in rates.

Q. What costs were in rates immediately prior to the acquisition?

A. Immediately prior to the acquisition, KCPL rates were established in Case No. ER-2007-0291 effective January 1, 2008. GMO rates were established in Case No. ER-2007-0004 effective June 3, 2007. All costs stipulated to, or ordered by the Commission, were in rates from the dates effective until the effective dates of the following cases, which would be September 1, 2009

Q. Did the Staff examine the documented acquisition savings detailed in the synergy savings tracking model created by KCPL, as the Commission ordered in the case where it authorized the acquisition of Aquila?

A. Yes. Mr. Ives refers to this model at page 4 of his direct testimony.

Q. What were the results of Staff's examination?

A. The synergy savings tracking model comparing the 2009 non-fuel operations and maintenance (Non-Fuel O&M) expense as compared to the adjusted 2006 baseline NFOM shows a synergy, or combined company annual savings of $48.5 million. The annual amortization of transition costs of $10.4 million (total transition costs less the amount over Kansas limit and corporate retained) for regulated operations is less than the annual Non-Fuel O&M savings. The Kansas limit, or KS limit I am referring to is the amount of transition costs allocated to Kansas over the $10 million stipulated with the Kansas Corporation Commission (KCC). GPE will not recover $5.6 million of Kansas allocated transition costs, the amount over $10 million allocated to Kansas in the table above.

Q. Does the synergy savings tracking model the Commission ordered in Case No. EM-2007-0374 specifically identify cost savings, such as the cost savings example you provided?

A. No, it does not. The synergy savings tracking model is a strict comparison of 2009 NFOM expenses to 2006 adjusted baseline Non-Fuel O&M expenses. It is not designed to track specific savings. On the contrary, it is designed to identify the aggregate savings resulting from the acquisition using pre and post acquisition Non-Fuel O&M on a combined KCPL and GMO company-wide basis. For this, it serves its purpose. But this analysis does not identify the amounts of savings and the length of time that GPE, KCPL and GMO have retained the acquisition savings prior to the time they flow to customers in rates.

Q. How are specific savings from the acquisition identified, if not from the synergy savings tracking model?

A. From the synergy project charter database, as described on pages 7-10 of Mr. Ives' direct testimony.

Q. Using that database, what are the true cost savings relating to the acquisition of Aquila?

A. The table below is a summary of the cumulative synergy savings as they appear in the synergy project charter database in KCPL's response to Staff's Data Request No. 146 made in File No. ER-2010-0355, updated through June 30, 2010:

Period	Regulated Savings	Corporate Savings
Quarter 3	$ 7,049,467	$ 17,927,511
Quarter 4	13,565,146	31,022,978
2008 Total	**20,614,613**	**48,950,489**
Quarter 1	11,267,258	19,189,044
Quarter 2	14,296,977	19,062,379
Quarter 3	19,711,085	19,427,888
Quarter 4	19,286,671	20,322,463
2009 Total	**64,561,991**	**78,001,774**
Quarter 1	15,875,340	20,518,886
Quarter 2	19,753,175	20,570,612
2010 Total	**35,628,515**	**41,089,498**
Total Cumulative	**$ 120,805,119**	**$ 168,041,761**

The "Regulated Savings" column as identified by KCPL is synergies that will be reflected in regulated KCPL and GMO operations. The "Corporate Savings" column as identified by KCPL is synergies that will be retained at the corporate level and not reflected in reduced KCPL and/or GMO rates.

Q. Has GMO quantified the projected synergy savings it and KCPL anticipate they will realize in addition to the cumulative savings above?

A. Yes, but not separately. The table below is a summary of the cumulative and projected synergy savings as they appear in the synergy project charter database in KCPL's response to Staff Data Request No. 146 in File No. ER-2010-0355, updated for actual and projected through June 30, 2010:

	Category	
Period	**Regulated Savings**	**Corporate Savings**
Quarter 3	$ 7,049,467	$ 17,927,511
Quarter 4	13,565,146	31,022,978
2008 Total	**20,614,613**	**48,950,489**
Quarter 1	11,267,258	19,189,044
Quarter 2	14,296,977	19,062,379
Quarter 3	19,711,085	19,427,888
Quarter 4	19,286,671	20,322,463
2009 Total	**64,561,991**	**78,001,774**
Quarter 1	15,875,340	20,518,886
Quarter 2	19,753,175	20,570,612
Q3 and Q4 Projected	73,486,502	41,023,882
2010 Projected Total	73,486,502	82,113,380
2011 Projected Total	70,518,971	81,527,411
2012 Projected Total	76,279,248	75,543,513
2013 Projected Total	38,732,332	34,934,170
Total Cumulative and Projected Savings	**$ 344,193,657**	**$ 401,070,737**

Q. Has the total projected synergies through 2013 been presented to the public?

A. Yes. The GPE's 2009 Annual Report on page 3 contains the following statement in the letter "To Our Shareholders" authored by Mike Chesser and Bill Downey, CEO and President of GPE, respectively:

> By the end of 2009 – nearly 18 months after the acquisition – we had identified synergies of just over $200 million. Synergies for the first five years post-acquisition are estimated to be approximately $740 million, almost $100 million above our initial projections.

Q. How does KCPL describe the "Corporate" category of synergy savings?

A. The response to Data Request 441, Case No. ER-2010-0355 states:

> By definition, **<u>none</u>** of the synergies in the "Corp" category have been or will be passed on to KCP&L [KCPL] or GMO ratepayers. The corporate category represents synergy savings associated with costs that were not recovered from Missouri or Kansas ratepayers or would not be considered for recovery from Missouri or Kansas ratepayers . . . (emphasis added)

Q. Is Staff proposing to capture or include the corporate category of synergies in the cost of service for GMO?

A. No. The corporate category of savings relates to line of credit fees, interest savings, and other corporate-related savings, the costs of which would not be included in GMO's, or KCPL's, cost of service. The corporate category of savings is relevant because on the whole, KCP&L, and ultimately GPE shareholders have and will in the future realize more savings from the acquisition than ratepayers. The excess benefit to shareholders over regulated benefits projected for the five-year period post-acquisition is $56.8 million ($401 million - $344 million).

Q. How does the quantification of synergies in the KCP&L synergy charter tracking database compare to the results of the synergy savings tracking model the Commission ordered?

A. They are two different ways of looking at the same cost reductions resulting from the same event, the acquisition of Aquila, Inc. The Commission ordered synergy savings tracking model captures the aggregate annual savings comparing a period of time to the 2006 adjusted baseline. As time passes and future years are compared, the annual amount of savings will change due to inflation and the dynamic nature of costs. The KCPL designed and produced synergy charter tracking database captures specific savings at a point in time to recognize the cumulative savings from the acquisition. The synergy charter tracking database also captures corporate retained synergies, which the synergy savings tracking model was never designed to do.

Q. Can you describe and summarize the cash flows related to the recovery of transition costs?

A. The following table details the cumulative cash flows related to the recovery by recognizing the regulated synergies per the synergy charters through the effective date of rates in Case Nos. ER-2009-0089 and ER-2009-0090:

Total Transition Costs At June 30, 2010	$ 57,954,483
Less Corporate Retained Merchant	(500,727)
Less Amount over $10 million KS Max	(5,591,495)
Total Recoverable Transition Costs	51,862,262
2008 Regulated Retained Synergies	20,614,613
2009 Regulated Retained Synergies Through September 1, 2009*	38,704,958
Total Regulated Retained Synergies Through September 1, 2009*	59,319,571
Total Regulated Retained Synergies In Excess of the Recoverable Transition Costs	**$ 7,457,310**
*Assuming 3rd Quarter Synergies Occurred Ratably over the quarter	

The database reports retained regulated synergies of $59.3 million through September 1, 2009, assuming the third quarter synergy savings occurred ratably over the three months of the quarter, a reasonable assumption. Using the synergy charter database for savings through this date, KCP&L have realized $7.5 million over the transition costs, even before any savings have been passed on to customers. The synergies in this table are referred to as retained because of the regulatory lag of the reduction in costs as compared to when they are reflected in rates.

Q. What is the significance of the date used in this analysis, September 1, 2009?

A. This is the effective date of rates in the last Missouri rate cases for KCPL and GMO, Case Nos. ER-2009-0089 and ER-2009-0090, respectively. It is the first date KCPL and GMO ratepayers would see any benefits from the synergies relating to the acquisition. In fact, using the tables above, KCP&L has recovered the entire amount of recoverable transition costs before the effective date of rates following the first rate case after the acquisition.

Q. The amount of regulated retained synergies over recoverable transition costs is more than the amount Staff calculated for the over-recovery listed on page 219 of its Cost of Service Report in this case. Please explain.

A. Staff omitted one month of retained synergies occurring in 2009 Quarter 3. Consequently, the recovery over the amount of transition costs is $7,457,310, as opposed the amount on page 196 of $886,948, indicating the over recovery through regulatory lag was underestimated in Staff's direct case.

Q. Does GMO recognize that shareholders have received significant benefits from synergies before they are reflected in customer rates?

A. In his direct testimony, Mr. Ives does not appear to recognize the benefit shareholders have received from synergies through regulatory lag. However, KCP&L have communicated to their employees that GPE shareholders will receive significant benefits from the acquisition before they are flowed to KCP&L ratepayers.

Q. What evidence do you have of GMO's recognition of the shareholder benefit and subsequent communication to employees?

A. Schedule 1 and Schedule 2 attached to my rebuttal testimony are selected slides from two separate presentations made to employees dated April 24, 2008 and

July 14, 2008, respectively. The entirety of the presentations is not attached as they are 48 pages each but can be provided. The remainder of the slides describes the history of GMO, additional synergy information concerning the Aquila acquisition, and other information of a general nature concerning GMO. Staff obtained these presentations from KCP&L's response to Staff Data Request No. 12 in Case No. EC-2009-0430, a complaint case Staff filed against KCPL and GMO. Schedule 1 and Schedule 2 are substantially the same slides from separate presentations.

Q. What question was posed in the data request KCP&L provided these presentations in response to?

A. Staff Data Request 12 in Case No. EC-2009-0430 is:

> Please provide all call center scripts and written procedures and/or documentation including all training material provided to any Kansas City Power & Light Company employee that provides a description of how to educate customers on the differences between KCP&L Greater Missouri Operations and Kansas City Power & Light Company.

Q. Please describe page 2 of each schedule.

A. Page 2 of each schedule is a graph of "Customer Benefits of 2008 Aquila Acquisition."

Q. What is the significance of the graph on page 2 of each schedule?

A. The graph shows that the cumulative customer benefits at 2013 total approximately $150 million. The regulated projected and actual synergy savings as of 2013 from the table presented and discussed earlier in my testimony total $344 million. Consequently, of the regulated projected and actual synergies through 2013, approximately $194 million will be retained by KCP&L. The difference can be attributed to regulatory lag.

Q. Please explain.

A. Any synergy savings created after significant rate case events, such as test year cutoffs, update cutoffs, and true-up cutoffs KCP&L retain a portion of through regulatory lag. This recovery takes place when cost savings are realized by KCPL's and GMO's rates being set to recover a higher level of costs than are actually being incurred by them together – which is the very reason why synergies were retained after the acquisition - due to regulatory lag. Even though some synergies may be reflected in subsequent rate cases, savings that continue to be realized through new synergies created related to the acquisition continue to accrue to GPE, through KCPL and GMO, until reflected in utility rates. Although the regulated synergies are projected to be $344 million, KCP&L will retain a significant portion of those synergies, as shown by the graph.

Q. Please describe page 3 of each schedule.

A. Page 3 of each schedule is a timeline of the acquisition hearings and the rate case schedule, titled "Path to Synergy Sharing."

Q. What is the significance of the timelines on page 3 of each schedule?

A. These timelines show the relationship between the shareholder retention of synergy savings due to the impact of regulatory lag and the timing of future rate case filings. In effect, KCP&L have produced and communicated to employees a timeline demonstrating exactly what I have discussed throughout my testimony: KCP&L, and consequently GPE shareholders, have received the benefits of synergies in advance of their customers, and have recovered over and above the costs to achieve those synergies.

Q. Other than transition costs, what other costs have GPE, KCPL and GMO incurred related to the acquisition of Aquila, Inc.?

A. They incurred transaction costs to consummate the acquisition of Aquila, Inc. Transaction costs include investment banking fees, tax advisory services, consulting fees, and other expenses relating to the structure and form of the transaction. In accordance with the Commission's Report and Order in the acquisition case, no transaction costs are included in GMO's cost of service.

Q. How has GPE treated the transaction costs?

A. The transaction costs were a part of the costs of acquiring Aquila, Inc. Of the total transaction costs of $40.2 million, $35.6 million was allocated to goodwill related to the acquisition of Aquila, Inc. The total amount of goodwill related to the acquisition is $169 million, which represents the excess of the purchase price over the net assets acquired. Goodwill cannot be amortized, but is required to be tested on an annual basis for impairment. This amount of goodwill has not been charged to expense nor reflected in rates but reflected as an asset on GPE's balance sheet.

Q. If the transaction costs cannot be recovered in customer rates, how can GPE recover them?

A. Those costs can be recovered through cost savings, namely, the corporate retained synergies that will not be passed on to ratepayers. The total actual and projected corporate retained synergies through 2013 total $401 million, exceeding the transaction costs by $360 million.

Q. Would you describe and summarize the cash flows related to the recovery of transition costs and transaction costs as of September 1, 2009?

A. The following table details the cumulative cash flows related to the recovery of transition costs and transaction costs through September 1, 2009:

A	Total Transition Costs At June 30, 2010	$ 57,954,483	
	Less Corporate Retained Merchant	(500,727)	
	Less Amount over $10 million KS Max	(5,591,495)	
B	Total Recoverable Transition Costs	51,862,262	
C	Total Transaction Costs	40,215,075	
	Total Costs To Be Recovered	92,077,337	(B+C)
D	2008 Corporate Retained Synergies	48,950,489	
E	2009 Corporate Retained Synergies Through September 1, 2009*	51,203,348	
F	Total Retained Corporate Synergies Through September 1, 2009	100,153,837	(E+F)
G	2008 Regulated Retained Synergies	20,614,613	
H	2009 Regulated Retained Synergies Through September 1, 2009*	38,704,958	
I	Total Retained Regulated Synergies Through September 1, 2009	59,319,571	(G+H)
J	Total Retained Corporate and Regulated Synergies Through September 1, 2009	**159,473,409**	(I+F)
K	Total Acquisition Costs To Be Recovered	**92,077,337**	(B+C)
L	Net GPE Shareholder Benefit from the Acquisition Through September 1, 2009	**$ 67,396,072**	(J-K)
	*Assuming 3rd Quarter Synergies Occurred Ratably over the quarter		

Line J, the total retained synergies, is the regulated and corporate synergies retained by GPE, KCPL and GMO through September 1, 2009. Line K is the total costs to achieve those synergies, the sum of the recoverable transition costs and the transaction costs. Line L is the excess of synergy savings over the costs to achieve those savings, showing that GPE, through KCPL and GMO, has received $67.4 million of savings over the costs of the acquisition.

It is important to note the corporate retained synergies on lines D-F will continue to accrue solely to GPE's shareholders after September 1, 2009, and any regulated synergies created after September 1, 2009, will accrue to GPE's shareholders until the following effective date of rates.

Q. Based on the table and analysis above, can you draw any conclusions about GMO's proposed inclusion of acquisition transition costs in its cost of service?

A. KCPL, GMO, and consequently GPE, have already recovered through regulatory lag the transition costs GMO is proposing to include in its cost of service. Further, GPE has also recovered the acquisition transaction costs through corporate retained synergies. The recovery of acquisition transaction costs through cost reductions that exceed the expenses incurred to acquire Aquila, Inc. through September 1, 2009 amount to $67.4 million dollars. In reality, GPE has already been "made whole", recovered transition and transaction costs as discussed throughout my testimony, and has benefited greatly through regulatory lag.

In relation to the Commission's Report and Order in Case No. EM-2007-0374 regarding the recovery of transition costs previously referenced, it would imprudent and unreasonable to include any amount of transition costs in GMO's or KCPL's cost of service.

RATE CASE EXPENSE

Q. Who sponsored GMO's rate case expense adjustment in its direct case?

A. This adjustment was sponsored by KCPL witness John Weisensee in Adjustment CS-80. A component of the adjustment is the amortization over two years of all the costs GMO has incurred to prosecute the current rate proceeding.

Q. Did you sponsor the section of Staff's Cost of Service Report concerning rate case expense that is at pages 158-159 of that report?

A. Yes.

Q. Why did Staff not include rate case expense for GMO (MPS and L&P) in its direct filing?

A. At that time Staff was waiting on GMO's response to a pending request for invoices related to GMO's rate case expense. Staff had not at that time received any invoices for GMO rate case expense. Staff reviews these expenses for prudence, reasonableness, and appropriateness.

Q. Has Staff received invoices yet?

A. Yes, but not all of them. Staff still does not have complete invoices for GMO rate case expense for a complete evaluation. The invoices it has received include only the "face sheets" at best and do not include any support for the amounts billed or allocated to GMO. Typically, an invoice for services includes the amount of hours worked, the hourly rate, and expenses incurred. Staff received a response from GMO on December 3, 2010 with the above mentioned incomplete invoices. Staff has been and will be in contact with GMO to obtain complete copies of the invoices it has requested. Staff has and will continue to work diligently to determine an amount of prudent, reasonable, and appropriate rate case expense to include in GMO's cost of service, for both MPS and L&P.

Q. At page 158 of the Staff's COS Report, you state: "Staff will include the prudent and reasonable costs incurred and paid through the true-up of the current rate case, File No. ER-2010-0356, separated between costs more appropriately charged to rate case expense and those that should be charged to the Iatan Construction Projects." Has the Staff included any costs removed from GMO's rate case expense in the Iatan Construction Project plant balances?

A. No, not at this time. If appropriate, Staff will include in the Iatan Construction Project plant balances prudent, reasonable, and appropriate costs which GMO has classified as rate case expenses, but which are more capital in nature.

Q. Has Staff identified any such costs yet?

A. No. Staff is continuing to attempt to review these costs. Staff has experienced significant delays in receiving from GMO complete invoices of the costs charged to rate case expense. The documents GMO initially provided to Staff were insufficient and incomplete, and prevented Staff from completing its evaluation. This delay in receiving sufficient documentation upon which to conclude whether GMO has classified as rate case expense prudent, reasonable, and appropriate costs, which are capital in nature, has placed Staff behind schedule for addressing this issue. Based on the data reviewed to date, Staff has concerns that GMO may have been charged excessive hourly rates for attorney and consulting fees, that GMO may have retained more attorneys and consultants for this work than reasonable and appropriate, and the total cost KCPL and GMO have incurred to process the current rate cases is excessive. It is likely that Staff will make adjustments to exclude such GMO expenditures from GMO's rate case expense. Again, Staff cannot make a determination of invoices that it does not have.

Q. Do you have an adjustment for GMO related to a NextSource independent contractor, similar to the one you proposed for KCPL?

A. Not at this time. Staff has not quantified nor determined any charges to MPS or L&P (GMO) rate case expense relating to Mr. Chris B. Giles. However, KCPL maintains that MPS and L&P were charged for Mr. Giles' services. Staff is still evaluating if charges exist for MPS and L&P for Mr. Giles. To the extent those charges exist, Staff proposes to remove them from rate case expense for the reason I discussed in my KCPL rebuttal testimony in File No. ER-2010-0355, and restate below.

Q. Please describe the costs related to Mr. Giles in File No. ER-2010-0355.

A. The additional expenditures relate to an independent contractor KCPL has employed through a temporary employment agency, NextSource. Chris B. Giles retired from KCPL as Vice President – Regulatory on July 1, 2009. Since his retirement, Mr. Giles' responsibilities include "assisting and advising the current Senior Director, Regulatory Affairs." In his direct testimony in this case Mr. Giles noted that "I remain actively involved in KCP&L's regulatory strategy and the oversight of the Iatan Unit 2 Project."

Q. Were Mr. Giles' salary and benefits included in GMO's revenue requirement in its last rate case, Case No. ER-2009-0090?

A. Yes, they were. Staff updated payroll expense through September 30, 2008 for all current employees at that date. The effective date of rates was September 1, 2009 and these rates are projected to be in effect through June 3, 2011. Mr. Giles' salary and benefits have been in GMO's revenue requirement used to set its electric utility rates for many years, and are in the revenue requirements that were used to set GMO's current electric utility rates for MPS and L&P today.

Q. What adjustment does Staff anticipate making concerning Mr. Giles?

A. Staff will remove all dollars GMO has included in rate case expense related to Mr. Giles' services as an independent contractor. The total amount billed to KCPL through June 30, 2010 for Mr. Giles' services as an independent contractor is $338,813. This amount appears to have been allocated solely to KCPL. However, Staff is still evaluating whether or not GMO has charged any amounts to MPS or L&P rate case expense. To the extent charges exist, Staff proposes the same ratemaking treatment as it did for KCPL charged rate case expenses for Mr. Giles' services.

Q. Why is Staff planning to remove from GMO's rate case expense, Mr. Giles' independent contractor payments, if any have been included in it?

A. Mr. Giles' full, unadjusted salary and benefits were included in the cost of service in the prior KCPL and GMO rate cases. Due to regulatory lag, GMO will recover the full allocated expense amount of Mr. Giles' salary and benefits through the effective date of rates in this current case. To capture the consulting fees billed to GMO by Mr. Giles into a regulatory asset for rate case expenses to be further recovered would represent a double recovery of GMO's compensation for Mr. Giles' services.

Q. Aside from the double recovery due to regulatory lag, does Staff have any other reasons for removing Mr. Giles consulting fees?

A. Yes. Staff included Mr. Curtis Blanc's full salary and benefits in the last KCPL and GMO rate cases and will continue to do so for the current case. As Senior Director - Regulatory Affairs Mr. Blanc has assumed the former duties of Mr. Giles. Since KCPL currently has a Director of Regulatory Affairs in Mr. Blanc, there is no reason to pay the additional cost for Mr. Giles to assist Mr. Blanc in performing his duties in this position.

Q. Will Staff update this adjustment in its true-up case?

A. Yes. Because Staff is including the prudent and reasonable rate case costs in amortizing GMO's current rate case expense, Staff will review for costs attributable to Mr. Giles consulting work through December 31, 2010. Additionally, Staff is still examining KCPL's rate case expense invoices for GMO.

IATAN UNIT 1 REGULATORY ASSET

Q. Please summarize your rebuttal testimony concerning the Iatan 1 regulatory asset.

A. GMO included the Iatan 1 regulatory asset in its rate base, and amortized the regulatory asset in its cost of service in this case as described by GMO witness John Weisensee on pages 8-9 of his direct testimony where he proposes adjustments RB-25 and CS-111, which are the December 31, 2010 projected Iatan 1 regulatory asset and amortization of that asset, respectively. Staff included neither the Iatan 1 regulatory asset nor an amortization of it in Staff's determination of GMO's revenue requirement for L&P in its direct filing, because Staff's proposed disallowances of costs of both the Iatan Unit 1 Air Quality Control System (AQCS) Project and the Iatan Common Plant essentially remove the need for construction accounting on the plant expenditures not included in rates in the prior case, Case No. ER-2009-0089. For that same reason, Staff opposes GMO's proposed adjustments RB-25 and CS-111.

Q. Did Staff agree to allow GMO to establish this regulatory asset?

A. Yes. Pursuant to the terms of the Non-Unanimous Stipulation and Agreement that the Commission approved on June 10, 2009 in Case. No. ER-2009-0090, GMO was authorized to include in a regulatory asset, depreciation expense and carrying costs for the Iatan Unit 1 AQCS and Iatan Common plant that was not included in GMO's rate base for L&P in that case.

Q. Is Staff's position not to include the Iatan 1 Regulatory Asset fully consistent with the terms of the Non-Unanimous Stipulation and Agreement Staff signed in Case No. ER-2009-0090?

A. Yes. Staff supported then, and supports today, the creation of a regulatory asset for these costs. However, due to Staff findings in its Iatan 1 construction audit, Staff is recommending a cost disallowance for substantially all, if not all, of the costs that would properly be included in that regulatory asset. Staff cannot recommend a disallowance on one hand and then allow a recovery of these same costs in a regulatory asset on the other. To the extent that the Commission allows rate recovery of the costs that GMO is seeking to recover through the regulatory asset, Staff recommends the Commission treat those costs consistent with the terms of the Case No. ER-2009-0090 Non-Unanimous Stipulation and Agreement.

Q. What is the pertinent language of that Non-Unanimous Stipulation and Agreement?

A. It is Section 6, Paragraph (c) in its entirety:

> If Staff's in-service criteria are met by May 30, 2009, the Signatories agree to the use of "construction accounting" for remaining Iatan 1 AQCS and identified Iatan Common Facilities prudent costs incurred after the true-up cutoff of April 30, 2009. The additional Iatan 1 AQCS and identified Iatan common facilities prudent costs incurred as of the true-up cutoff of April 30, 2009 and to be included in rate base in this case will be provided as part of a late-filed Schedule 4 to this 2009 GMO Stipulation that will be filed in this case by June 8, 2009. Additional amounts for the remaining Iatan 1 AQCS and identified Iatan common facilities prudent costs incurred after the true-up cutoff of April 30, 2009, based on invoices timely booked or approved for payment on or before May 31, 2009, will be added to the respective April 30, 2009 amounts, and provided by GMO in the late-filed Schedule 4 to this 2009 GMO Stipulation that will be filed in this case by June 8, 2009. "Construction accounting" is defined in the Stipulation and Agreement authorizing Kansas City Power & Light Company's Experimental Regulatory Plan as finally amended and approved by the Commission in Case No. EO-2005-0329 at page 43, Section III.3.d.vii of that Stipulation and Agreement. The Signatories agree the amount of common plant costs to include in rates in this case shall be calculated by the same method that is used in the illustrative calculation attached to this 2009 GMO Stipulation as Schedule 2, based on invoices timely booked or approved for payment on or before May 31, 2009. Any deferred depreciation expense and carrying costs

> will be offset by accumulated deferred income taxes on the Iatan 1 and common plant prudent costs not included in rate base in the current rate case. The deferred expenses will receive rate base treatment, and consistent with the Commission treatment of these types of deferrals, the deferred income taxes will be included in GMO's rate base for L&P. GMO agrees to calculate the amount due from the other Iatan 2 owners and reflect that amount as an offset to the common plant costs. The carrying costs will be calculated using a return on equity component of 10.2%. GMO's actual debt cost will be adjusted to reflect imputed investment-grade debt, as ordered by the Commission in its *Report and Order* in Case No. EM-2007-0374 where it authorized Great Plains Energy's acquisition of GMO.

Q. You stated that Staff's proposed disallowances of costs of both the Iatan Unit 1 Air Quality Control System (AQCS) Project and the Iatan Common Plant remove the need for "construction accounting" treatment of the Iatan 1 AQCS and Iatan Common plant that Staff agreed to in the 2009 Non-Unanimous Stipulation and Agreement. Please explain.

A. Section 6, Paragraph (c) of that agreement provides for "construction accounting" for remaining Iatan 1 prudent costs incurred post true-up cut-off. In its construction audit and prudence review of Iatan 1 AQCS and Iatan Common Plant costs Staff identified imprudent, unreasonable, and inappropriate costs. Staff's proposed adjustments reduce the plant balances of the Iatan 1 AQCS and Iatan Common Plant enough that the proposed balances are below the amount included in rates in GMO's last rate case. To put it another way, since there are no prudent expenditures above the amount included in setting GMO's rates in its last rate case, it would be unreasonable to allow GMO to include the depreciation and carrying costs on plant costs that include imprudent, unreasonable, or inappropriate charges.

Q. If the Commission expressly rejects Staff's foregoing adjustments before the true-up filing in this case, will Staff include the regulatory asset and the amortization of it in Staff's true-up case?

A. Yes, as noted above, Staff will evaluate GMO's calculations of the regulatory asset for Iatan 1 AQCS and Iatan Common plant and include them in the cost of service if the Commission expressly rejects Staff's foregoing adjustments before the true-up filing in this case.

Q. Does that conclude your rebuttal testimony?

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	))))	File No. ER-2010-0356

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 Rebuttal Testimony in question and answer form, consisting of 26 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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 15th day of December, 2010.

Nikki Senn

Notary Public

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

Welcome to GPE

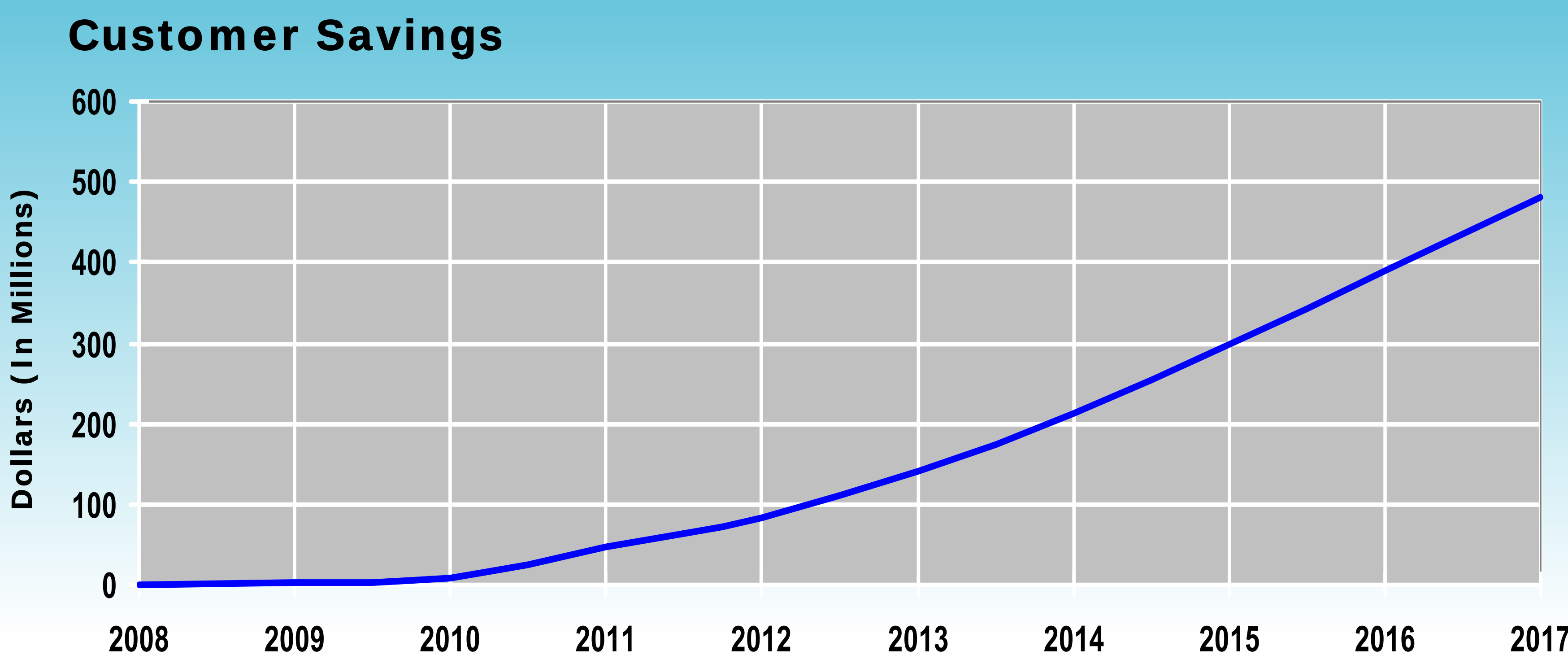
GREAT PLAINS ENERGY

Kansas City Power & Light
ENERGIZING LIFE

SCHEDULE 1-1

SCHEDULE 1-1

Aquila Purchase: Projected Customer Savings Mitigate Future Rate Increases

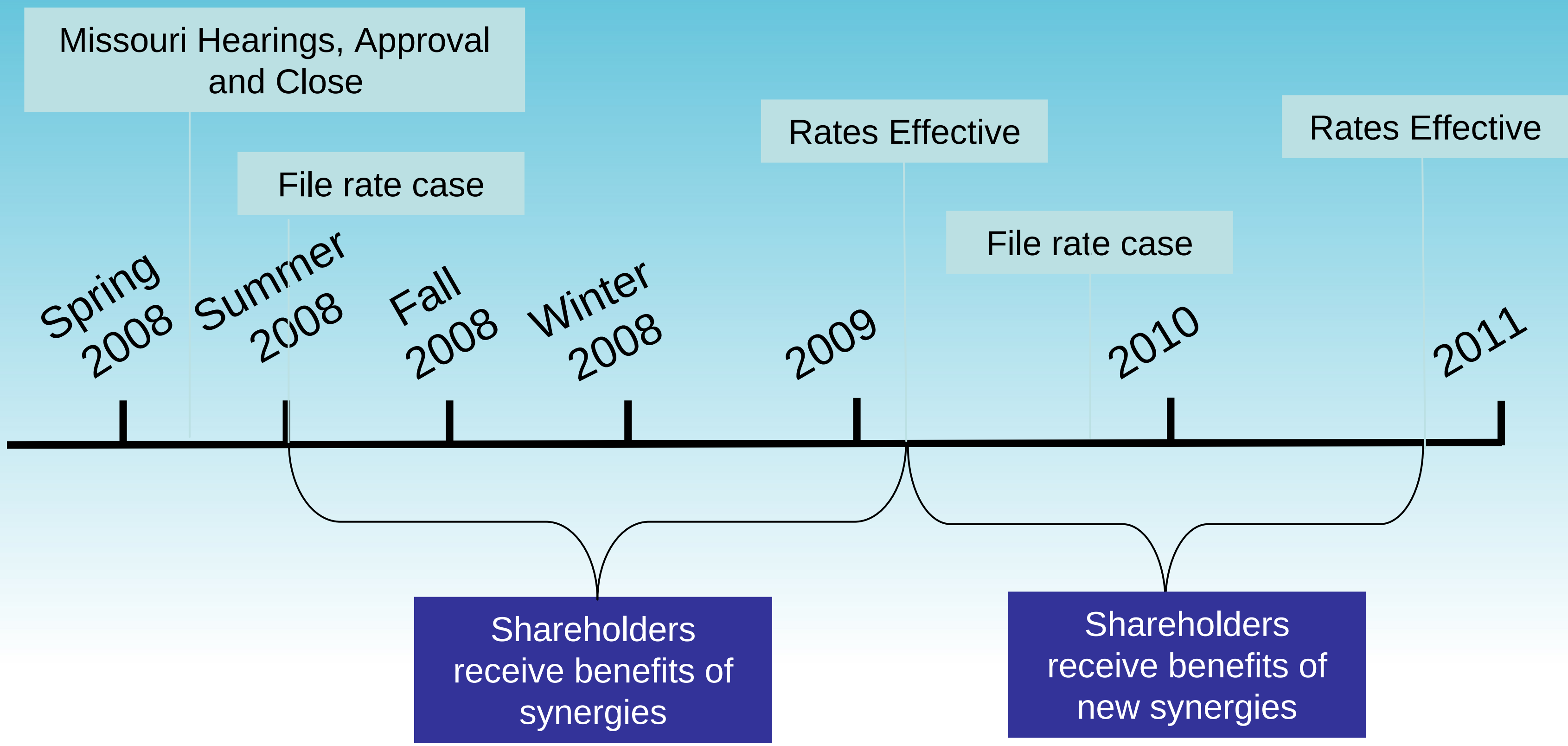


Note: Projection based on terms of revised regulatory proposal, including synergy capture assumptions

Kansas City Power & Light
ENERGIZING LIFE

SCHEDULE 1-2

Path to Synergy Sharing



Kansas City Power & Light
ENERGIZING LIFE

SCHEDULE 1-3

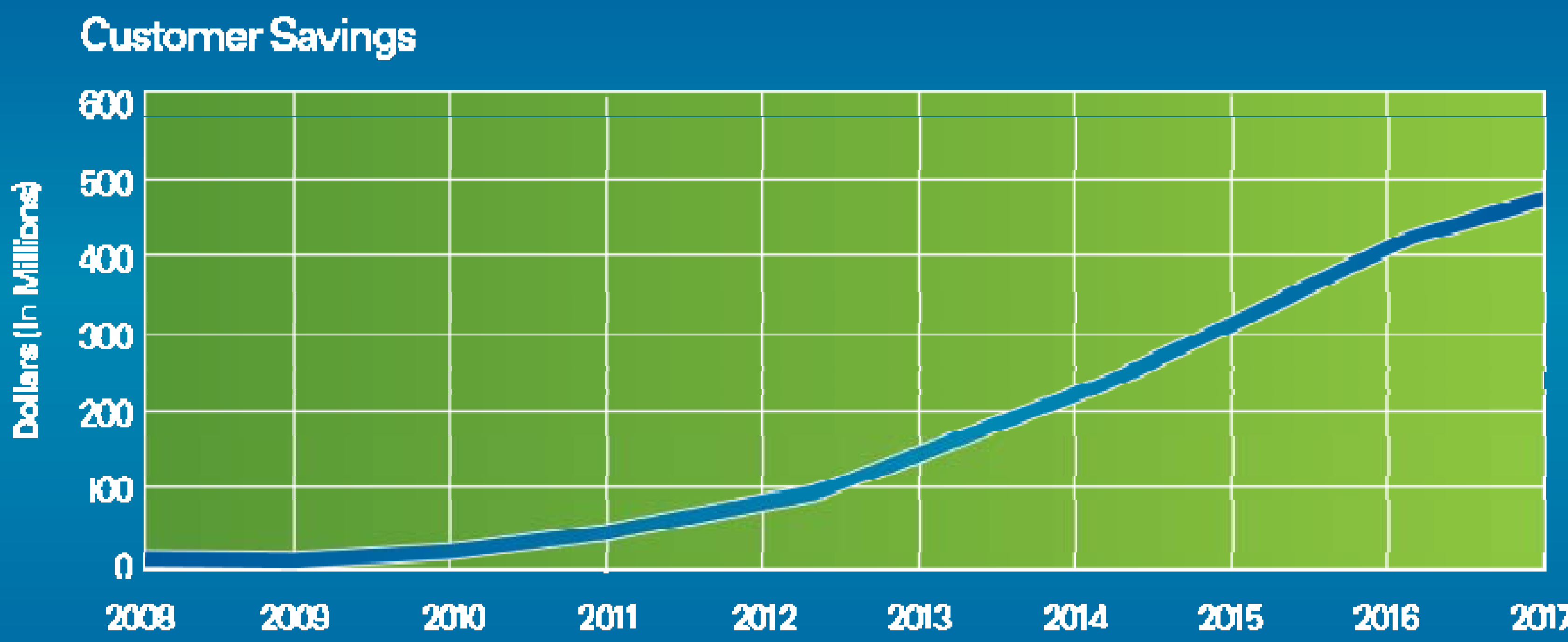
Welcome to GPE/KCP&L

SCHEDULE 2-1

SCHEDULE 2-1

Customer Benefits of 2008 Aquila Acquisition

KCP&L
energizing life



Note: Projection based on terms of revised regulatory proposal, including synergy capture assumptions

SCHEDULE 2-2

SCHEDULE 2-2

Path to Synergy Sharing