Exhibit No.: KCP&L-35
Issue: Transition Costs Amortization and Synergy Savings Tracking Model
Witness: Darrin R. Ives
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

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
June 2010

KCPL Exhibit No. KCP&L-35
Date 2/3/11 Reporter LMB
File No. ER-2010-0355

DIRECT TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2010-____

Q: Please state your name and business address.

A: My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri 64105.

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

A: I am employed by Kansas City Power & Light Company ("KCP&L or the "Company") as Assistant Controller of Great Plains Energy Incorporated ("Great Plains Energy"), the parent company of KCP&L.

Q: What are your responsibilities?

A: I have primary responsibility for regulatory accounting and reporting activities undertaken by Accounting Services for the benefit of KCP&L and KCP&L Greater Missouri Operations Company ("GMO") in support of KCP&L's Regulatory Affairs group. I am also responsible for the management of Great Plains Energy's and KCP&L's external financial reporting to shareholders and various regulatory agencies.

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

A: I graduated from Kansas State University in 1992 with a Bachelor of Science in Business Administration with majors in Accounting and Marketing. I received my Master of Business Administration degree from the University of Missouri-Kansas City in 2001. I am a Certified Public Accountant licensed in the states of Missouri and Kansas. From 1992 to 1996, I performed audit services for the public accounting firm Coopers &

Lybrand L.L.P. I was first employed by KCP&L in 1996 and have held positions of progressive responsibility in Accounting Services and was named Assistant Controller in 2007.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC" or "Commission") or before any other utility regulatory agency?

A: Yes, I have previously provided testimony to the MPSC in KCP&L rate case Docket No. ER-2009-0089; and in GMO rate cases, Docket Nos. ER-2009-0090 and HR-2009-0092.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to explain and support adjustment CS-95, which is included in Schedule JPW2010-2 attached to the direct testimony of Company witness John P. Weisensee. This adjustment represents the transition costs amortization requested by KCP&L in this case, in connection with Great Plains Energy's acquisition of Aquila, Inc. The amortization reflects KCP&L-Missouri's share of the annualized level of amortization based on a five-year amortization of total transition costs. I also describe KCP&L's synergy savings tracking model and process as ordered by the Commission in its Report and Order in Case No. EM-2007-0374 (the "Merger case"), in which Great Plains Energy was authorized by the Commission to acquire Aquila, Inc., now known as GMO.

TRANSITION COSTS AMORTIZATION

Q: Please describe adjustment CS-95.

A: The adjustment to A/C 923 included in Schedule DRI2010-1, which summarizes adjustment CS-95, reflects KCP&L-Missouri's share of the annualized level of amortization based on a five-year amortization of total transition costs. This is consistent with the Commission's Report and Order in the Merger case.

Q: Please provide the relevant citations from the Commission's Report and Order in the Merger case.

A: For recovery of transition costs, I am specifically referring to page 241 of the Report and Order. In the Conclusions of Law section, specifically Section III(C)(3), entitled "Final Conclusions Regarding Transaction and Transition Cost Recovery," the Commission states in part:

> "Substantial and competent evidence in the record as a whole supports the conclusions that … (3) the uncontested recovery of transition costs is appropriate and justified. The Commission further concludes that, it is … not a detriment to the public interest to allow recovery of transition costs of the merger."

The Commission goes on to state:

> "If the Commission determines that it will approve the merger when it performs its balancing test … , the Commission will authorize KCPL and Aquila to defer transition costs to be amortized over five years."

Q: Did the Commission discuss any limitations on the recovery of transition costs in its Report and Order?

A: Yes, it did. In footnote 930 in the passage quoted above, 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: Can you demonstrate that synergy savings exceed the level of the amortized transition costs requested in this case and reflected in CS-95?

A: Yes. As discussed below, the Company implemented a synergy savings tracking model as ordered by the Commission in the Merger case. The results from this tracking model clearly demonstrate that the synergy savings achieved in calendar year 2009 significantly exceed the annual transition costs amortization requested by KCP&L and confirm the synergy savings estimates provided by the companies in the Merger case.

Q: How do you define "transition costs"?

A: These are costs incurred to successfully coordinate and integrate the utility operations of KCP&L and GMO. These costs are necessary to achieve the synergy savings that are reflected in KCP&L's test year cost of service that will be flowed-through to customers in rates effective as a result of this case. These costs include non-executive severance costs for employees terminated as a result of the merger, facilities integration costs, and incremental third-party and other non-labor expenses incurred to support the integration of the companies.

Q: What are the actual transition costs incurred to date and projected through December 31, 2010?

A: As outlined in Schedule DRI2010-1, actual total utility transition costs incurred through December 31, 2009 total $57.4 million, of which $19.1 million has been allocated to KCP&L-Missouri retail operations In addition, we project an additional $0.7 million ($0.3 million for KCP&L-Missouri) through December 31, 2010, the expected true-up period in this case. We intend to utilize actual transition costs through December 31, 2010, as the basis for determining the annual amortization to be included in this case. Any transition costs incurred after the true-up date will continue to be deferred for inclusion in KCP&L's next rate case.

Q: How did you allocate the amortized transition costs to KCP&L Missouri rate payers?

A: Consistent with the Company's position in the Merger case, we allocated transition costs to each jurisdiction based on the allocation of the initial projected synergy savings identified by the integration teams as presented in the Merger case. Because the transition effort and resulting costs are necessary in order to achieve the synergy savings, a consistent allocation process was deemed appropriate. During the integration planning process, a team comprised of representatives from KCP&L and Aquila developed a jurisdictional synergy allocation methodology that determined allocation factors for each projected synergy category based on the most representative cost driver for that category. Cost drivers are defined as an activity that causes a cost to be incurred. For purposes of allocating transition costs to jurisdictions in order to establish jurisdictional regulatory assets, the statistics associated with the cost drivers were based on 2007 data, primarily from the KCP&L and Aquila FERC Form 1 filings. This period was selected as it reflected the last full calendar year of stand-alone KCP&L and Aquila financial information and statistics prior to completion of the acquisition.

Q: What process does the Company have in place to identify and track transition costs?

A: Consistent with the process identified in the Company's Cost Allocation Manual, transition costs were tracked by establishing and utilizing specific project IDs and activity

IDs in the Company's accounting chartfields. Initially, the identification of transition costs was the responsibility of integration planning teams with governance and accountability for the transition costs maintained by the Integration Planning Leadership Team ("IPLT"). At the beginning of the integration planning process, specific project IDs and activity IDs were established in the Company's accounting system to track transition costs by primary integration planning team. The accounting procedures were communicated to the IPLT and all integration planning teams. Throughout the integration process, the teams identified the transition costs which were coded with the appropriate project IDs and activity IDs. Accounting Services, under my direction, analyzed, tracked and reported these transition costs over the course of the integration process. After the close of the transaction, this initial accounting process was concluded; however, operational areas continuing to incur transition costs were provided a new project ID for accounting distribution in order to be able to specifically track future transition costs, which is consistent with the Company's process for accounting for project costs. Accounting Services, under my direction, continues to analyze, track and report transition costs.

Q: **Have you included any transaction costs in this case?**

A: No, we have not. In the Merger case, the Company defined transaction costs as costs to consummate the merger. Examples of transaction costs include investment bankers' fees, as well as consulting and legal fees associated with the evaluation, bid, negotiation and structure of the transaction. Consistent with the Commission's Report and Order in the Merger case, no transaction costs are included in this case.

Q: Please summarize your testimony regarding transition costs amortization.

A: I am requesting that the Commission authorize transition costs amortization in this case in the amount of $3.9 million. This level of amortization reflects recovery over a five-year period of KCP&L's Missouri share of transition costs projected through December 31, 2010 ($19.4 million), incurred during integration and coordination of GMO's operations with KCP&L's.

SYNERGY SAVINGS TRACKING PROCESS

Q: Has the Company implemented a synergy savings tracking model as ordered by the Commission in the Merger case?

A: Yes, we have. As ordered by the Commission, and described by the applicants in the body of the Report and Order in the Merger case, we have established base period costs utilizing 2006 as the base year for synergy tracking. We have compared 2009 actual costs (the first full calendar year of combined company operations after the July 14, 2008, acquisition) to the 2006 base year costs as adjusted for inflation and giving consideration to known and measurable changes necessary to appropriately reflect comparative 2006 base year costs. The synergy tracking model looks at non-fuel operations and maintenance ("NFOM") FERC accounts – the same basis utilized to calculate the $305 million in synergy savings over the first five years after acquisition described by the Applicants in the Merger case. We have, however, prepared and maintained synergy savings project charters to track synergy savings identified in the revenue and fuel areas. As discussed earlier in this direct testimony, the results from this tracking model clearly demonstrate synergy savings achieved in calendar year 2009 substantially in excess of the annual transition costs amortization requested by KCP&L in this case and are supportive of synergy savings estimates provided by the companies in the Merger case.

Q: Please describe the project charters to track synergy savings that you discussed above.

A: We determined that for internal tracking and accountability we needed to develop a documentation methodology for the identification, valuation and reporting of synergy savings. Therefore, we developed synergy savings project charters to track specifically identified synergy savings. We maintain a database of the savings achieved through the project charter process, which is the basis for our progress reports to senior management and the board of directors regarding projected and actual synergy savings.

Q: Do the synergy savings project charters utilize the 2006 base year to calculate synergy savings?

A: Yes. For example, when the project charter documenting synergy savings related to insurance costs was submitted for approval, the project charter presented expected KCP&L and GMO costs on a "combined company" basis for post-transaction periods. The charter included a comparison of the expected costs to the 2006 base year costs incurred for insurance, adjusted to coincide with the year being valued. The result of this work is recorded and maintained in a project charter database. As time elapses and the synergy savings are realized, the project charter database is updated to reflect the actual synergy savings. Each specific project charter within the database contains a comparison to 2006 base year costs as adjusted.

Q: How are the project charters utilized in the synergy savings tracking model as ordered by the Commission?

A: We utilize the project charter process to support the variances identified in the comparison of calendar year 2009 costs to the 2006 base year costs, as adjusted for known and measurable changes, in the synergy savings tracking model. We believe the specific project charters are essential to the tracking process as they are initiated and completed by the functional field (operational) areas that are ultimately accountable for the execution and realization of the identified expected synergy savings.

Q: Has the Company made an adjustment to the test year cost of service in this case for synergy savings?

A: No. Our filed position in the Merger case requested that synergy savings be shared through regulatory lag. In other words, synergy savings would be flowed-through to customers as they are reflected in the Company's cost of service in this and future rate cases. The Commission recognized this treatment in its Report and Order in the Merger case. On page 238 in the Conclusions of Law section, the Commission stated in part that "because the Applicants have agreed to recover any merger savings through 'regulatory lag' as part of the traditional ratemaking process there is no net detriment to customers".

Q: Please summarize your testimony regarding synergy savings tracking.

A: The objective of the synergy savings tracking model is to provide a mechanism to evaluate whether synergy savings achieved exceed the level of amortization requested in this case. The Commission's determination that there would be no net detriment to customers by accepting the applicants' proposal for utilizing regulatory lag as a sharing mechanism is consistent with the Company's position in this case that synergy savings are shared with ratepayers as the savings are reflected in test-year cost of service through the normal ratemaking process. Therefore, I request the Commission find that the Company's synergy tracking model, maintained as ordered by the Commission in the Merger case, supports the Company's assertion that synergy savings exceed the level of transition costs amortization requested in this case.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariffs to) Docket No. ER-2010-____
Continue the Implementation of Its Regulatory Plan)

AFFIDAVIT OF DARRIN R. IVES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Assistant Controller.

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 ten (10) 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.

Darrin R. Ives
Darrin R. Ives

Subscribed and sworn before me this 28th day of May, 2010.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200

Transition Costs Summary
Actuals through February 28, 2010, Projections through December 31, 2010

Schedule DRI2010-1

	Description		Actuals Through December 31, 2009	True-Up Period: Actuals Through Jan - Feb 28, 2010	True-Up Period: Projections Mar - Dec 31, 2010	Total	5-yr Amortization
Summary by Jurisdiction							
	33.3% KCPL-MO		**19,115,390**	**70,481**	**172,072**	**19,357,943**	**3,871,589**
	KCPL-KS		10,000,000	-	-	10,000,000	2,000,000
	26.9% Over KS max		5,448,851	56,962	139,067	5,644,879	1,128,976
	0.2% KCPL-Wholesale		136,096	502	1,225	137,822	27,564
		Assigned to KCPL	34,700,336	127,944	312,365	35,140,645	7,028,129
	30.5% MPS-Retail		17,517,847	64,590	157,692	17,740,129	3,548,026
	0.1% MPS-Wholesale		68,909	254	620	69,784	13,957
	7.7% L&P Electric		4,399,847	16,223	39,606	4,455,677	891,135
	0.4% L&P Steam		241,182	889	2,171	244,242	48,848
	0.864% Merchant		496,146	1,829	4,466	502,441	100,488
	100.0%	**Total by Jurisdiction**	57,424,268	211,730	516,920	58,152,918	11,630,584
Total Regulatory Assets	**Excl Over KS Max and Merchant**		51,479,271	152,939	373,387	52,005,597	10,401,119