

Exhibit No.:
Issue: Pensions
Witness: C. Kenneth Vogl
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2010-____
Date Testimony Prepared: June 4, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-____

DIRECT TESTIMONY

OF

C. KENNETH VOGL

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
June 2010**

DIRECT TESTIMONY

OF

C. KENNETH VOGL

Case No. ER-2010-_____

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

2 A. My name is C. Kenneth Vogl. My business address is 120 South Central Avenue,
3 Suite 1400, St. Louis, Missouri 63105.

4 **Q. On whose behalf are you testifying?**

5 A. I am testifying on behalf of Kansas City Power & Light Company (“KCP&L” or the
6 “Company”).

7 **Q. Please state your educational background and describe your professional**
8 **training and experience.**

9 A. I received a Bachelor of Science degree in mathematics from the University of
10 Missouri, Columbia in 1988 and a Doctorate of Philosophy in mathematics from
11 Washington University in 1994. I completed the examination requirements for
12 designation as a Fellow of the Society of Actuaries and received such designation in
13 August 2000. I completed both the examination and experience requirements for
14 designation as an Enrolled Actuary under the Employee Retirement Income Security
15 Act of 1974 (“ERISA”) and received such designation in 1998. I have been employed
16 with Watson Wyatt Worldwide as a consulting actuary since 2007. In January 2010,
17 Watson Wyatt Worldwide and Towers Perrin merged to form Towers Watson, where
18 I am currently employed. I was also employed with Towers Perrin in St. Louis from
19 1995 to 2007 and William Mercer in St. Louis from 1994 to 1995. I have substantial

1 technical and consulting experience relative to employee benefit plans – including the
2 design, funding, accounting, and communication of pension and postretirement
3 welfare programs.

4 **Q. Have you previously testified before the Missouri Public Service Commission**
5 **(“MPSC” or “Commission”) or other utility regulatory agencies?**

6 A. Yes. I have submitted testimony on behalf of AmerenUE in Case No. ER-2007-0002
7 and the Empire District Electric Company in Case No. ER-2008-0093, among others.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to present the Company’s requested rate treatment for
10 pension costs. I will explain the proposed modifications to the current rate treatment
11 and explain why these modifications are preferable.

12 **Q. What methodology does the Company currently use to recover the cost of**
13 **pension benefits to its employees?**

14 A. In accordance with a stipulation and agreement entered into and approved by the
15 Commission in Case No. EO-2005-0329, as modified in Case No.s ER-2006-0314,
16 ER-2007-0291 and ER-2009-0089, KCP&L recovers pension cost equal to its FAS
17 87 expense determined under the regulatory method. I use the terms “cost” and
18 “expense” interchangeably to mean the annual amount determined by the Company’s
19 actuaries, including the portion of such costs capitalized on the financial books. A
20 regulatory asset or liability is established to track the difference between the annual
21 FAS 87 regulatory expense (which is generally required to be contributed to the plan)
22 and the annual pension expense built into rates for that period. The resulting
23 regulatory asset or liability is amortized over a period of five years at the next rate

1 case, with the cumulative unamortized balance included in rate base. There are also
2 special situations that allow for contributions to the plan in excess of the annual FAS
3 87 regulatory expense.

4 **Q. Is this methodology used for other utilities in Missouri?**

5 A. Yes. This methodology is being used by other utilities across the state, including
6 Empire District Electric Company and AmerenUE.

7 **Q. Are you satisfied with how the existing rate recovery methodology has operated
8 since becoming effective?**

9 A. Yes. KCP&L continues to believe the existing rate recovery methodology is
10 appropriate and effectively distributes the cost of the pension plan to ratepayers. The
11 methodology is viewed favorably by KCP&L, particularly due to the tracking
12 mechanism that ensures ratepayers are neither overcharged nor undercharged for the
13 cost of pension benefits.

14 **Q. Why are you requesting modifications to the current method?**

15 A. The modifications being proposed below are due to special circumstances that have
16 been created due to the passage of the Pension Protection Act of 2006 (“PPA”) and
17 the inclusion of KCP&L Greater Missouri Operations Company (“GMO”) in the
18 pension plans.

19 **Q. What modifications to the existing rate recovery methodology are you proposing
20 as a result of the passing of PPA?**

21 A. PPA imposes significant additional funding requirements. Some situations, not
22 addressed previously, may make it advantageous or even require KCP&L to make
23 contributions in excess of FAS 87 regulatory expense. We are recommending that

1 modifications be made to the method that ensures KCP&L will get recovery for
2 contributions in excess of the FAS 87 regulatory expense for the following situations:

3 (a) To avoid benefit restrictions. Such restrictions could cause an inability of
4 the Company to pay pension benefits to recipients according to the normal
5 provisions of the plan (e.g., providing the lump sum form of payment option).
6 Generally, a plan's funded status must remain above 80% in order to avoid
7 benefit restrictions. Note that because of the market downturn at the end of
8 2008, many plan sponsors are ensuring their plan is funded sufficiently to
9 avoid benefit restrictions.

10 (b) To avoid "at risk" status under PPA. If a plan is "at risk", minimum
11 contributions are greatly accelerated.

12 (c) To decrease PBGC variable premiums. There may be times when
13 additional contributions made to avoid these premiums would be excessive,
14 but additional contributions of a lesser amount would still be advantageous
15 and reduce the premiums.

16 **Q. Why is a change needed for determining the pension cost for KCP&L due to the**
17 **inclusion of GMO in the pension plans?**

18 A. Many employees now perform services for both KCP&L and the other regulated
19 entities during any given year. This means it is impossible to isolate specific pension
20 benefits earned while performing services for KCP&L. For example, if an employee
21 splits time between KCP&L and another entity based on a ratio of 75%/25% one year
22 and 40%/60% the next, there is no way to track the separate benefits being earned and

1 the underlying asset values supporting these benefits for KCP&L or the other entity
2 on a prospective basis.

3 **Q. How do you propose pension costs be determined for KCP&L?**

4 A. The FAS 87 regulatory expense can be calculated in aggregate for the Great Plains
5 Energy Incorporated (“GPE”) organization and then allocated to KCP&L in a
6 reasonable manner. I believe there are four key objectives for establishing a
7 reasonable allocation method:

8 (1) The method must be easy to understand and administer. An overly
9 complex allocation method could result in the parties involved not fully
10 understanding how or why the allocation method is appropriate.

11 (2) The method must appropriately allocate the pension benefits that are
12 currently being earned by active employees. In doing so, this would inherently
13 suggest the method is an appropriate long-term solution.

14 (3) The method must allocate the pension benefits that have already been
15 earned to the appropriate entity where they were accrued and funded by ratepayers.
16 Historical benefits that have been recognized and recovered through rates need to be
17 properly reflected.

18 (4) The method must avoid one group of ratepayers subsidizing another. Since
19 the consolidated GPE Plans contain more than one regulated entity, it is important
20 that the costs allocated to these entities be reflective of the costs they are incurring
21 and amounts they have funded, both currently and in the past.

1 **Q. With these objectives in mind, how is KCP&L requesting that the annual FAS**
2 **87 regulatory expense be allocated among the GPE affiliates?**

3 A. KCP&L is requesting that the annual FAS 87 regulatory expense be allocated among
4 the GPE affiliates based on wage factors each year. The wage factors would be
5 calculated in the same manner that is used in the Company's 2010 rate case to
6 allocate salaries and wages in the Payroll Annualization adjustment (CS-50),
7 discussed by Company witness John P. Weisensee in his direct testimony in this case.

8 **Q. What costs are included in the pension costs and wage factors referred to above**
9 **and used in the tables throughout the remainder of your testimony?**

10 A. For purposes of my testimony, I refer to consolidated pension costs as those which
11 include the GPE Management and Joint Trusteed Plans, but which exclude pension
12 costs charged to KCP&L by the Wolf Creek Nuclear Operating Company. The wage
13 factors used in adjustment CS-50 reflect the proportion of total GPE labor charged to
14 each entity, after excluding joint partner shares and before inclusion of KCP&L's
15 share of Wolf Creek. To be on a consistent basis, joint partners' shares of pension
16 costs are first removed from the consolidated pension costs before applying the wage
17 factors. After applying the wage factors, the joint partners' shares of pension costs are
18 added back to the KCP&L allocated costs, so that the sum of the pension costs
19 allocated to the individual entities again equal the consolidated amount.

1 **Q. How will use of the annual wage factors satisfy the first objective that the**
2 **method must be easy to understand and administer?**

3 A. Use of the wage factors will clearly satisfy objective (1) as it will simply involve
4 multiplying the consolidated GPE FAS 87 regulatory expense, after deducting the
5 joint partner share, by the applicable wage factor for KCP&L.

6 **Q. How will use of the annual wage factors satisfy the second objective that the**
7 **method must appropriately allocate the pension benefits that are currently being**
8 **earned by active employees?**

9 A. Allocating pension costs based on annual wage factors will also satisfy objective (2)
10 since these wage factors are the most representative in determining the amount of
11 services performed for KCP&L in any year. It would be very reasonable to infer that
12 pension benefits are being earned consistent with the affiliate for which services are
13 being performed.

14 **Q. How will use of the annual wage factors satisfy the third objective that the**
15 **method must allocate the pension benefits that have already been earned to the**
16 **appropriate entity where they were accrued and funded by ratepayers?**

17 A. If the GPE Plans prior to including the other regulated entities and the GPE Plans in
18 the aggregate after including the other regulated entities were in similar funded
19 positions, the historical benefits that were earned and funded would also be
20 appropriately allocated using the wage factors. In other words, the only impact on
21 cost these past service benefits have is related to the funded status of the plan. Since
22 the funded status of the plans was not quite the same before and after including the

1 other regulated entities, some adjustments will be necessary in order for objective (3)
2 to be met. These adjustments will be addressed later in this testimony.

3 **Q. How will use of the annual wage factors satisfy the fourth objective that the**
4 **method must avoid one group of ratepayers subsidizing another?**

5 A. To validate that using the wage factors for allocation purposes results in no
6 subsidization, costs have been projected for KCP&L and the other affiliates under
7 two scenarios (cost projections shown below). Both scenarios reflect consolidated
8 pension costs excluding KCP&L's share of Wolf Creek pension costs. The two
9 scenarios are:

10 (A) Where the FAS 87 regulatory expense is calculated in total and allocated
11 using the wage factors as described above, and

12 (B) Where the FAS 87 regulatory expense is calculated separately as if the
13 KCP&L and the other affiliates maintained separate plans.

14 Note that scenario (B) must rely on several assumptions because of the difficulties
15 previously described in separating the pension benefits earned and asset values
16 between KCP&L and the other affiliates. Nonetheless, it is still helpful in assessing
17 the reasonableness of the requested allocation approach. Note the other regulated
18 entities shown are for the operations serving the territory formerly served as Aquila
19 Networks-MPS ("MPS") and for the operations serving the territory formerly served
20 as Aquila Networks-L&P ("L&P").

FAS 87 Regulatory Expense Projections
(in millions)

Scenario A													Present Value
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
KCP&L	\$ 39.8	\$ 37.7	\$ 38.3	\$ 37.7	\$ 33.5	\$ 30.8	\$ 28.7	\$ 27.8	\$ 27.3	\$ 27.0	\$ 26.7	\$ 26.4	\$ 284.0
MPS	11.8	11.2	11.4	11.2	9.9	9.1	8.5	8.3	8.1	8.0	7.9	7.8	84.5
L&P	4.3	4.1	4.2	4.1	3.6	3.3	3.1	3.0	3.0	2.9	2.9	2.9	30.8
Other	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	4.5
	\$ 56.5	\$ 53.6	\$ 54.5	\$ 53.6	\$ 47.5	\$ 43.7	\$ 40.8	\$ 39.5	\$ 38.8	\$ 38.3	\$ 37.9	\$ 37.5	\$ 403.8

Scenario B													Present Value
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
KCP&L	\$ 40.5	\$ 38.7	\$ 39.4	\$ 38.1	\$ 34.2	\$ 32.1	\$ 30.9	\$ 30.3	\$ 29.8	\$ 29.5	\$ 29.2	\$ 29.1	\$ 297.4
MPS	15.4	13.8	13.2	12.7	11.2	10.0	8.7	8.4	8.4	8.4	8.4	8.3	95.9
L&P	(0.3)	0.4	1.2	2.2	1.7	1.5	1.3	1.1	1.0	0.9	0.9	0.8	8.9
Other	0.9	0.7	0.7	0.6	0.4	0.1	(0.1)	(0.3)	(0.4)	(0.5)	(0.6)	(0.7)	1.6
	\$ 56.5	\$ 53.6	\$ 54.5	\$ 53.6	\$ 47.5	\$ 43.7	\$ 40.8	\$ 39.5	\$ 38.8	\$ 38.3	\$ 37.9	\$ 37.5	\$ 403.8

Notes:
- Projections are based on 2010 actuarial assumptions for each year
- Annual return on assets assumed to be 8%
- Present value shown is for the 12-year period from 2010-2021

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Q. Will such a comparison be made in future years?

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A. As discussed above, such a comparison will become more difficult as each year passes due to the numerous employees performing services for both KCP&L and the other affiliates.

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Q. Please explain the adjustments referenced above in the assessment of objective (3) and objective (4).

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A. In order to satisfy all of the objectives outlined above, there will need to be some temporary adjustments within the regulated entities to appropriately allocate pension costs between KCP&L, MPS, and L&P. These adjustments are necessary because the L&P pension was historically better funded than the KCP&L pension and the MPS pension.

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1 **Q. Please describe this proposed adjustment.**

2 A. In light of the difference in funded position, I propose one cost allocation adjustment
3 from L&P to KCP&L and another cost allocation adjustment from L&P to MPS since
4 it would be inappropriate to allocate higher costs to L&P and its ratepayers. However,
5 over time, it is expected that all plans that were merged would have gotten to a
6 similar funded position had they not been merged (i.e., better funded plans would
7 have less required contributions and worse funded plans would have more required
8 contributions). Therefore, I am proposing these cost allocation adjustments take place
9 for a fixed period of time.

10 **Q. What is the amount of the adjustment that you propose?**

11 A. To determine the amount to adjust, I am proposing that the estimated present value of
12 the FAS 87 regulatory expense that would be allocated to KCP&L, MPS, and L&P
13 using the wage factors be compared to the estimated present value of the FAS 87
14 regulatory expense assuming the KCP&L, MPS, and L&P pensions were separate
15 plans. The difference between the two amounts (i.e., the difference between scenarios
16 (A) and (B) shown previously) represents the amount of cost that would be
17 inappropriately allocated to each entity if the wage factors were used without the
18 proposed adjustment. Note a negative amount indicates the entity would be allocated
19 less cost than appropriate while a positive amount indicates the entity would be
20 allocated more cost than appropriate.

Difference in FAS 87 Regulatory Expense Projections
(in millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Present Value</u>
KCP&L	(0.7)	(1.0)	(1.1)	(0.4)	(0.7)	(1.3)	(2.2)	(2.5)	(2.5)	(2.5)	(2.5)	(2.7)	(13.4)
MPS	(3.6)	(2.6)	(1.8)	(1.5)	(1.3)	(0.9)	(0.2)	(0.1)	(0.3)	(0.4)	(0.5)	(0.5)	(11.4)
L&P	4.6	3.7	3.0	1.9	1.9	1.8	1.8	1.9	2.0	2.0	2.0	2.1	21.9
Other	(0.3)	(0.1)	(0.1)	-	0.1	0.4	0.6	0.7	0.8	0.9	1.0	1.1	2.9

Notes:

- Projections are based on 2010 actuarial assumptions for each year
- Annual return on assets assumed to be 8%
- Present value shown is for the 12-year period from 2010-2021

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The differences shown above confirm that a cost allocation adjustment from L&P to both KCP&L and MPS is justified. The amount to adjust and the number of years each adjustment should apply will be determined based on which combination yields the most reasonable overall result for each entity on a year-by-year basis and a present value basis. After considering several different combinations, I believe the following adjustments yield the most reasonable overall results:

(1) Adjust the wage factor allocation by \$1.5 million in pension cost from L&P to KCP&L for ten years

(2) Adjust the wage factor allocation by \$2.5 million in pension cost from L&P to MPS for five years

Incorporating the two adjustments described above to the wage factor allocation approach will yield the following pension cost projections:

FAS 87 Regulatory Expense Projections
After Reflecting Proposed Adjustments
(in millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Present Value</u>
KCP&L	\$ 41.3	\$ 39.2	\$ 39.8	\$ 39.2	\$ 35.0	\$ 32.3	\$ 30.2	\$ 29.3	\$ 28.8	\$ 28.5	\$ 26.7	\$ 26.4	\$ 295.5
MPS	14.3	13.7	13.9	13.7	12.4	9.1	8.5	8.3	8.1	8.0	7.9	7.8	95.3
L&P	0.3	0.1	0.2	0.1	(0.4)	1.8	1.6	1.5	1.5	1.4	2.9	2.9	8.5
Other	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>4.5</u>
	\$ 56.5	\$ 53.6	\$ 54.5	\$ 53.6	\$ 47.5	\$ 43.7	\$ 40.8	\$ 39.5	\$ 38.8	\$ 38.3	\$ 37.9	\$ 37.5	\$ 403.8

Notes:

- Projections are based on 2010 actuarial assumptions for each year
- Annual return on assets assumed to be 8%
- Present value shown is for the 12-year period from 2010-2021

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1 Comparing the cost projections above that reflect the proposed adjustments to the
 2 earlier amounts shown under scenario (B), the differences are minimal on a year-by-
 3 year basis and a present value basis. For convenience, these differences are shown
 4 below.

**Difference in FAS 87 Regulatory Expense Projections
 After Reflecting Proposed Adjustments
 (in millions)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Present Value</u>
KCP&L	0.8	0.5	0.4	1.1	0.8	0.2	(0.7)	(1.0)	(1.0)	(1.0)	(2.5)	(2.7)	(1.9)
MPS	(1.1)	(0.1)	0.7	1.0	1.2	(0.9)	(0.2)	(0.1)	(0.3)	(0.4)	(0.5)	(0.5)	(0.6)
L&P	0.6	(0.3)	(1.0)	(2.1)	(2.1)	0.3	0.3	0.4	0.5	0.5	2.0	2.1	(0.4)
Other	(0.3)	(0.1)	(0.1)	-	0.1	0.4	0.6	0.7	0.8	0.9	1.0	1.1	2.9

Notes:
 - Projections are based on 2010 actuarial assumptions for each year
 - Annual return on assets assumed to be 8%
 - Present value shown is for the 12-year period from 2010-2021

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 6 Therefore, I conclude the adjustments described above yield the most reasonable
 7 overall results.

8 **Q. Are any other changes to the proposed wage factor allocation method required?**

9 A. Other than the special temporary adjustment described above, I believe no other
 10 changes to the allocation method are necessary.

11 **Q. Can you summarize your conclusions about the appropriateness of using wage
 12 factors to allocate pension cost?**

13 A. In summary, I believe using wage factors to allocate pension cost to the Company is
 14 appropriate. Once the adjustments described above have been incorporated into the
 15 cost determination, this approach meets all of the key objectives outlined above.

16 **Q. What is your proposed treatment of the Company's regulatory assets and
 17 liabilities that currently exist?**

18 A. I am proposing no change to any existing KCP&L regulatory assets and liabilities.
 19 These amounts shall remain designated solely to KCP&L.

1 **Q. What are you requesting of the Commission on behalf of the Company?**

2 A. The Company requests that the Commission accept the proposed changes regarding
3 recognition of contribution in excess of the FAS 87 regulatory expense, as discussed
4 at the beginning of my testimony, which might result due to the passage of the
5 Pension Protection Act of 2006. It also asks that the Commission accept the method
6 proposed above as an appropriate means to allocate FAS 87 regulatory costs between
7 KCP&L and the other GPE affiliates.

8 **Q. Does this conclude your testimony?**

9 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 to Modify Its Tariffs to) Docket No. ER-2010-____
Continue the Implementation of Its Regulatory Plan)

AFFIDAVIT OF C. KENNETH VOGL

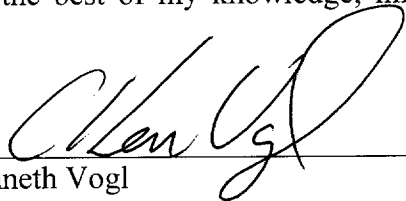
STATE OF MISSOURI)
) ss
COUNTY OF ST. LOUIS)

C. Kenneth Vogl, being first duly sworn on his oath, states:

1. My name is C. Kenneth Vogl. I am employed by Towers Watson as a consulting actuary. My services have been retained by Kansas City Power & Light Company.

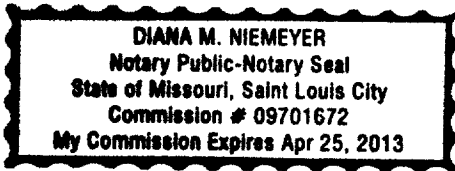
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of thirteen (13) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

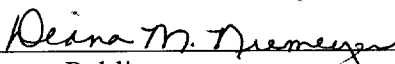
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



C. Kenneth Vogl

Subscribed and sworn before me this 21st day of May, 2010.





Notary Public Diana M. Niemeier

My commission expires: April 25, 2013