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Witness: Barbara Curry
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Operations Company
Case No.: ER-2009-0090
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2009-0090

REBUTTAL TESTIMONY

OF

BARBARA CURRY

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
March 2009**

REBUTTAL TESTIMONY

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BARBARA CURRY

CASE NO. ER-2009-0090

1 **Q: Please state your name and business address.**

2 A: My name is Barbara Curry. My business address is 1201 Walnut, Kansas City, Missouri
3 64106.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company (“KCP&L”) as Senior Vice
6 President – Human Resources and Corporate Secretary. I hold those same titles at
7 KCP&L Greater Missouri Operations Company (“GMO” or the “Company”).

8 **Q: What are your responsibilities?**

9 A: My responsibilities include the Human Resources function for the Company and
10 KCP&L, and I am also the Corporate Secretary.

11 **Q: Please describe your education, experience and employment history.**

12 A: I have a Bachelor of Science in business from Indiana University and a Master of Science
13 in business from the University of Texas at Dallas. I have also completed the Advanced
14 Management Program (AMP) at Harvard University. Prior to joining Great Plains
15 Energy/KCP&L in 2005, I spent 25 years with TXU, a Texas-based energy company,
16 where I served in numerous executive roles, including Senior Vice President of Retail
17 Operations; Executive Vice President of Global Human Resources; and Executive Vice
18 President of Business Services. I have served in, or had responsibilities for, human
19 resources for nearly 25 years of my 34-year working career.

1 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
2 **Commission (“MPSC” or the “Commission”) or before any other utility regulatory**
3 **agency?**

4 A: I provided pre-filed, written Rebuttal Testimony in KCP&L’s pending rate case, Case
5 No. ER-2009-0089.

6 **Q: What is the purpose of your Rebuttal Testimony?**

7 A: The purpose of my testimony is to rebut Chuck Hyneman and Keith Majors of the
8 Commission Staff (“Staff”) concerning (i) short-term incentive compensation and
9 (ii) supplemental executive retirement plan (“SERP”) payments.

10 **SHORT-TERM INCENTIVE COMPENSATION**

11 **Q: Do you agree with Staff’s recommendation to remove from the Company’s rate case**
12 **any costs associated with short-term incentive compensation?**

13 A: No, I do not. Staff’s position ignores how companies typically compensate employees.
14 Staff’s position is also premised on the unrealistic assumption that the Company will not
15 incur any short-term incentive compensation expenses going forward.

16 **Q: Please describe the background associated with the incentive compensation issue.**

17 A: For the majority of the last century, companies have typically compensated employees
18 using a fixed base salary structure. However in the early 1990’s, companies began
19 introducing a variable component that would put a piece of base compensation ‘at risk’
20 through use of an incentive component. Most companies transitioned into this new
21 structure by giving a smaller – or no – base salary increase and using the differential
22 between what was given and what would have been given as the initial target incentive
23 amount. The reason why this history is important is that for companies that target

1 compensation at the median, as GMO does, the compensation structure contemplates the
2 idea that in an average or 'normal' year an average employee would receive a median
3 base salary and a median annual incentive amount. For officers, this would also include a
4 median long-term incentive amount. For GMO, in an estimated 20% of years, an
5 employee would receive a median base salary but only a threshold amount of incentive.
6 And in 20% of years, the average employee would receive a median base salary and a
7 superior incentive amount. But for most of the time, both the base salary and the
8 incentive should pay out at median.

9 **Q: Please explain what you believe accurately represents the Company's incentive costs**
10 **going forward.**

11 A: GMO now uses KCP&L's formal annual incentive plans for both officers and non-
12 officers, including bargaining employees. For the last two years, there have been no
13 payments under KCP&L's formal plan because the financial 'trigger' has not been met –
14 even though many of the actual scorecard metrics which are important to customers have
15 been achieved at target or even superior levels. The Company's compensation consultant
16 (Mercer) has recommended that the 'trigger' structure is outdated. Consequently, the
17 Company is changing this annual incentive structure effective in 2009. This will allow
18 the Company's plan to work like other plans, allowing a 'typical' or median (target)
19 payout level in most years, with opportunities for lower levels in years when targets are
20 not met and higher levels in years when targets are exceeded.

21 **Q: Describe the one-time special bonuses to employees for 2007 performance.**

22 A: As previously stated, as a result of the structure of KCP&L's annual incentive plan, the
23 ValueLink and Rewards programs were not 'triggered' for payment for 2007

1 performance. However, the actual scorecard results met or exceeded targets in many
2 instances. And the scorecard metrics included measures such as the System Average
3 Interruption Duration Index (“SAIDI”), the results of JD Powers Customer Satisfaction
4 surveys, as well as the Company’s safety record – considerations that are important to our
5 customers. As a result of the Company’s exemplary performance in 2007, Messrs.
6 Chesser and Downey decided that some special recognition was called for.
7 Consequently, they authorized the payment of bonuses in an amount totaling about
8 \$2 million, which represented half of the threshold payment, or 25% of target. It is
9 important to note that this was a fraction of the normal ValueLink and Rewards target
10 amounts, and so even when this was paid to employees they were still compensated in
11 aggregate for 2007 less than the median targeted amount as previously described.

12 **Q: How does the Company select individuals to be eligible for the executive incentive**
13 **plan and how are individual incentive amounts determined?**

14 A: All persons considered executive officers by the Board of Directors are eligible for
15 participation in the executive annual incentive plan. The plan is based 80% on identified
16 financial and operational metrics that are important to the Company and its stakeholders,
17 and 20% based on an individual performance component. The individual component
18 encompasses, but is not limited to, a subjective review of the individual’s personal
19 leadership; engagement of employees; disciplined performance management;
20 accountability for results; and community involvement.

21 **Q: Why do you disagree with the Staff’s proposed disallowance of incentive**
22 **compensation that is based on financial goals tied to earnings per share?**

1 A: Staff appears to believe that achieving financial objectives does not significantly benefit
2 customers and does not improve utility operations as a whole. A financially sound and
3 stable company provides a direct benefit to all stakeholders including employees,
4 customers, shareholders and the community in which the company operates.
5 Specifically, customers benefit when the company is strong financially as the company is
6 able to raise the capital it needs. A solid financial foundation means that the company
7 receives more favorable rates on capital, reducing the overall costs that ultimately get
8 charged to customers. For these reasons, the Company's customers do benefit from
9 GMO achieving financial goals.

10 **Q: With that in mind, what does the Company propose to include in this case for short-**
11 **term incentive compensation?**

12 A: The Company believes that a three-year average of short-term incentive compensation
13 payments, including the 2007 bonuses, is appropriate and accurately reflects the
14 Company's costs going forward. Company witness Ron Klote discusses this further in
15 his Rebuttal Testimony.

16 **SERP EXPENSES**

17 **Q: What is a SERP intended to do?**

18 A: Internal Revenue Service rules limit the amount of compensation that can be used for the
19 purpose of determining an individual's 401(k), profit sharing, and pension plan benefits.
20 A SERP is designed to make individuals whole who earn in excess of the amount that
21 triggers that limitation.

22 **Q: Do you agree with Staff's proposed treatment of the Company's SERP expenses?**

1 A: I agree with Mr. Hyneman in part. Specifically, I agree with this recommendation
2 concerning the Missouri Public Service Company (“MPS”) SERP. He proposes to permit
3 GMO to include in rates the actual MPS SERP payments it incurred during the 2007 test
4 year in this case. I do not agree, however, with Mr. Hyneman’s recommendation to treat
5 the St. Joseph Light and Power (“L&P”) SERP differently. In that case, he argues that
6 the Company should not get to include any portion of its SERP payments in rates.

7 On the one hand, Mr. Hyneman argues that it is appropriate for the Company to
8 recover its MPS SERP payments because they are “reasonably provided for, and are able
9 to be quantified under the known and measurable test.” (Staff Reports, at p. 103) On the
10 other hand, however, he argues that the L&P SERP payments should not be recovered
11 because he believes the assets for that SERP are “sufficient to pay for a reasonable level
12 of SERP expenses over the lifetime of the former [L&P] executives.” (Staff Reports, at
13 p. 103)

14 I have a couple of issues with Mr. Hyneman’s reasoning. First, he offers no
15 support for his contention that there are “sufficient” assets to satisfy the Company’s
16 SERP payment obligations. Second, he does not quantify or justify what he believes is a
17 “reasonable level of SERP expense” to be paid from those assets. To support such
18 contentions, one would need actuarial studies or other evidence of “sufficiency” and
19 “reasonableness.” Mr. Hyneman’s analysis and recommendation appears to be based
20 simply upon his personal notions of those concepts.

21 In addition, for some time, the Company has used a “pay-as-you-go” approach
22 whereby rather than seek to recover its contributions to the L&P SERP assets; recovery
23 has been based on what the Company has actually paid out under the SERP. For these

1 reasons, the L&P SERP should be treated identically to the MPS SERP. That is, the
2 Company should be permitted to include in rates the actual L&P SERP payments it
3 incurred during the 2007 test year.

4 **Q: Does that conclude your testimony?**

5 A: Yes, it does.

