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**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

SURREBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

**KANSAS CITY POWER & LIGHT COMPANY
GREAT PLAINS ENERGY, INC.**

CASE NO. ER-2012-0174

Jefferson City, Missouri
October 2012

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<u>KCPL Witness</u>	<u>Issue</u>
Melissa Hardesty	Kansas City Earnings Tax (KCET) Ratemaking Methodology
Melissa Hardesty	Kansas City Earnings Tax Allocation to Kansas and GMO
Mark Foltz	KCPL Pension Plan Assumption
Mark Foltz	KCPL Supplemental Executive Retirement Plan (SERP)
Mark Foltz	Wolf Creek Nuclear Operating Company (WCNOC) SERP
Mark Foltz	WCNOC Other Postretirement Expense (OPEB) Funding Issue
Darrin Ives	Regulatory Lag
Darrin Ives	Organizational Realignment Voluntary Separation Program (ORVS)
John Carlson	Transmission Expense
Melissa Hardesty	Iatan 2 Advanced Coal Tax Credit Amortization

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3 **Kansas City Earnings Tax ("KCET") Ratemaking Methodology**

4 Q. What is the Kansas City Earnings Tax ("KCET") issue?

5 A. The Staff and KCPL do not agree on how the KCET should be calculated for
6 ratemaking purposes in this case. There is also a disagreement on the proper allocation of the
7 KCET and whether or not KCPL's Missouri customers should bear the total responsibility
8 for this expense. KCPL's position is that KCPL's Kansas customers and KCPL-GMO
9 customers should bear no responsibility for the expense.

10 Q. Is Staff's position in this case consistent with the Staff's position on the
11 KCET in KCPL's 2010 rate case (Case No. ER-2010-0355)?

12 A. Yes. Staff's position in both cases is that the KCET should be normalized as a
13 general tax and the amount included in cost of service should be based on recent experience
14 and the most current information available in the current rate proceeding.

15 Q. Was the level of KCET to include in rates a litigated issue in KCPL's 2010
16 rate case?

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1 A. No. While I was not able to find any record of the settlement, I have been
2 advised that the issue between Staff and KCPL in the 2010 rate case was resolved prior to the
3 rate case hearing.

4 Q. What level of KCET was included in KCPL's 2010 rate case?

5 A. Based on the Staff's Revised True-Up Direct for the April 12, 2011
6 Commission Report and Order Accounting Schedules, Accounting Schedule 9 line 224,
7 KCPL's per book test year level of KCET was \$191,661 and this amount was normalized to
8 an agreed upon level of \$289,102 to include in cost of service. This was the level of KCET
9 included in KCPL's cost of service by the Commission in KCPL's 2010 rate case.

10 Q. Who is the KCPL witness on the KCET issue?

11 A. KCPL witness Melissa Hardesty is the witness on the KCET issue in this rate
12 case, as well as in KCPL's 2010 rate case.

13 Q. What is Ms. Hardesty's previous ratemaking experience?

14 A. Ms. Hardesty has been KCPL's Senior Director of Tax since December
15 of 2006. She first testified before the Commission in KCPL's 2007 rate case
16 No. ER-2007-0291. Prior to 2007 she had little or no experience in cost of service
17 ratemaking.

18 Q. What is the difference in the Staff's and KCPL's position on rate recovery of
19 the KCET?

20 A. The Staff is continuing in this case with the position it first took in KCPL's
21 2010 rate case that the KCET should be included in cost of service at a reasonable and
22 ongoing level based on actual amounts paid to the city of Kansas City, Missouri. Staff based
23 this position on a review of actual KCET paid and incurred compared to the level of KCET

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1 included in rates in previous rate cases. This review showed that KCPL was consistently
2 charging its customers for a level of KCET significantly above what it was actually incurring
3 and paying to the city of Kansas City, Missouri. From this review Staff determined that the
4 best way to calculate the KCET for ratemaking purposes was to look at all relevant current
5 information, including the most recent amount of KCET paid, and include a level of KCET
6 that was reasonable based on this analysis. In effect, the Staff is treating the KCET as a
7 general business tax instead of an income tax for ratemaking purposes.

8 Q. Does Ms. Hardesty state that KCPL treated the KCET as a general business
9 tax prior to changing to what they apparently believed was adoption of the Staff
10 methodology?

11 A. Yes, and to the extent that, in the past, KCPL treated the KCET as a general
12 business tax and not an income tax, it was correct.

13 Q. How does KCPL currently propose to treat the KCET for ratemaking
14 purposes?

15 A. KCPL's position is that the level of KCET to include in rates should be based
16 on a simple calculation of KCPL taxable income, based on a pro forma revenue level in its
17 revenue requirement model, and multiplied by a tax rate of .65%. This method results in a
18 KCET amount that is not matched in any way with the actual level of KCET incurred.

19 Q. What is Staff's ratemaking objective as it relates to the KCET in this case?

20 A. As it is with most expenses, Staff's ratemaking objective with the KCET is to
21 include in cost of service a level of expense that is matched as closely as possible with the
22 actual expense dollars that will be incurred and paid by the utility. KCPL's actual KCET
23 payments from 2006 through 2011 are reflected below:

1

Source: DR 5, DR 400	
Tax Year	Actual KCET
2006	\$586,690
2007	\$550,180
2008	\$454,674
2009	\$74,443
2010	\$216,458
2011	\$0

2

3 Q. Is KCPL's method of calculating the KCET for ratemaking purposes flawed?

4 A. Yes, for two primary reasons. The first and most important reason is that

5 KCPL's KCET ratemaking method is not reliable as it calculates a level of expense that is in
6 no way related to or correlated with its actual payments to the city of Kansas City, MO.

7 Secondly, as Ms. Hardesty agrees in her rebuttal testimony, if KCPL is to treat the KCET
8 as an income tax, similar to the state income tax and federal income tax, it should also

9 separately calculate a level of current taxes to be paid and a level of deferred income taxes
10 related to the KCET. Based upon the calculation of an ongoing level of deferred taxes,

11 KCPL should create an accumulated deferred income tax reserve to compensate its customers
12 for, in effect, prepaying a higher level of income tax expense in rates than KCPL will pay to

13 the taxing authorities. However, KCPL has made the decision to not utilize deferred tax
14 accounting for the KCET, and not provide customers credit for prior over collection in rates

15 for this item.

16 Q. Do you have evidence to support your conclusion that KCPL's ratemaking
17 methodology is unreliable?

18 A. Yes. As evidence to support this conclusion, the analysis reflected in the
19 following chart shows the requested KCET level by KCPL in each of its direct testimonies in

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1 its five rate cases beginning in 2006 compared to the actual KCET dollars it incurred and
2 paid to the city of Kansas City, MO. In effect, this chart shows that under the KCPL method
3 of calculating the KCET, KCPL would have overcharged its customs by approximately
4 \$4 million in six years for the KCET:

5

	KCPL Requested	Actual Paid	Dollars Overcharged
2007	\$792,353	\$550,180	\$242,173
2008	\$739,006	\$454,674	\$284,332
2009	\$848,457	\$74,443	\$774,014
2010	\$1,067,360	\$216,458	\$850,902
2011	\$902,084	\$0	\$902,084
2012	\$819,446	\$0	\$819,446
6 Total	\$5,168,706	\$1,295,756	\$3,872,951

6

7 Q. In her rebuttal testimony, what is Ms. Hardesty's explanation of why she
8 believes that the KCPL method is more appropriate than the Staff method of calculating the
9 KCET for ratemaking purposes?

10 A. For the three reasons which she lists at page 2 of her rebuttal testimony.

11 Ms. Hardesty argues that the KCPL method:

12 1. Calculates the amount as an income tax expense that varies based
13 on changes to taxable income.

14 2. Calculates the amount based on the same Missouri jurisdictional
15 taxable income that is used to calculate both federal and state income
16 tax expense for the rate case.

17 3. Recognizes that Earnings Tax must be calculated and paid on the
18 increased revenue requirement that will be authorized in this case.

19 Q. Does Ms. Hardesty believe the KCET is an income tax?

20 A. Yes. At page 2 of her rebuttal testimony she states that:

21 The annual Earnings Tax return begins with the same federal taxable
22 income that is used for both the federal and state income tax returns.

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1 The only material adjustment to federal taxable income is an
2 adjustment to eliminate interest income. For the 2010 return, interest
3 income of \$1.1 million was eliminated. The Earnings Tax is simply a
4 city income tax, consistent with the definition of the Missouri or
5 Kansas taxes as state income taxes.

6 Q. At page 4 of her rebuttal testimony Ms. Hardesty provides the
7 following Q&A:

8 Q. Why is it proper to calculate an earnings tax impact for the
9 authorized revenue requirement?

10 A. The revenue requirement reflects the additional revenue that the
11 Company will be authorized to collect with the implementation of new
12 rates. The Company will have to include these new revenues in its
13 subsequent Earnings Tax returns and incur the associated Earnings
14 Tax expense.

15 Is it true, as Ms. Hardesty implies, that KCPL will necessarily pay higher earnings taxes
16 based on new revenues included in rate cases?

17 A. No, there is no correlation at all between KCPL rate revenue increases and the
18 actual levels of KCET paid. The facts show that there is absolutely no relationship between
19 revenue increases from rate cases and changes in KCPL federal taxable income as a whole
20 and KCET taxable income in particular. In fact, while KCPL's revenues have been
21 increasing as a result of its continuous rate cases, its federal taxable income has been
22 decreasing, which also means its KCET has been decreasing.

23 In the period reflected in the chart below, KCPL's taxable income decreased in
24 4 of the 5 years listed. During this same period, KCPL received rate increases from
25 the Commission in Case No. ER-2006-0314 "2006 rate case", Case No. ER-2007-0291
26 ("2007 rate case"), Case No. ER-2009-0089 ("2009 rate case") and Case No. ER-2010-0355
27 ("2010 rate case"). During this period, for various reasons, KCPL's overall taxable income
28 has been decreasing, even while its Missouri rate revenues were increasing. The trend for

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1 decreasing KCET taxable income has reached the point where KCPL is not required to pay
2 any KCET based on its most recent 2011 KCET return:

3

Year	KCET Taxable Income	Percent Change
2006	\$162,313,922	
2007	\$156,882,783	-3%
2008	\$124,141,503	-21%
2009	\$20,184,689	-84%
2010	\$61,488,096	205%
2011	\$0	-100%

4

5 As can be seen in the chart below, data obtained from KCPL's actual KCET returns from
6 2003 through 2010, in three of those years the amount of KCET paid actually decreased
7 despite an increase in revenues to KCPL. This fact alone underlies the serious flaws in
8 KCPL's proposed ratemaking methodology for its KCET, and this fact alone, I believe, is
9 sufficient for the Commission to reject Ms. Hardesty's KCET ratemaking proposal:

10

	Gross Receipts KCET Return	KCET Due KCET Return	Change in Gross Receipts	Change in KCET Due
2003	1,045,321,083	504,082	-	-
2004	1,080,966,547	518,721	35,645,464	14,638
2005	1,122,960,943	643,999	41,994,396	125,279
2006	1,137,818,409	586,690	14,857,466	(57,309)
2007	1,290,249,119	550,180	152,430,710	(36,510)
2008	1,340,283,636	454,674	50,034,517	(95,506)
2009	1,314,580,590	74,443	(25,703,046)	(380,231)

11

12 Q. Ms. Hardesty states at page 2 of her rebuttal testimony that the
13 KCPL ratemaking method for KCET "calculates the amount based on the same
14 Missouri jurisdictional taxable income that is used to calculate both federal and state income
15 tax expense for the rate case." She also states that the "Earning Tax is simply a city income

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1 tax, consistent with the definition of the Missouri or Kansas taxes as state income taxes.”

2 Is she correct?

3 A. Not at all. One significant difference from federal and state income taxes is
4 that the level of KCET that must be paid is in part a function of a 3-factor allocation ratio of
5 plant, employee compensation, and revenues attributed to operations within the city of
6 Kansas City, Missouri to KCPL’s total company plant, employee compensation, and
7 revenues. This is a significant part of the KCET tax calculation and, in fact, it forms the
8 basis of the KCET. This 3-factor allocation methodology is not present at all in
9 the calculation of KCPL’s state or federal income taxes. KCPL’s state and federal income
10 taxes are a function of revenues less deductible expenses and tax credits. This is not true of
11 the KCET.

12 Q. Is there another significant difference in how KCPL calculates state and
13 federal income taxes and the KCET?

14 A. Yes. As noted above, for federal and state income taxes KCPL calculates a
15 level of current income tax expense and deferred income tax expense. For federal income
16 taxes KCPL is required to “normalize” certain book-tax timing differences, primarily
17 depreciation expense. Normalization ratemaking means that KCPL’s income tax expense
18 will be based upon its book net income, not its actual taxable income, which will usually be
19 less due to the availability of sizable accelerated depreciation deductions. Normalization
20 accounting for ratemaking purposes almost always results in utilities paying less in federal
21 and state income taxes than what they collect in customer rates for income tax expense.
22 However, the amount of excess income tax expense recovered in rates compared to its actual
23 income tax liabilities is accounted for by KCPL as “deferred taxes,” and the cumulative

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1 dollar amount of deferred taxes booked by KCPL is reflected as a reduction to KCPL's rate
2 base, effectively allowing customers to be compensated due to the fact that the customers
3 actually prepay to KCPL a certain amount of income taxes.

4 Q. Does the fact that KCPL designed its method for calculating the KCET
5 differently from the method it uses to calculate actual income taxes (federal and state) for
6 ratemaking purposes indicate that KCPL does not really view the KCET as an income tax?

7 A. Yes it strongly suggests that KCPL, despite the testimony of Ms. Hardesty,
8 does not view the KCET as an income tax, but as a general business tax similar to other
9 general business taxes.

10 Q. Does Ms. Hardesty recognize that KCPL's methodology for the KCET
11 is flawed?

12 A. Yes. Ms. Hardesty begins this explanation at page 7, line 15 of her rebuttal
13 testimony where she admits that KCPL does not create deferred income taxes of the timing
14 differences between book and taxable income and reflect those deferred taxes as a reduction
15 to rate base

16 Q. Did the Staff also err in KCPL's 2006 rate case by not setting up deferred
17 income taxes for the KCET?

18 A. Yes, it did.

19 Q. At page 3 of her rebuttal testimony Ms. Hardesty correctly describes the
20 differences between taxable income for book or ratemaking purposes and taxable income
21 for income tax purposes. She then uses this explanation to justify KCPL's position that
22 the KCET should be treated like an income tax on the income tax schedules. Is this
23 argument valid?

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1 A. No. At page 3, Ms. Hardesty explains the nature of book-tax timing
2 differences. These are the book-tax timing differences that both KCPL and Staff recognize
3 for federal and state income tax purposes and are reflected in deferred income tax expense
4 and as a reduction to rate base as a prepayment of income taxes. However, KCPL does not
5 recognize these book-tax timing differences and does not create related deferred income
6 taxes for the KCET. So Ms. Hardesty's testimony here is actually support for why the KCET
7 should not be treated as an income tax expense in the same manner as federal and state
8 income tax expense, but be treated as a general business tax.

9 Q. At page 3, lines 6 through 15 of her rebuttal testimony, Ms. Hardesty lists
10 certain differences between book or ratemaking income and taxable income. Are
11 significantly all of the expenses she lists included in both book/ratemaking income and
12 taxable income?

13 A. Yes. While some minor deductions such as charitable contributions and
14 certain advertising expenses may be excluded from ratemaking, all of the differences she lists
15 here are reflected in both taxable income for ratemaking and taxable income per the tax
16 return. The only difference is in the timing of the deductions, which, as noted earlier,
17 reflects the need for the recognition of deferred income taxes, which KCPL does not do for
18 its KCET.

19 Q. After describing the book-tax timing differences on page 3 of her rebuttal
20 testimony Ms. Hardesty makes the statement at page 3, line 19 that "it would be improper to
21 require that the Earnings Tax for ratemaking purposes be calculated based on taxable income
22 that includes deductions that are not allowed for ratemaking." Does this statement appear to
23 be relevant at all to her testimony?

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1 A. No. To the extent that Ms. Hardesty is referring here to the list of book-tax
2 timing differences she describes at page 3, as I said earlier, almost all of the dollars involved
3 in these book-tax timing differences are recognized both for ratemaking and income tax
4 purposes, that is, almost all are allowed for ratemaking.

5 Also on Schedule MKH-3 Ms. Hardesty includes a list of items and classifies if they
6 are included or excluded for ratemaking purposes. While this list contains some obvious
7 errors (such as the claim that amortization of regulatory assets and liabilities are excluded
8 from the tax return), Ms. Hardesty's schedule clearly shows that significantly all of these
9 items are included in both ratemaking models and tax returns, with the only difference being
10 the specific timing of the individual deductions.

11 Q. Have you reviewed in detail KCPL's KCET returns from 2003 through 2010?

12 A. Yes, I have.

13 Q. Did you find that the taxable income or the KCET on any of these returns was
14 materially affected by non-regulated revenues and expenses?

15 A. No. KCPL is primarily a regulated utility with regulated activities and it has
16 been for the last few years. While it does have some non-regulated revenues and expenses,
17 my review of the KCET returns from 2003 through 2010 indicate that they do not have any
18 significant impact on KCET taxable income. At best any impact would be minor and would
19 also be immaterial to the level of taxable income reported.

20 Q. At page 5, lines 4 through 9 of her rebuttal testimony, Ms. Hardesty
21 describes why she believes the Staff's approach for the calculation of the KCET is incorrect.
22 Please comment.

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1 A. Ms. Hardesty provides two primary reasons for her belief. The first reason is
2 that she believes that Staff's method does not recognize the significant differences between
3 taxable income for ratemaking purposes and taxable income for tax return purposes. As I
4 described earlier, while there are differences between deductions for book or ratemaking
5 purposes and deductions for tax purposes, the primary and overwhelming difference is the
6 timing and amount of depreciation deductions. Because the Staff is treating the KCET as a
7 general business tax, such as property tax or gross receipts tax, it is not creating deferred
8 taxes on book and tax timing differences. Not recognizing book-tax timing differences for
9 KCET purposes, and not creating deferred income taxes, is fully consistent with the approach
10 taken by Staff with respect to the KCET in KCPL's 2010 rate case and this case. However,
11 failure to recognize KCET deferred taxes is a significant flaw in KCPL's approach to
12 calculating the KCET for ratemaking. And as I stated earlier, the Staff was also in error for
13 failing to set up deferred taxes for the KCET during the time period (prior to 2010) that it
14 was treating the KCET as an income tax expense.

15 Q. Ms. Hardesty provides another reason for her opposition to Staff's approach to
16 recognizing KCET at page 5, line 11 of her rebuttal testimony, which relates to the fact that
17 the KCET form is prepared on a total KCPL basis, which involves a comingling of Kansas
18 and Missouri revenues and deductions. Please comment.

19 A. The KCET tax form is designed to produce a net profits tax based on KCPL's
20 operations in Kansas City, Missouri, and that is what it does. While the net profit calculation
21 includes revenues and expenses and gains and losses from all of KCPL's jurisdictions
22 (Kansas, Missouri, FERC, GMO-MPS and GMO-L&P), it also includes a 3-factor formula to
23 adjust total KCPL net profit to a Kansas City Missouri ("KCMO") net profit amount and

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1 from that amount levies a tax rate of 1 percent. Under the tax formula included in the KCET
2 form, all profits from all of KCPL's other jurisdictions are excluded from the KCET and the
3 amount of KCET on the form itself is the appropriate amount to include in rates.

4 Q. At page 5 of her rebuttal testimony, Ms. Hardesty states that "Staff has
5 included the Earnings Tax expense in its revenue requirement model based on the amount of
6 Earnings Tax paid by or refunded to the Company during the test year." Is that correct?

7 A. Yes. Staff believes the cost should be based on what KCPL pays. KCPL
8 consistently overcharges its customers for the KCET. The Staff is attempting to stop these
9 overcharges by employing a ratemaking methodology that attempts to ensure that KCET
10 charged by KCPL to its customers are matched as closely as possible to the KCET charged to
11 KCPL by the city of Kansas City, Missouri. This is a fair and equitable ratemaking method
12 and it is far superior to the method proposed by Ms. Hardesty.

13 Q. At page 4 of her rebuttal testimony, Ms. Hardesty provides the
14 following Q&A:

15 Q. Has Staff indicated to you why it believes its method is
16 appropriate?

17 A. Staff indicated in its Cost of Service Report that because the
18 Company is not presently incurring a cash payout to Kansas City,
19 Missouri, the Company should not be entitled to include any amount in
20 cost of service.

21 Does Ms. Hardesty appear to have an understanding of the basis and rationale behind the Staff's
22 approach to KC earning taxes for ratemaking purposes?

23 A. No, she does not. While she understands why the Staff did not include any KC
24 earnings taxes in this case, she does not appear to understand the basis of Staff's approach.

25 Q. What is the basis of Staff's approach?

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1 A. As I said earlier, it is very simple and direct. The basis, or objective behind
2 the Staff's approach to the KCET is to include in rates a level of KCET that will, as closely
3 as possible, reflect the actual level of KCET that KCPL will incur and pay. To accomplish
4 this, Staff will analyze and evaluate all relevant and current financial information to
5 determine an ongoing and reasonable level of KCET.

6 As of the date of this surrebuttal filing, the Staff has confirmed that KCPL had no
7 KCET liability in 2011 and the Staff has seen no indications, given the significant level of
8 "bonus depreciation" available to KCPL (which has resulted in net operating losses that can
9 be carried forward to KCPL's 2012 income tax return), that KCPL will incur a KCET in the
10 foreseeable future.

11 Q. Did Ms. Hardesty misunderstand your testimony in the Staff's Cost of
12 Service Report concerning the basis of the Staff's approach to developing a KCET for
13 ratemaking purposes?

14 A. Yes. Ms. Hardesty states at page 4, line 19 of her rebuttal testimony that Staff
15 "indicated" that because it is not presently incurring a cash payout of KCET that it should not
16 be "entitled" to include any amount in cost of service. I believe Ms. Hardesty's
17 misunderstanding is based on a poorly worded summary sentence included in the Staff's Cost
18 of Service Report in this case that read "Because KCPL has not recorded any actual Kansas
19 City earnings taxes in the test year or test year update period, the Staff is not including any
20 Kansas City earnings taxes in its direct cost of service revenue requirement
21 recommendation." This sentence is true to the extent that Staff gave serious weight to the fact
22 that KCPL incurred no KCET in the test year and it had not even accrued any KCET on its
23 books in 2012. However, it was not the sole basis for Staff's position on this issue, as Staff

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1 also noted the relatively small level of KCET KCPL incurred in 2009 and 2010 in this
2 evaluation:

3 For the calendar years 2009 and 2010, KCPL made actual earnings tax
4 payments of \$74,443 and \$216,458, respectively, to the city of Kansas
5 City. KCPL's 2011 earnings tax liability to Kansas City has not yet
6 been determined, but this information should be available in the Staff's
7 true-up audit in this case. Based on discussions with KCPL, the Staff
8 believes that KCPL may not have a positive taxable income in 2011,
9 primarily due to bonus depreciation deductions currently being
10 allowed by the IRS. However, if KCPL determines it has a net Kansas
11 City earnings tax liability (required cash payment) for 2011 when it
12 completes its 2011 income tax returns, the Staff will consider this
13 information in its true-up revenue requirement recommendation.

14 Q. Will you consider additional information regarding the KCET that may be
15 provided to Staff after the filing of the Cost of Service Report and this testimony?

16 A. Yes, I will. At the time of the Staff's Direct Cost of Service Report filing, it
17 appeared likely that KCPL would have no KCET liability for 2011. This has since been
18 confirmed by KCPL in recent data request response updates. Based upon the information
19 provided to Staff to date on this issue, I also have seen no evidence that KCPL will incur a
20 KCET liability in the near future. However, as indicated on page 192 of the Staff's Cost of
21 Service Report, the Staff will consider, during the course of its true up audit, information
22 from KCPL's recently-filed 2011 income tax returns as well as any other relevant
23 information concerning the KCET. The Staff will likely meet with Ms. Hardesty and other
24 KCPL personnel to discuss information that is available now that will impact KCPL's level
25 of actual incurred KCET on a going forward basis.

26 Q. At page 6 of her rebuttal testimony Ms. Hardesty described how KCPL's
27 Earnings Tax was treated in prior rate cases. Do you agree with this part of her testimony?

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1 A. No, I believe Ms. Hardesty is incorrect in her description of how the KCET
2 was treated in prior rate cases. She states that prior to the KCPL's 2007 rate case KCPL
3 treated the KCET as a general tax, and did not include it in a composite income tax rate
4 calculation. I have seen clear evidence that, at least since 2006, KCPL has never treated the
5 KCET as a general tax for ratemaking purposes.

6 Q. Please explain.

7 A. In the 2006 rate case direct testimony of KCPL witness Don Freking,
8 Schedule DAF-1, KCPL Revenue Requirement Model Schedule 7 *Allocation of Current and*
9 *Deferred Income Taxes*, line 7-048, KCPL calculated its proposed KCET by multiplying
10 pro forma Missouri jurisdictional taxable income of \$129,909,332 by a KCET rate of .62% to
11 arrive at a calculation of \$792,353 for recovery of KCET. KCPL then adjusted its test year
12 per book level to this amount for ratemaking purposes. The only change in its method of
13 calculating the KCET for ratemaking purposes from its direct filing in the 2006 rate case to
14 this 2012 rate case was to increase the KCET rate from .62% to .65%. KCPL has not
15 proposed treating the KCET as a general tax at least since February 2006.

16 Q. Please describe how the KCET was actually treated by Staff in prior
17 rate cases.

18 A. In the 2006 rate case the Staff calculated a pro forma Missouri taxable income
19 for KCPL and from that subtracted a pro forma federal income tax and a pro forma state
20 income tax to arrive at a KCET taxable income, and then multiplied that number by
21 the statutory KCET rate of 1% to arrive at KCET for ratemaking purposes. Staff continued
22 this methodology in KCPL's 2007 rate case. In KCPL's 2009 rate case both the Staff and
23 KCPL calculated the KCET by multiplying pro forma Missouri taxable income by .65%.

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1 KCPL continues with this approach today. Because of the significant concerns with this
2 methodology as described earlier in this testimony, the Staff changed its KCET ratemaking
3 methodology in KCPL's 2010 rate case by eliminating the arbitrary .65% KCET tax rate
4 and treating the KCET as a general tax for ratemaking purposes similar to other cost of
5 service expenses.

6 Q. Has either KCPL's or the Staff's pre-2010 KCET ratemaking methodology
7 produced reasonable results?

8 A. No. That was the reason that the Staff decided to change its methodology in
9 KCPL's 2010 rate case. The Staff's revised methodology, although not perfect, is far
10 superior to the unreliable methods used by both Staff prior to KCPL's 2010 rate case and
11 KCPL currently. As reflected in the chart below, KCPL does not pay a .65% tax rate
12 on KCET taxable income, but an average rate of approximately .35%. Use of a .65%
13 arbitrary tax rate results in a consistently overstated level of KCET charged to KCPL's
14 Missouri customers:

15

Year	KCET Taxable Income	Actual Tax	Actual Tax Rate
2007	\$186,574,494	\$550,180	0.29%
2008	\$127,087,140	\$454,674	0.36%
2009	\$20,451,280	\$74,443	0.36%
2010	\$62,486,697	\$216,458	0.35%

16
17 Q. Does Ms. Hardesty comment in her rebuttal testimony as to KCPL's intent
18 regarding future calculations of deferred taxes related to KCET?

19 A. Yes. She believes calculation of deferred taxes for KCET would be too
20 difficult, as she states at page 8 of her rebuttal testimony:

Surrebuttal Testimony of
Charles R. Hyneman

1 Q. Does the Company intend to begin calculating deferred income tax
2 expense on Earnings Tax differences for ratemaking versus the filed
3 Earnings Tax return?

4 A. No. It would be difficult to change the methodology at this time
5 due to the turn-around of deferred income tax reserves previously
6 recognized.

7 Q. Does Ms. Hardesty believe that KCPL's method of calculating KCET should
8 be based on a goal of trying to match the KCET included in rates with the actual level of
9 KCET that KCPL will incur?.

10 A. Her rebuttal testimony indicates that she does. At page 4, lines 3 through 6
11 she describes how she believes that the level of KCET is somehow associated with the level
12 of increases in rates from rate cases and states that these increased revenues need to be
13 reflected in the KCET for ratemaking because they will be reflected in KCPL's actual KCET
14 incurred. So here she indicates a belief that the level of KCET to be included in cost of
15 service should be matched with actual KCET to be paid.

16 Q. Have you performed an analysis to show that the KCET ratemaking
17 methodology proposed by Ms. Hardesty is unreliable and unfair to KCPL's customers?

18 A. Yes. The following chart shows the dollar amount KCPL over collected in
19 rates each year under its KCET ratemaking methodology:

	KCET Rates	KCET Paid	Percent Overcollect
2007	\$682,009	\$550,180	24%
2008	\$593,636	\$454,674	31%
2009	\$691,595	\$74,443	829%
2010	\$887,512	\$216,458	310%
2011	\$488,572	\$0	NA
2012	<u>\$289,102</u>	<u>\$0</u>	NA
Total	\$3,632,426	\$1,295,756	

20

Surrebuttal Testimony of
Charles R. Hyneman

1 Q. Please comment at the statements made by Ms. Hardesty at page 3 lines 18-21
2 of her rebuttal testimony.

3 A. Ms. Hardesty makes the following statements:

4 1. All elements of cost of service should be calculated consistently,
5 based on the treatment of those costs for ratemaking purposes.

6 2. It would be improper to require that Earnings Tax for ratemaking
7 purposes be calculated based on taxable income that includes
8 deductions that are not allowed for ratemaking.

9 In these statements it appears that Ms. Hardesty is trying to make the point that the revenues
10 and expenses (including income taxes) and assets and liabilities that form the basis of
11 KCPL's revenue requirement should be adjusted consistently to ensure that if an item is
12 included or excluded from one component, then it is included or excluded from all
13 components. These items would include revenue exclusions, expense disallowances, asset
14 and liability write-offs or write-downs, and the exclusion of inappropriate non-regulated
15 revenues, expenses, assets and liabilities. As a general rule, I agree with Ms. Hardesty's
16 statements. However, she does not state anywhere in her testimony where Staff is being
17 inconsistent in the treatment of the components of its cost of service recommendation to the
18 Commission. In fact, KCPL, not Staff is violating this general rule of consistency.

19 Q. How is KCPL violating the general rule of consistency outlined by
20 Ms. Hardesty at page 3 lines 18-21 of her rebuttal testimony?

21 A. As I describe in the Iatan 2 Advanced Coal Credit amortization section of this
22 testimony, KCPL is seeking to increase rates in this case by including the effects of
23 non-regulated tax deductions that are recognized by KCPL's parent company, GPE. This
24 proposal put forth by KCPL and supported by Ms. Hardesty inappropriately increases its

Surrebuttal Testimony of
Charles R. Hyneman

1 regulated income tax expense in this case solely due to the existence of its parent company's
2 non-regulated tax deductions.

3 Q. At pages 6 and 7 of her rebuttal testimony Ms. Hardesty makes several
4 references to an alleged agreement between KCPL and Staff in past rate cases concerning the
5 appropriate rate to use to calculate KCET for ratemaking purposes. Are you aware of any
6 such agreement?

7 A. No, I am not aware of any agreement. I have reviewed all of the Stipulations
8 and Agreements to all KCPL rate cases since 2006 and I have not seen any such agreement
9 on KCET.

10 Q. Do you believe any such agreement exists?

11 A. No, I do not. KCPL may have interpreted the filing of a consistent approach
12 on this issue between Staff and KCPL as constituting an agreement, but it clearly is not
13 anything the Staff would consider as an agreement. If the Staff intended to have a binding
14 agreement with KCPL on a ratemaking issue, Staff precedent and policy has been to obtain a
15 written agreement in a Stipulation and Agreement. Therefore, I do not believe any individual
16 Staff auditor had the authority to make informal ratemaking agreements with Missouri
17 regulated utilities that would bind Staff on an ongoing basis and I do not believe that any
18 such agreements were made.

19 Q. Ms. Hardesty explains at pages 6 and 7 of her rebuttal how the .65% KCET
20 rate used by KCPL was calculated. Can you briefly describe how this rate was determined?

21 A. Yes. I will provide a simplified example, using hypothetical figures, as
22 reflected in the chart below. As can be seen in the column of the chart labeled as "Actual" in
23 this example, KCPL has a total company (Missouri and Kansas jurisdictions) taxable income

Surrebuttal Testimony of
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1 of \$1,000. This \$1,000 has to be adjusted from total KCPL to a Kansas City, Missouri
2 basis to arrive at a KCET taxable income number. The KCET form requires KCPL to
3 perform a 3-factor test to adjust total KCPL taxable income to Kansas City, Missouri taxable
4 income. To perform this test KCPL takes its total plant balance at the end of the year and
5 calculates what the dollar value of this plant is in Kansas City. It then does this with its
6 employee compensation and finally with its revenues. The ratio of the 3 individual factors
7 are added together and divided by 3 to arrive at the Kansas City-to-total KCPL ratio. This is
8 the factor, 35.2% for 2010, to which Ms. Hardesty refers at page 7, line 6 of her rebuttal
9 testimony.

10 In the hypothetical example below, KCPL pays the city of Kansas City \$4 based
11 on total KCPL taxable income of \$1,000, a 35.2% Kansas City-to-total KCPL factor, and
12 a 1% statutory KCET rate.

13 However, KCPL takes the position that it should exclude all Kansas taxable income
14 from the calculation and it does this by estimating the ratio of Missouri taxable income to
15 total KCPL taxable income. In this case, as noted by Ms. Hardesty at page 7, line 8 of her
16 testimony, this ratio in 2010 was 53.1%. KCPL then eliminates the Kansas taxable
17 income of \$450 and multiplies the Missouri taxable income of \$550, not by the actual
18 Kansas City-to-KCPL factor (35.2%) but a calculated Kansas City-to-KCPL-Missouri basis
19 (66.30) which was calculated by dividing 35.2% by 53.1%.

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	Actual	Adjust	Rate-making
Kansas taxable income	\$450		\$0
Missouri taxable income	<u>\$550</u>		<u>\$550</u>
KCPL taxable income	\$1,000		\$550
Allocation factor	35.20%	53.1%	66.30%
KCET taxable income	\$352		\$365
KCET statutory tax rate	1%		1%
KCET tax	\$4		\$4

1
2
3 Q. Are there significant flaws in this calculation?

4 A. Yes. By removing the \$450 Kansas taxable income in the above example,
5 KCPL removes Kansas dollars from part of the equation to arrive at what it believes in
6 a Missouri only taxable income. However, the allocation factor of 35.2% is made up of
7 both Kansas and Missouri plant, Kansas and Missouri payroll and Kansas and Missouri
8 revenues. KCPL makes no attempt to adjust these factors to put them on a Kansas City-to-
9 KCPL-Missouri basis. It just adjusts this factor by dividing it by a KCPL-Missouri taxable
10 income factor. This adjustment results in a ratemaking allocation factor that is distorted
11 beyond any value. This distortion is seen in the level of KCET taxes that KCPL calculates
12 compared to the actual level of taxes incurred.

13 Q. Do you have any final comments on Ms. Hardesty's rebuttal testimony on the
14 appropriate ratemaking methodology for the KCET?

15 A. Yes. At page 10 line 1 of her rebuttal testimony Ms. Hardesty states that the
16 value of this issue is \$721,000. I have since been in discussion with KCPL and have been
17 advised that this was an error and the real value of this issue is \$930,000. However, KCPL
18 has not provided any calculations or support for this position. The only evidence in the
19 record to date concerning KCPL's valuation of its KCET request that I am aware is on
20 Schedule MKH-2 page 1 of 2, line 35 to Ms. Hardesty's direct testimony. Based upon this

1 schedule, KCPL is seeking rate recovery of a KCET of \$290,912, based on a Missouri
2 taxable income of \$44,755,618 multiplied by a KCPL derived KCET rate of .65%.

3 While I believe including \$290,912 in rates for a KCET that KCPL has not paid in
4 2011 and likely will not pay in 2012 is excessive, seeking rate recovery of \$930,000 from
5 customers, an amount that is far and above what KCPL knows it will pay, shows a lack of
6 concern for KCPL's customers, especially in this current extremely difficult economic period
7 for many customers.

8 **Kansas City Earnings Tax Allocation to Kansas and GMO**

9 Q. At page 10, line 12 of her rebuttal testimony Ms. Hardesty takes issue with the
10 Staff's position that a portion of the KCET should be allocated to all of KCPL's operations as
11 a general tax and a general cost of doing business. Please comment.

12 A. Ms. Hardesty's first argument against the Staff's position on this point is that
13 the KCET tax form does not require an allocation of the tax to the Kansas or GMO
14 jurisdictions. I do not understand why the city of Kansas City would care how KCPL
15 allocates its KCET within its corporate structure, or why this is even relevant to an
16 appropriate allocation of the KCET, but I agree that the KCET tax form does not require any
17 specific allocation methodology for KCPL.

18 Q. Beginning at page 10, line 21 and continuing to page 11, line 11 of her
19 rebuttal testimony Ms. Hardesty describes how the KCET includes a 3-factor formula of
20 plant, payroll and revenue to apply to total company profit to arrive at a Kansas City,
21 Missouri only profit level. Do you agree with this description?

22 A. Yes.

Surrebuttal Testimony of
Charles R. Hyneman

1 Q. Is this description by Ms. Hardesty of the mechanics of how the KCET form
2 is designed supportive of KCPL's position that all of the KCET should be charged to
3 KCPL's Missouri customers?

4 A. No. KCPL's position, logically extended, would require a special KCET
5 monthly surcharge on utility bills applicable only to KCPL customers who live in Kansas
6 City, Missouri city limits. This is illogical. For example, why is it fair or reasonable for a
7 KCPL customer who lives in Riverside, Missouri to be charged a KCET in rates when a
8 KCPL customer in Overland Park, Kansas is not charged? The KCET is a city profits tax
9 and has nothing to do with state boundaries. It is a tax on assets, labor and revenues
10 generated in a city.

11 Another flaw in KCPL's method of allocation of the KCET is that KCPL claims
12 42 percent of its employee salaries are paid to employees who work in Kansas City,
13 Missouri. However, these employees include employees who primarily perform work related
14 to the GMO service territory and provide little or no benefit to KCPL. Also, this 42 percent
15 of KCPL payroll includes payroll for employees who primarily work on Kansas operations
16 and provide little or no benefit to KCPL's Missouri operations.

17 Finally, KCPL asserts that 22 percent of its plant is located in Kansas City, Missouri,
18 but this plant does not just provide service to Kansas City, Missouri, but to all of KCPL and
19 KCPL-GMO service territories, including Kansas.

20 The reality is that all KCPL (Missouri and Kansas) and all KCPL-GMO customers
21 benefit from the work performed by KCPL employees in the downtown Kansas City, MO
22 headquarters building and all KCPL customers benefit from the plant that is located in the

1 city limits of Kansas City, MO. To allocate the cost of a tax on these services and assets to a
2 single group when the whole group benefits is unfair and illogical.

3 Q. How would you propose to allocate the KCET to all of KCPL's jurisdictions?

4 A. As I noted in the Staff's Cost of Service Report, in KCPL's 2010 rate case
5 Staff recommended that 25 percent of KCPL's Kansas City earnings taxes be allocated to
6 Kansas and GMO and also recommended that KCPL perform a study to determine a more
7 precise allocation of this cost. One reasonable allocation method would be to determine the
8 KCET tax per the tax form and then allocate the KCET based on the same factors that are
9 used in the KCET tax form. For example, KCPL will allocate the appropriate share of the
10 KCET to Kansas using rate case general plant allocation factors, the rate case payroll
11 allocation factor and the weighted Kansas and Missouri jurisdictional revenues. KCPL can
12 then allocate the Missouri allocated portion of the KCET using similar allocation factors.
13 This process would ensure that the customers who are benefitting from the utility service are
14 paying an appropriate share and no customers are being allocated a disproportionate share, as
15 KCPL's Missouri customers are currently.

16 **KCPL Pension Plan Assumption**

17 Q. Please summarize Staff's position on this issue.

18 A. In this rate case and in KCPL's companion GMO rate case KCPL is seeking
19 rate recovery of \$83 million in pension expense for its employees and its share of the pension
20 costs for WCNOG employees. This amount includes \$61 million for KCPL and \$22 million
21 for GMO. KCPL's management controls two defined benefit pension plans (a union plan
22 and a management plan) that covers all KCPL and KCPL-GMO employees.

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1 A defined benefit plan is a pension plan designed to provide participants a specific
2 payment amount at retirement. This amount is typically delivered as a monthly annuity
3 payment. Traditional defined benefit pensions feature a benefit formula based on a
4 participant's final pay and service at retirement.

5 KCPL's defined benefit plans provide benefits based on years of service and final
6 average compensation. One of the estimates that KCPL must use in the calculation of
7 pension expense is the projected level of future annual salary increases. The salary increase
8 assumption is important because KCPL's current level of pension expense is based in part on
9 a projection of future salary levels for its employees. A higher salary increase assumption
10 causes a higher pension liability and a higher pension expense. The annual salary increase
11 assumption used by KCPL for KCPL's current calculation of its pension expense is 4%. The
12 Staff reviewed the most recent annual reports of all major Missouri regulated utilities and
13 noted that KCPL's salary assumption rate of 4 percent is the highest of all major Missouri
14 utilities and significantly higher than the all-Missouri utility average of 3.25 percent. To
15 reflect the impact on pension expense of a salary increase assumption more in line with other
16 Missouri utilities, the Staff adjusted KCPL's annualized pension expense by reflecting a
17 3.5% average salary increase assumption in lieu of a 4.0% salary increase assumption.

18 Q. What were the comparable rate assumptions used by other Missouri utilities?

19 A. AmerenUE is using a salary increase assumption rate of 3.5%, The Empire
20 District Electric Company (Empire) - 3.5%, Laclede Gas Company - 3%, Missouri-American
21 Water Company - 3.25%, and Southern Union Company (parent company of Missouri Gas
22 Energy) - 3.02%.

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Charles R. Hyneman

1 Q. Why did the Staff impute a rate of 3.5% for KCPL when the average rate for
2 all regulated Missouri utilities is 3.25%?

3 A. While the use of a Missouri average rate would certainly be reasonable for the
4 Staff to use in this case, the Staff took a more conservative approach by using a 3.5% rate,
5 which is the rate currently used by Missouri's other two regulated investor-owned electric
6 utilities, AmerenUE and Empire.

7 Q. In his rebuttal testimony Mr. Foltz described the generally accepted
8 accounting principles (GAAP) that govern KCPL's pension plan. Was his testimony
9 complete as to this issue?

10 A. No. Mr. Foltz correctly describes how KCPL's pension plans are generally
11 governed by Accounting Standards Codification Topic 715 *Compensation – Retirement*
12 *Benefits*, (ASC 715), which was previously referred to as Financial Accounting Standard
13 No. 87 (FAS 87), *Employers' Accounting for Pensions*. However, Mr. Foltz failed to note
14 that KCPL's pension plan costs are also governed by Accounting Standards Codification
15 Topic 980, *Regulated Operations* (ASC 980), which was previously referred to FAS 71,
16 *Accounting for the Effects of Certain Types of Regulation*. For consistency purposes I will
17 refer to ASC 715 and FAS 87 as well as ASC 980 and FAS 71 synonymously.

18 Q. What is the objective of FAS 87?

19 A. The fundamental objective of FAS 87 was to recognize an employee's
20 pension cost over the period that the employee provides service to his or her employer.
21 A pension benefit is part of the compensation paid to an employee for services. In a defined
22 benefit pension plan, the employer promises to provide, in addition to current wages,
23 retirement income payments in future years after the employee retires or terminates service.

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1 Generally, the amount of benefit to be paid depends on a number of future events that are
2 incorporated in the plan's benefit formula, often including how long the employee and any
3 survivors live, how many years of service the employee renders, and the employee's
4 compensation in the years immediately before retirement or termination. FAS 87
5 paragraph 46 states:

6 Assumed compensation levels shall reflect an estimate of the actual
7 future compensation levels of the individual employees involved,
8 including future changes attributed to general price levels,
9 productivity, seniority, promotion, and other factors. All assumptions
10 shall be consistent to the extent that each reflects expectations of the
11 same future economic conditions, such as future rates of inflation.

12 Q. Mr. Foltz seems to understand the Staff's adjustment as imputing pension
13 assumptions of other Missouri utilities on to KCPL. Is this true?

14 A. No. The Staff found that KCPL, compared to other regulated utilities in
15 Missouri, was using an excessive salary increase assumption in the calculating of pension
16 expense for ratemaking purposes in this case. The Staff's adjustment simply adjusted
17 KCPL's future salary increase assumption to a more reasonable amount.

18 Q. Does Mr. Foltz believe it is appropriate to base KCPL's salary escalation
19 assumption on the assumptions used by other companies?

20 A. No; however, Mr. Foltz is mischaracterizing the Staff's position. The Staff
21 developed an average of the salary escalation assumption used by all Missouri regulated
22 utilities and increased that average by an additional 8 percent to arrive at an assumption that,
23 although above the average Missouri percentage, it believes is reasonable to use in the
24 calculation of pension expense to include in KCPL's cost of service in this rate case.

25 It is important to emphasize that in its adjustment Staff is only addressing the issue of
26 estimates of future events, primarily inflation and related salary increases, that should be the

Surrebuttal Testimony of
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1 same or very similar for all of the regulated utilities in Missouri. The Staff's adjustment does
2 not address KCPL or KCPL-employee specific factors, but general factors that are driven by
3 unpredictable future events. There is no reason to believe that KCPL is better at predicting
4 the future than any other Missouri utility, and Mr. Foltz certainly did not provide any
5 evidence that KCPL management is superior to the management of other Missouri utilities in
6 this regard. In addition, there is also no reason to believe that KCPL will have more
7 employee promotions or higher salary increases than the other regulated Missouri utilities,
8 and Mr. Foltz certainly did not provide any evidence to this effect either.

9 Q. Why does Mr. Foltz hold the opinion that it is improper to compare KCPL's
10 salary increase assumption to those of other Missouri utilities?

11 A. At pages 3 and 4 of his rebuttal testimony Mr. Foltz lists certain factors which
12 he believes "make it difficult to compare one company's salary assumption with that of
13 another company". These are factors that influence the degree of salary changes throughout
14 an employee's career such as promotions within their department, transfers to more highly
15 compensated jobs elsewhere in the corporation, and an employee's level of seniority and
16 placement within an employee's job salary range.

17 At page 5 of his rebuttal testimony he provides four reasons why he holds this view.

18 They are:

19 1. The determination of assumptions to be used in calculating
20 KCPL's pension cost should be based on KCPL's specific facts and
21 reflect an estimate of the actual future compensation levels of the
22 individual employees involved.

23 2. KCPL does not have knowledge of the other companies'
24 demographics or insight as to how other companies view future
25 compensation increases.

26 3. Using other companies' assumptions is clearly not consistent with
27 GAAP and, therefore, it is inappropriate to base assumptions regarding

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1 the Company's pension plans on the assumptions used by other
2 companies, especially when actual historic company amounts have
3 been higher than the current assumptions being used.

4 4. Many factors influence salary adjustments other than merit
5 increase, and those factors can vary widely among companies,
6 rendering company comparisons of dubious value.

7 Q. Would the Staff need knowledge of the Missouri utilities' demographics or
8 insight as to how other Missouri regulated utility companies view future salary escalation
9 increases to set a reasonable salary increase assumption?

10 A. No, not at all. By doing an analysis of the salary increase assumption used by
11 other regulated utilities in Missouri the Staff was using a method referred to as
12 benchmarking. In the area of employee compensation, benchmarking is a very common
13 method of determining the reasonableness of various components of compensation, such as
14 salaries and pensions.

15 Q. Has KCPL used the benchmarking process in developing what it considers
16 reasonable compensation levels for several years?

17 A. Yes, it has. It is common for regulated utilities to use a benchmarking process
18 to determine reasonable ranges of employee compensation. KCPL extensively uses this
19 process. Early in the Staff's rate case audit for this proceeding I attended a meeting with
20 KCPL's Human Resources Department employees who specialize in the area of employee
21 compensation. They explained KCPL's extensive use of benchmarking in comparing its
22 employee compensation with other regulated utility companies and even with other non-
23 regulated companies.

24 Kelly R. Murphy, a KCPL witness in this case, also provided testimony in KCPL's
25 companion rate case in Kansas, Docket No. 12-KCPE-764-RTS. At page 6 of her rebuttal

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1 testimony in the Kansas rate case she described KCPL's use of benchmark studies in the area
2 of employee compensation. She stated that KCPL uses "market studies and surveys to
3 evaluate competitive compensation levels and to set our overall compensation package."
4 Similarly, the Staff used a survey of Missouri utility companies to evaluate the
5 reasonableness of KCPL's pension expense.

6 Q. Has KCPL hired an outside consultant to do a benchmarking study on KCPL's
7 pension plan costs compared to other utility pension plan costs?

8 A. Yes, it has. KCPL hired Deloitte Consulting to perform a Benefits Program
9 Review of KCPL primarily focusing on KCPL's pension plans. From its review Deloitte
10 provided to KCPL a report ("Deloitte Report") on its findings. A copy of this Report is
11 attached as Schedule CRH-IHC to my rebuttal testimony in this case. While the Deloitte
12 Report refers to GPE, or Great Plains Energy's pension plans, these are the same as KCPL's
13 pension plans. GPE is the parent company of KCPL and has no pension plans of its own.

14 Q. What conclusions did Deloitte make from its review?

15 A. In its Report to KCPL, Deloitte concluded the following:

16 ** _____
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Surrebuttal Testimony of
Charles R. Hyneman

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Q. Do the results of the Deloitte Report, commissioned and funded by KCPL, support the Staff's use of benchmarking techniques to determine a reasonable level of KCPL's pension cost to include for ratemaking purposes in this case?

A. Yes. Like Deloitte, the Staff performed a similar, although more focused and smaller in scope benchmark analysis of KCPL's pension costs.

Q. How was the GPE peer group selected by Deloitte Consulting?

A. ** _____

_____ **

Q. Did you use the same criteria to select its peer group of companies on which to perform its peer group analysis as Deloitte?

A. Yes. I used all of the Deloitte factors with the exception of size of workforce and revenue. In addition, the Staff's five-company sample included two of the very same companies (AmerenUE and Empire) included in the Deloitte study.

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1 Q. What external data did Deloitte rely on in performing its benchmark study of
2 pension plans for the KCPL pension review?

3 A. In its Report to KCPL, Deloitte listed the following sources that it relies on in
4 the performance of its pension benchmarking study:

5 **
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____ **

12 Q. Did you rely on similar data in your benchmark analysis of the pension
13 assumptions used by Missouri regulated utilities?

14 A. Yes. I relied primarily on utility financial reports and SEC Form 10-K
15 financial statements as this data is publicly available.

16 Q. Do other utilities compare pension assumptions with peer companies to
17 determine reasonableness?

18 A. Yes they do. DPL Inc. and The Dayton Power and Light Company ("DPL")
19 describes how it reviews peer data to verify the reasonableness and appropriateness in its
20 SEC Form 10-K filed with the SEC on March 28, 2012:

21 Our overall discount rate was evaluated in relation to the Hewitt Top
22 Quartile Yield Curve which represents a portfolio of top-quartile AA-
23 rated bonds used to settle pension obligations. Peer data and historical
24 returns were also reviewed to verify the reasonableness and
25 appropriateness of our discount rate used in the calculation of benefit
26 obligations and expense. (Page 106)

27 Our expected return on plan asset assumptions, used to determine
28 benefit obligations, are based on historical long-term rates of return on
29 investments, which use the widely accepted capital market principle
30 that assets with higher volatility generate a greater return over the long

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1 run. Current market factors, such as inflation and interest rates, as
2 well as asset diversification and portfolio rebalancing, are evaluated
3 when long-term capital market assumptions are determined. Peer data
4 and historical returns are reviewed to verify reasonableness and
5 appropriateness. (Page 105)

6 Q. Mr. Hyneman, based on your analysis of this issue, what have you found to
7 be the overriding and most significant factor in the process to arrive at estimates of future
8 salary increases?

9 A. The most important estimate on which this assumption is based is the estimate
10 of future changes in general price levels (inflation).

11 Q. Did you review the changes in general price levels in the Midwest region over
12 the past several years?

13 A. Yes. The chart below shows the annual inflation increases in the
14 U.S. Midwest region from 2002 through 2011. According to the Consumer Price
15 Index (CPI)-All Urban Consumers Bureau of Labor Statistics, Department Of Labor, the
16 CPI in the Midwest has been below 3% in 11 years of the 15 year period of 2007-2011.
17 For the last 10 years, the inflation rate has averaged 2.2%. For the last 3 years, the inflation
18 rate was 1.5%:

19

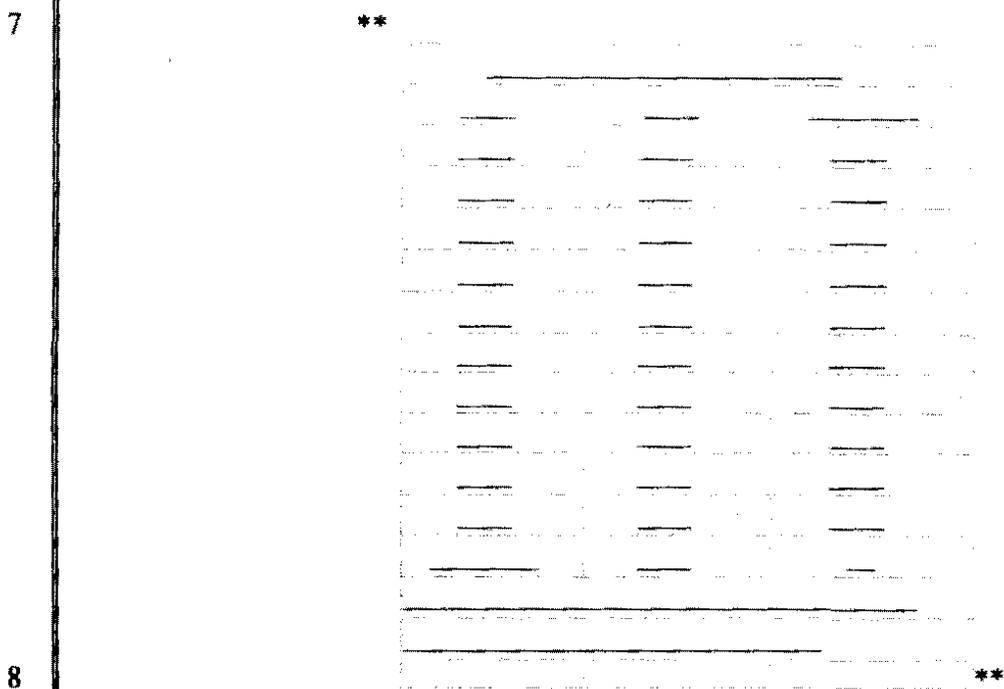
Year	Annual % Increase
2002	1.2
2003	1.9
2004	2.4
2005	3.2
2006	2.4
2007	2.7
2008	3.7
2009	-0.6
2010	2.0
2011	3.2

20

Surrebuttal Testimony of
Charles R. Hyneman

1 Q. How do these general inflation level changes in the Midwest compare with
2 KCPL's historical compensation increases?

3 A. The chart below reflects KCPL responses to Staff data requests in this case
4 and in previous KCPL rate cases and what KCPL asserts are its compensation increases from
5 2003 through 2013 (estimated). No estimated compensation increases for KCPL's unions
6 were available for 2013:



9 Q. What do these charts demonstrate?

10 A. These charts demonstrate that KCPL did not reflect the impact of the current
11 economic crisis that began in 2008 and continues today until 2011 in its management
12 compensation, and it very modestly reflected these economic conditions in its union
13 employee compensation beginning in 2012.

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**

Q. Please comment on Mr. Foltz's assertion that using other companies' assumptions is clearly not consistent with GAAP and, therefore, it is "inappropriate to base assumptions regarding the Company's pension plans on the assumptions used by other companies, especially when actual historic company amounts have been higher than the current assumptions being used."

A. First, as previously noted, it is not true that Staff uses other companies' assumptions in any manner. The Staff simply used an average of similarity-situated companies in the same regulated utility industry and in the same small geographic area as a benchmark for the reasonableness of a KCPL management estimate that the Staff found to be too high.

Second, and as Mr. Foltz very well knows, KCPL does not account for a significant part of its pension plan in accordance with GAAP as he uses the term here, specifically, FAS 87. A significant part of KCPL's pension costs are determined using methods and procedures authorized by the Commission, which, in effect, become GAAP under FAS 71. So while Mr. Foltz is wrong for stating the Staff is using other companies' assumptions, the Staff's use of an average salary escalation increase rate pension assumption is certainly appropriate and fully consistent with GAAP under either FAS 87 or FAS 71. Mr. Foltz, should be aware that Staff's pension adjustment is fully consistent with the GAAP KCPL

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1 uses for its pension expense, including the accounting for annual expense and KCPL's
2 pension trackers.

3 Q. Please continue.

4 A. What is in dispute here is nothing more than KCPL management's view of the
5 future. KCPL management may have a view about future levels of inflation different from
6 other Missouri utilities. KCPL may have a much more generous outlook about future pay
7 raises for its employees. But just because KCPL's management has these views does not
8 make them reasonable. The Staff has shown that they are not reasonable and KCPL has not
9 shown that they are reasonable.

10 As noted above, the FASB described in general how the future compensation
11 assumption is to be developed and the FASB indicates that the most significant factor in the
12 development of this assumption is future inflation levels. FAS 87 paragraph 46 states:

13 Assumed compensation levels shall reflect an estimate of the actual
14 future compensation levels of the individual employees involved,
15 including future changes attributed to general price levels,
16 productivity, seniority, promotion, and other factors. All assumptions
17 shall be consistent to the extent that each reflects expectations of the
18 same future economic conditions, such as future rates of inflation.

19 It could very well be that KCPL management is just not very good at predicting future
20 inflation levels and its predicting methodology is prone to estimate future inflation levels to
21 be at the high end of a reasonableness range. But the future inflation level in Missouri should
22 be generally same for each and every employee of all of the utilities included in Staff's
23 analysis. And the general consensus of all Missouri regulated utilities is that, based on
24 estimates of future inflation rates and utility-specific estimates of pay increases, on average,
25 the most current reasonable level of future compensation increase is 3.25%.

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1 Q. By using a compensation increase assumption of 3.5% and assuming the
2 estimate of future inflation rate is the same for all Missouri utilities, is the Staff allowing for
3 KCPL to have higher actual compensation increases or increases in other factors than is
4 currently embedded in the 3.5% future compensation increase assumption used by Staff to
5 calculate KCPL's pension costs in this case?

6 A. Yes. Staff is using a 3.5% future compensation increase assumption in this
7 case which in an increase of 8% over the average 3.25% pension assumption used by
8 Missouri's regulated utilities.

9 Q. Please comment on Mr. Foltz's assertion that many factors influence salary
10 adjustments other than merit increases, and those factors can vary widely among companies,
11 rendering company comparisons of dubious value".

12 A. The primary component of the compensation increase assumption is annual
13 salary increases. The primary driver of this increase, as suggested by the FASB, is the rate of
14 general price increases or inflation. I agree with Mr. Foltz that this assumption is affected by
15 other factors but it is intuitive that these other factors would have a significantly smaller
16 impact than inflation and normal merit salary increases. When you consider the impact on
17 KCPL's assumption of its company-specific data as being different from average utility data,
18 the impact would almost certainly be relatively insignificant.

19 Q. Please explain.

20 A. As noted above, the primary factor in the compensation increase pension
21 assumption is inflation and the impact of inflation on normal employee salary increases. It is
22 logical to assume that future inflation in Missouri will affect all Missouri utilities equally and
23 put an equal pressure on compensation increases. A secondary factor that would affect the

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1 salary increase assumption would be future employee promotions. So even if KCPL has
2 more frequent employee promotions than the average Missouri utility, a fact that is not
3 supported by any evidence, this impact on the pension assumption would probably be
4 immaterial, in my opinion.

5 Q. Do you agree with Mr. Foltz that inter-company comparisons of the rate of
6 compensation increase pension assumption are of dubious value?

7 A. No. I do not agree, and apparently, neither does the FASB.

8 Q. Does the FASB believe inter-company comparisons of the rate of
9 compensation increase pension assumption is valuable?

10 A. Yes, it does. The FASB stated in paragraph 221 of FAS 87 that information
11 about the rate of compensation increase assumption is essential if users of a company's
12 financial information (including the Staff) are to make meaningful comparisons among
13 companies (including regulated Missouri utility companies) that use different rate of
14 compensation increase assumptions:

15 Information about Assumptions

16 221. The Board agreed that information about certain assumptions is
17 useful and this Statement requires disclosure of the assumed weighted-
18 average discount rate and rate of compensation increase. It noted that
19 those two assumptions have the most significant impact on the
20 amounts of net periodic pension cost and the projected benefit
21 obligation and that those two assumptions are related. It also noted that
22 their effect on reported amounts is relatively easy to understand. The
23 Board concluded that information about those two assumptions is
24 essential if users are to be able to make meaningful comparisons
25 among employers using different assumptions. For the same reasons,
26 when the Board decided to allow the use of an expected long-term rate
27 of return on plan assets different from the discount rate, it concluded
28 that disclosure of that assumption should be required.

29 [Emphasis added]

1 **KCPL Supplemental Executive Retirement Plan (SERP)**

2 Q. What is a SERP?

3 A. A SERP is a non-qualified plan for pension compensation that provides
4 pension payments to highly-compensated former executives over and above the pension
5 payments these individuals receive under a company's regular "all-employee" pension plan.

6 Q. What is a Non-Qualified Plan?

7 A. A non-qualified plan is any retirement, savings or deferred compensation plan
8 for employees that do not meet all of the tax and labor law requirements that are applicable to
9 qualified pension plans. Non-qualified plans are usually used to provide benefits to a select
10 group of executives within a company and are, therefore, subject to different tax and
11 accounting treatments. KCPL's employee pension plan is a qualified plan while its SERP is
12 a non-qualified plan.

13 Q. Has Staff included KCPL's recurring SERP payments in its cost of service
14 since KCPL's 2006 rate case, including this current rate case?

15 A. Yes. Included in Staff's revenue requirement recommendation is an
16 annualized level of actual monthly recurring SERP payments made by KCPL to its former
17 executives and other highly-compensated former employees.

18 Q. How much SERP did Staff include in its revenue requirement
19 recommendation for KCPL?

20 A. For the first quarter of 2012, KCPL's monthly cash SERP annuity payments
21 were \$15,615. The Staff annualized this amount to \$187,809 and multiplied this annualized
22 amount by the KCPL allocation factor of 69.1% for a net KCPL SERP amount of \$129,776.
23 KCPL's recurring annual SERP payments has remained roughly the same since at least 2002.

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1 Q. If Staff includes KCPL's annual recurring SERP costs in cost of service and
2 has been since at least 2006, why is KCPL not satisfied with the Staff's position on SERP?

3 A. KCPL's Board of Directors has created a SERP that allows retiring or
4 departing highly compensated employees to choose, based on their personal preference,
5 between either a lump sum cash SERP payment or annual SERP payments like a traditional
6 pension plan. In response to Staff Data Request No. 282 in Case No. ER-2009-0089, KCPL
7 stated that it first began making lump-sum SERP payments in 2001. Mr. Foltz explains at
8 page 7 of his rebuttal testimony that he does not believe the Staff SERP adjustment is
9 appropriate because he believes it "disallows recovery of all lump-sum SERP payments."

10 Q. Is KCPL required to make lump sum SERP payments?

11 A. No. A SERP is an additional compensation program created and controlled
12 by a company's board of directors. KCPL does not have to offer a SERP at all and it can
13 limit the SERP plan to annual recurring payments.

14 Q. Has KCPL hired a pension consultant to review its pension and retirement
15 benefits and make recommendations on ways to lower the costs of and improve its retirement
16 program costs?

17 A. Yes. At page 30 of its Report which is attached to my rebuttal testimony in
18 this case, Deloitte provided two recommendations under the heading Consider Pension
19 Design Alternatives. ** _____
20 _____
21 _____
22 _____
23 _____
24 _____
25 _____

**

Surrebuttal Testimony of
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1 Q. Does the Staff's method of annualizing KCPL's SERP costs "disallow"
2 recovery of lump sum payments?

3 A. No, the Staff does not "disallow" costs. The Staff's proposes adjustments to
4 the Commission in this case, as it has in previous KCPL rate cases, to include in KCPL's cost
5 of service a known and measurable level of SERP costs consistent with its policy and
6 philosophy on ratemaking treatment of SERP costs.

7 Q. What is Staff's policy and philosophy on ratemaking treatment of
8 SERP costs?

9 A. Because of its unique nature and the fact that it represents an additional
10 executive pension benefit over and above what is already provided in the regular pension
11 plan, the Staff treats SERP costs somewhat differently than normal employee pension costs.
12 The Staff's policy has been and continues to be that it will recommend SERP costs to be
13 included in cost of service if they are not significant, are reasonably provided for and able to
14 be quantified under the known and measurable standard.

15 This policy and philosophy was described in more detail in my February 27, 2004
16 surrebuttal testimony Case No. ER-2004-0034, Aquila's (now GMO) 2004 rate case:

17 Page 5:

18 The Staff's general treatment of SERP expenses is that if the costs are
19 reasonable in amount and accounted for on a pay-as-you go basis, then
20 the Staff usually recommends that the Commission allow the SERP
21 expenses in the utility's revenue requirement.

22 I have reviewed the Staff treatment of SERP expenses in several recent
23 Missouri utility rate cases. Empire District Electric Company's
24 (Empire) latest rate case was Case No. ER-2002-424. In 2001, Empire
25 recorded \$14,560 in SERP costs (Staff Data Request No 110, Case No.
26 ER-2002-0424). The Staff and Empire agreed on the method of
27 accounting for pension expense in Case No. ER-2002-0034 which
28 resulted in \$0 SERP expense included in Empire's revenue
29 requirement in that case, which was settled by the Commission's

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1 acceptance of a stipulation and agreement. In Laclede Gas Company's
2 last rate case, Case No. GR-2002-356, and AmerenUE's last gas rate
3 case, Case No. GR-2003-0517, the Staff allowed SERP costs on a pay-
4 as-you go basis using an average of test year and previous year SERP
5 payments. Both of these cases were settled by the Commission's
6 acceptance of stipulations and agreements. Since Kansas City Power &
7 Light Company has not filed a rate case since 1985, there is no
8 information readily available to determine how the Staff treated
9 KCPL's SERP expenses in its last rate case audit, or if KCPL even had
10 a SERP plan in 1985.

11 Page 12:

12 Some SERPs are strictly pension restoration plans with reasonable
13 costs and proper accounting and are eligible to be considered for
14 ratemaking purposes. While other SERPs include golden parachute
15 type Change in Control provisions, with executive compensation and
16 benefits in excess of what is covered in the all-employee qualified
17 pension plan. The costs of this type of SERPs should not be included
18 in a utility's cost of service.

19 Page 13

20 The Staff recommends to the Commission that in any future rate case,
21 it allow recovery only if Aquila's SERP costs are (1) accounted for on
22 a pay-as-you go basis, (2) the costs are reasonable considering
23 Aquila's SERP expenses in previous years, (3) the terms and
24 conditions of the SERP allow for the calculation of the SERP benefit
25 only at the amount that is limited by tax law compensation limits, and
26 (4) the SERP does not include Change in Control provisions which act
27 in the manner of a "poison pill" or executive "golden parachutes."

28 Q. Does KCPL have a history of paying its former executives SERP lump
29 sum payments that are unreasonable and excessive, and therefore should not be included in
30 cost of service?

31 A. Yes. In 2001 KCPL paid Mr. Drue Jennings a lump sum SERP
32 of ** _____ ** and Mr. Ronald Wasson ** _____ **. In 2004 it paid a SERP
33 lump sum payment to Mr. Bernie Beaudoin in the amount of ** _____ ** and in 2011

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1 in made a SERP payment to Mr. John Marshall in the amount of ** _____ **
2 (Responses to Staff Data Request Nos. 196 in Case No. ER-2009-0089 and 187 in Case No.
3 ER-2012-0174). These SERP lump sum payments, which are in addition to regular pension
4 compensation, are excessive from a ratemaking standpoint and are one of the reasons
5 why KCPL's lump sum payments executive SERP does not meet Staff's SERP test
6 of reasonableness.

7 Q. Please continue.

8 A. The SERP payments made to Mr. Jennings and Mr. Beaudoin are clearly
9 excessive SERP payments and are far and above what could be considered reasonable under
10 any legitimate SERP pension restoration plan. For example, if KCPL makes a \$3 million
11 SERP payment to a retiring executive and that executive has a remaining life expectancy of
12 15 years, then the additional SERP pension compensation to that former KCPL executive
13 would be \$200,000 annually. When one keeps in mind that this \$200,000 payment is a
14 supplemental pension payment, there can be no doubt that it is excessive.

15 Q. Do the dollar amounts you referenced above indicate a basic philosophical
16 difference between Staff's ratemaking approach to SERP and the approach indicated by
17 Mr. Foltz in his rebuttal testimony?

18 A. Yes. For example, Mr. Marshall joined KCPL in 2005 and was an employee
19 of KCPL for only 5 years and 2 months. KCPL's Board of Directors determined that for this
20 5 year period of service Mr. Marshall should be paid a SERP of ** _____ **. It appears
21 that KCPL witness Foltz is focusing more on seeking recovery of whatever actual SERP
22 dollars KCPL paid, and not focusing at all on an attempt to establish the reasonableness of

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1 the dollars paid from a ratemaking standpoint. That is the primary philosophical difference
2 between KCPL and Staff on this issue.

3 Q. Please explain why the Staff does not believe annual lump sum SERP
4 payments should be included in KCPL's cost of service.

5 A. These lump sum payments are not a known and measurable expense. The
6 prior amounts of SERP lump sum payments made by KCPL have been so volatile that no
7 reasonable estimation of future lump sum payments can be made. For example, in the three
8 year period 2007 through 2009 KCPL made only one lump sum SERP payment. Over the
9 entire time KCPL has made lump sum payments, the range of payments has been from a low
10 of \$300 to a high of \$3.3 million. KCPL's history of lump sum SERP payments do not meet
11 the basic ratemaking requirement of being known and measurable and thus cannot be
12 quantified accurately enough to be included in cost of service.

13 Q. Earlier you listed one of the criteria for SERP costs to be included in a
14 utility's costs of service is that the "the terms and conditions of the SERP allow for the
15 calculation of the SERP benefit only at the amount that is limited by tax law compensation
16 limits." Please explain.

17 A. SERPs are classified as Non-qualified Retirement Plans which includes a
18 broad range of plans with varying characteristics and various levels of compensation. These
19 plans range from basic plans designed simply to restore the pension benefits lost due to
20 Internal Revenue Service limitations (Restoration Plans) to plans designed simply to provide
21 additional compensation and benefits to company executives. The Staff only supports
22 ratemaking recovery of the SERP pension benefits designed to restore the benefits that have
23 been limited or eliminated because of Internal Revenue Code restrictions. The basic purpose

1 of a SERP is to restore the benefits that have been affected by the Internal Revenue Service.
2 A restoration plan is a non-qualified plan that restores benefits lost under qualified plan
3 limitations imposed by the Internal Revenue Code. Restoration plans can be designed to
4 supplement either a defined benefit or a defined contribution plan.

5 SERP costs that are not related to Restoration Plans are designed to enhance or
6 supplement the level of benefits already provided for by the company's regular qualified
7 pension plan. These SERPs go above and beyond the purpose of restoration plans.

8 Q. Does KCPL's SERP go above and beyond a SERP Restoration Plan?

9 A. Yes. For example, under KCPL's regular pension plan an employee earns one
10 year of pension service credit for each year of actual employment. Under KCPL's SERP,
11 KCPL has selectively determined certain employees to provide accelerated benefits, by
12 providing more than one year of SERP pension credit for each year of actual employment. In
13 its 2009 SERP KCPL described how it provides extra years of service to certain executives:

14 **GREAT PLAINS ENERGY INCORPORATED**
15 **SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**
16 **(As Amended and Restated for I.R.C. § 409A)**
17 **Amended December 8, 2009**

18 3.7 Years of Benefit Service for Certain Participants. Notwithstanding
19 any provision of this Plan to the contrary, those individuals listed on
20 Appendix A to this Plan will be credited with twice the number of
21 Years of Benefit Service under this Plan for each Year of Credited
22 Service (including fractions thereof) during which that person is an
23 Active Participant. For illustration purposes only, if such an individual
24 accrues 2.5 Years of Credited Service under the Basic Plan, such
25 individual will be credited with 5 Years of Benefit Service under this
26 Plan. However, to the extent an individual listed on Appendix A is a
27 Stationary Participant, in no event will the number of Years of Benefit
28 Service taken into account under this Plan exceed 30.

1 **APPENDIX A ADDENDUM TO SECTION 3.7**

2 As referenced and subject to the terms of Section 3.7 of the Plan, the
3 following individuals will be credited with twice the number of Years
4 of Benefit Service under this Plan for each Year of Credited Service
5 (including fractions thereof) during which the person is an Active
6 Participant:

- 7 (1) Michael J. Chesser
8 (2) John Marshall
9 [GPE 2009 SEC Form 10-K - EX-10.1.27]

10 Q. Is KCPL able to provide any assurance to the Staff that the lump sum
11 payments it makes to retiring executives are based on restoring the pension benefits limited
12 by the Internal Revenue Code?

13 A. No. In response to Staff Data Request No. 282 in Case No. ER-2009-0089,
14 KCPL explained that it could provide no such assurance.

15 Staff question:

16 For each of the 15 individuals listed on Adj 27 & 5 MO-Pensions-
17 Update Sep 08 SERP Lump-sum, please provide a copy of the
18 individual SERP agreement which spells out the terms of the SERP,
19 and provide a copy per individual by year of the calculation which
20 shows the annual salary, annual salary that qualifies for regular
21 pension benefits, annual salary that exceeds the amount that qualifies
22 for the provision of regular pension benefits, the calculation of the
23 SERP benefit and the average life expectancy used for this individual
24 in the regular pension plan calculation of regular pension benefits.
25 2. Please certify that the lump sum payments paid to each of these
26 individuals represents only the dollars of benefits that this individual
27 would be entitled to under the terms and conditions of the regular
28 pension based on his/her base salary (excluding bonus and incentive
29 compensation and stock compensation) had there been no salary
30 restriction imposed by the IRS on the amount of salary that can be
31 used to calculate pension benefits. If not, please describe why it is
32 different.

33 KCPL response:

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Q. Please explain further why the level of lump sum SERP payments made by KCPL over the past several years cannot be quantified as a known and measurable expense sufficiently to be included in KCPL's revenue requirement?

A. KCPL's revenue requirement is the sum of operating and maintenance expenses, depreciation expense, taxes and a fair and reasonable return on the net value of property used and useful in serving its customers. This revenue requirement is based on a test year. In order that the test year reflect conditions existing at the end of the test year as well as significant changes that are known or reasonably certain to occur, it is necessary to make certain "pro forma" adjustments. KCPL's lump sum SERP payments are highly irregular both in frequency and amounts. There is no reasonable way to quantify this type of payment as they are neither known nor reasonably certain to occur on a recurring basis.

Q. Are there other concerns about the appropriateness of including lump sum SERP payments in a revenue requirement as a reflection of a known and measurable cost?

A. Yes. For example, if a KCPL executive retires at age 60 and receives a lump sum payment, that lump sum payment is designed to represent supplemental pension annuity payments over the life of that executive, which could be 10 to 20 years. Including all of the cost of the 10-20 year annuity payment in a single year distorts the expense level. A much more appropriate method of annualizing lump sum SERP payments would be to amortize the payment over the average expected remaining lives of retiring executives. The data is readily available from KCPL's actuaries.

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1 Q. Have other state utility regulatory commissions concluded that SERP costs
2 should not be included at all in rates charged to utility customers?

3 A. Yes. In preparation for this testimony I did a limited review of other
4 regulatory commission's treatment of SERP for ratemaking purposes and found that the
5 question of whether or not to include SERP expenses in utility rates is a controversial issue.
6 For example, the Arizona Public Service Commission expressed its conclusions in its
7 Opinion and Order in Docket No. G-0155A-07-0504, Decision No. 70665 where it rejected
8 the inclusion of SERP in utility rates:

9 Staff witness Smith and RUCO witness Moore recommend a total
10 disallowance of SERP expenses. Mr. Smith cites to the prior
11 Southwest Gas rate case, as well as the subsequent UNS Gas, 9PS, and
12 UNS Electric cases, wherein the Commission disallowed SERP costs.
13 Mr. Moore stated that SERP costs are not a necessary cost for
14 providing service and indicated that the high-ranking officers covered
15 by the SERP are already fairly compensated for their work and are
16 provided a comprehensive array of benefits in addition to salaries.
17 (RUCO Ex. 3 at 30.)

18 We agree with Staff and RUCO that the SERP expenses sought by
19 Southwest Gas should once again be disallowed. We do not believe
20 any material factual difference exists in this case that would require a
21 result that differs from the Company's prior case. In that case, we
22 stated:

23 [W]e believe that the record in this case supports a finding that
24 the provision of additional compensation to Southwest Gas'
25 highest paid employees to remedy a perceived deficiency in
26 retirement benefits relative to the Company's other employees
27 is not a reasonable expense that should be recovered in rates.
28 Without the SEW, the Company's officers still enjoy the same
29 retirement benefits available to any other Southwest Gas
30 employee and the attempt to make these executives "whole" in
31 the sense of allowing a greater percentage of retirement
32 benefits does not meet the test of reasonableness. If the
33 Company wishes to provide additional retirement benefits
34 above the level permitted by IRS regulations applicable to all
35 other employees it may do so at the expense of its shareholders.
36 However, it is not reasonable to place this additional burden on
37 ratepayers. (Decision No. 68487 at 19.)

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1 In the recent UNS Gas, APS, and LNS Electric cases, we followed the
2 rationale cited above in disallowing SERP expenses. In Decision No.
3 7001 1, we indicated that SERP costs should not be recoverable and
4 indicated:

5 [The issue is not whether UNS may provide compensation to
6 select executives in excess of the retirement limits allowed by
7 the IRS, but whether ratepayers should be saddled with costs of
8 executive benefits that exceed the treatment allowed for all
9 other employees. If the Company chooses to do so.
10 shareholders rather than ratepayers should be responsible for
11 the retirement benefits afforded only to those executives. We
12 see no reason to depart from the rationale on this issue in the
13 most recent Southwest Gas rate case, and we therefore adopt
14 the recommendations of Staff and RUCO and disallow the
15 requested SEW costs.

16 For these reasons, we agree with the recommendations of Staff and
17 RUCO that the request for inclusion in rates of SEW expenses should
18 be denied. We therefore adopt the recommendations of Staff and
19 RUCO on this issue.

20 Q. What Commissions other than the Arizona Public Service Commission have
21 rejected utility arguments to recover SERP in utility rates?

22 A. Based on my limited review I found that the Public Utilities Commission of
23 Nevada and the Connecticut Department of Public Utility Control ordered that SERP not be
24 included in utility rates. The Public Utilities Commission of Nevada in its March 2004 Order
25 in Docket No. 03-10001, a Nevada Power Company rate case, expressed its concern about
26 rate recovery of SERP expenses:

27 431. The Commission notes that NPC's contention that SERP is
28 necessary to attract and retain qualified personnel does not comport
29 with recent history. It is common knowledge that NPC has
30 experienced significant turnover in officers over the past few years.
31 Given turnover, the departing executives take the SERP benefit and
32 the customers do not receive in turn the benefit of their continuation of
33 service. Since NPC's rationale does not comport with reality, the
34 Commission finds that Mr. Effron's \$555,000 adjustment to remove
35 SERP costs is accepted.

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1 The Connecticut Department of Public Utility Control, in Docket No. 10-12-02, Application of
2 Yankee Gas Services Company, in its June 29, 2011 Decision expressed its concerns about
3 SERP and excluded all SERP from Yankee Gas Services Company's utility rates:

4 Based on the record evidence, the Department denies Yankee's SERP
5 expense. This denial is based on prior rate case denial in Connecticut
6 and other jurisdictions as is discussed above. The Department finds
7 that Connecticut is still in bad economic times and as such, ratepayers
8 cannot afford in rates benefit costs that are above and beyond what the
9 IRS allows for a qualified pension plan. In addition, the Department is
10 not convinced that SERP is necessary to hire or retain executives as
11 was stated by Yankee. The Department's denial is for ratemaking
12 purposes only and Yankee may fund the SERP expense through
13 stockholder funds. The Department finds this denial of the SERP
14 expense, which includes the Yankee direct SERP expense and the
15 NUSCO allocated SERP expense, to be \$347,000 in RY1 and
16 \$344,000 in RY2.

17 Q. What is the objective of KCPL's SERP?

18 A. The principal objective of KCPL's current SERP Plan is to "ensure the
19 payment of a competitive level of retirement income in order to attract, retain, and motivate
20 selected executives, and to restore benefits which cannot be paid under the Company's
21 Qualified Pension Plan due to restrictions on benefits, contributions, compensation, or the
22 like imposed under that plan." [GPE 2009 SEC Form 10-K - EX-10.1.27]

23 Q. Does it appear that KCPL is meeting the objective of its SERP?

24 A. No. KCPL experienced significant turnover as expressed by the number of
25 KCPL executives being paid SERP over the past few years. In the nine year period 2001
26 through 2009 a total of 15 employees left the employ of KCPL and received lump sum SERP
27 payments. This is an average of 1.7 payments per year. In 2010 KCPL made 7 lump sum
28 SERP payments and in 2011 a total of 6 lump sum payments. These numbers clearly reflect
29 the same concern that was noted by the Public Utilities Commission of Nevada that high

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1 turnover of SERP-compensated executives results in the departing executives taking the
2 SERP benefits and KCPL customers do not receive in turn any benefit of their continuation
3 of service.

4 Q. In addition to the significant increase in turnover of KCPL executives over the
5 past few years are there other indications that KCPL's SERP has not been successful in
6 retaining KCPL executives?

7 A. Yes. Of the seven KCPL executives who received lump sum SERP payments
8 in 2010, five of these individuals had less than 10 years of service with KCPL. One
9 employee who received a SERP payment was employed with KCPL for less than one
10 year and another employee had 2 years of employment with KCPL. In 2011, of the
11 six employees who received lump sum SERP payments, 50% had six or less years of
12 employment with KCPL.

13 **Wolf Creek Nuclear Operating Company (WCNOC) SERP**

14 Q. What level of SERP expenses did Staff include for WCNOC?

15 A. The Staff's revenue requirement recommendation in this case includes
16 \$92,521 for WCNOC SERP expenses. This amount represents KCPL's 47% ownership
17 share of WCNOC.

18 Q. Did the Staff apply certain reasonableness tests and thresholds for WCNOC
19 SERP in this case?

20 A. Yes. As described in the rebuttal testimony of Mr. Foltz, the Staff only
21 included SERP costs for former employees who were employed by WCNOC for a minimum
22 of five years. The Staff also limited the annual amount of SERP expenses per former
23 employee to \$50,000 per year.

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1 Q. What is the basis for the five year minimum employment test?

2 A. A SERP is in effect of a continuation of a company's regular pension plan.
3 Most pension plans of which I am aware have a minimum vesting period of five years. In
4 addition, most companies develop a SERP for the express purpose of attracting and retaining
5 qualified and high quality employees. If an employee does not remain with a company for
6 five years, obviously, the objective of the SERP was not met and the SERP was not
7 successful at retaining this employee.

8 Q. Has Mr. Foltz provided any evidence of why a five year vesting period for a
9 SERP is unreasonable?

10 A. No.

11 Q. What is the basis for the annual SERP payment test?

12 A. Because of their nature, all executive compensation mechanisms are closely
13 monitored for reasonableness, including salary, incentive compensation and bonus. A SERP
14 is no different. Based on my professional experience of reviewing SERP costs for Missouri
15 utilities over the past almost twenty years, I believe that a SERP, or supplemental pension
16 payment of \$50,000, is in the top 5 percent of all annual SERP payments of former utility
17 employees I have reviewed and is an appropriate ceiling on the level of SERP costs, per
18 retiree, that should be included in rates.

19 Q. Has Mr. Foltz provided any evidence of why a \$50,000 annual per-employee
20 limit for a SERP is unreasonable?

21 A. No. It is not clear from Mr. Foltz's testimony if he even believes there should
22 be limits on SERP payments to former utility executives.

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1 Q. In addition to the Staff's reasonableness tests for WCNOC's SERP costs,
2 are there indications that WCNOC has been imprudent in the payment of past and present
3 SERP costs?

4 A. Yes.

5 Q. Please explain.

6 A. As Mr. Foltz notes in his rebuttal testimony, WCNOC has seven individual
7 SERP agreements, of which all participants are retired and being paid monthly. One of these
8 seven former WCNOC employees is Mr. Neil Carns. Mr. Carns was approximately 53 years
9 of age when he signed his SERP with WCNOC on July 8, 1993. The Staff reviewed this
10 document provided by KCPL in response to Staff Data Request No. 496. Paragraph 7 of this
11 document states that ** _____

12 _____
13 _____
14 _____
15 _____
16 _____
17 _____ **

18 However, Mr. Carns did not remain a WCNOC employee until his ** _____ **. In
19 January 1997, 42 months after signing his WCNOC SERP, Mr. Carns resigned his position at
20 WCNOC and took a new position at Northeast Utilities. Mr. Carns was with Northeast Utilities
21 less than a year and accepted a new position at Consolidated Edison Company of New York,
22 Inc. (Con Edison) in 1998.

23 Q. Did the Staff include any SERP costs for Mr. Carns in KCPL's cost of service
24 in this case?

25 A. No, it did not.

WCNOC Other Postretirement Expenses (OPEB) Funding Issue

1 Q. At page 10 of his rebuttal testimony Mr. Foltz states that the WCNOC OPEB
2 fund is a KCPL OPEB fund. Is he correct?
3

4 A. No. WCNOC and KCPL are separate and distinct companies. KCPL only
5 owns 47 percent of WCNOC, not even a controlling interest. WCNOC is owned by three
6 separate companies: KCPL (47 percent ownership share), Kansas Gas and Electric, a
7 Westar Energy Company (47 percent) and Kansas Electric Power Cooperative (6 percent).
8 WCNOC manages the nuclear Wolf Creek Generating Station for its owners, who share its
9 energy in proportion to their ownership interest. Mr. Foltz's testimony is clearly factually
10 incorrect when he states at page 10 that the WCNOC OPEB plan is a KCPL plan:

11 Mr. Hyneman believes that the funding criteria of Section 386.315
12 RSMo must be applied individually to each of KCP&L's three
13 OPEB plans—the management plan, the bargaining plan and the
14 WCNOC plan.

15 Q. Does Mr. Foltz admit later in his testimony that the WCNOC OPEB plan is
16 not a KCPL plan and KCPL has no control over or access to the WCNOC OPEB plan?

17 A. Yes. At page 11 of his rebuttal he states that "KCP&L does not manage the
18 trust used by WCNOC for its employees and is not able to make contributions directly into
19 it." It is not clear how Mr. Foltz can claim that the WCNOC OPEB plan is a KCPL plan
20 when KCPL is not even allowed to make a contribution to WCNOC OPEB plan.

21 Q. Also at page 10 of his rebuttal testimony Mr. Foltz describes the Staff's
22 position as follows: "since WCNOC's policy is to fund payments in excess of participant
23 contributions, Mr. Hyneman believes that KCP&L may have been over-collecting in rates
24 regardless of the amount of KCP&L's contributions to the plans in total." Is this an accurate
25 portrayal of the Staff position?

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1 A. No. Staff's position is very simple - KCPL should collect in rates the amount
2 of WCNOC OPEB costs is actually pays to WCNOC. KCPL reimburses WCNOC for
3 WCNOC annual payments to its retirees for OPEBs, primarily medical benefits. This is the
4 level of WCNOC costs that should be reflected in KCPL's cost of service and this is the level
5 that Staff has included in KCPL's cost of service.

6 Staff is opposed to KCPL recovering WCNOC OPEB costs based on an accrual
7 method (FAS 106) designed to calculate an OPEB expense based on the personal facts and
8 circumstances of individual employees in WCNOC's (not KCPL's) employee workforce.
9 Staff is also opposed to KCPL taking OPEB benefit funds included in rates in order to pay
10 compensation to WCNOC employees and to instead place these funds in OPEB plans that
11 will only benefit KCPL employees.

12 Q. At page 11 of his rebuttal testimony, Mr. Foltz states that Section 386.315
13 RSMo requires amounts collected in rates be funded to an independent external funding
14 mechanism in order to use amounts calculated pursuant to GAAP as codified by FASB in
15 Accounting Standards Codification 715, formerly referred to as Statement of Financial
16 Accounting Standards No. 106 ("FAS 106") for ratemaking. Do you agree with
17 this statement?

18 A. Yes. Section 386.315 RSMo includes a funding requirement as a prerequisite
19 for the adoption of FAS 106 for ratemaking purposes. The recognition of FAS 106 for
20 ratemaking purposes is conditioned on a requirement that annual FAS 106 costs collected in
21 rates be funded in a separate funding mechanism to be used solely for the payment of OPEB
22 benefit costs to retirees. Paragraph 2 of Section 386.315 addresses the funding requirement:

23 2. A public utility which uses Financial Accounting Standard 106 shall
24 be required to use an independent external funding mechanism that

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1 restricts disbursements only for qualified retiree benefits. In no event
2 shall any funds remaining in such funding mechanism revert to the
3 utility after all qualified benefits have been paid; rather, the funding
4 mechanism shall include terms which require all funds to be used for
5 employee or retiree benefits. This section shall not in any manner be
6 construed to limit the authority of the commission to set rates for any
7 service rendered or to be rendered that are just and reasonable pursuant
8 to sections 392.240, 393.140 and 393.150.

9 Q. It appears that both Staff and KCPL agree that if KCPL wants to
10 recover OPEB costs in rates based on the actuarially-calculated FAS 106 method, it must
11 put the FAS 106 dollar amount included in cost of service in an external fund to be
12 used solely to pay retiree benefits. Given this agreement, why is there a disagreement over
13 the funding issue?

14 A. The disagreement is based on the fact that KCPL believes it is appropriate to
15 take the dollars collected in rates designed to compensate WCNOB retirees for their medical
16 costs and put these dollars in a fund restricted solely for the benefit of KCPL employees and
17 retirees. The Staff asserts that this action is inappropriate and the Commission should not
18 allow KCPL to continue with this action.

19 Q. Please continue.

20 A. Section 386.315 RSMo requires a public utility which uses FAS 106 to use an
21 independent external funding mechanism that restricts disbursements only for qualified
22 retiree benefits. The FAS 106 expense was solely calculated on actuarial data about specific
23 WCNOB employees and designed to predict future payments to these specific current
24 WCNOB employees. To read this requirement as authorizing KCPL take an expense based
25 on WCNOB employees and to put these dollars in a fund that is restricted to pay only KCPL
26 employees and retirees future OPEB expenses is illogical.

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1 Q. How can the Commission effectively halt KCPL's current practice of placing
2 WCNOC OPEB amounts into KCPL employee OPEB trust funds?

3 A. The Commission should decide that the appropriate level of WCNOC OPEB
4 expense to include in KCPL's cost of service is the actual amount billed to and paid by
5 KCPL, not the actuarially-determined FAS 106 amount. The actual amount billed by
6 WCNOC to KCPL is referred to as the "pay-as-you-go" amount.

7 Q. Is the "pay-as-you-go" ratemaking methodology for retiree OPEB expense a
8 legitimate method?

9 A. Yes it is. This method was actually the standard method used prior to the
10 implementation of the FAS 106 actuarial method. It is simply a method that determines an
11 annual expense based on the cash basis (OPEB benefit dollars paid to retirees) as opposed to
12 an accrual basis designed to estimate what future benefit levels will be based on the personal
13 characteristics of the specific employees covered under the plan.

14 Prior to FAS 106, most employers accounted for postretirement benefits on a
15 pay-as-you-go (cash) basis. As the prevalence and magnitude of employers' promises to
16 provide those benefits have increased, there has been increased concern about the failure of
17 financial reporting to identify the financial effects of those promises.

18 Q. Why is it inappropriate for KCPL to contribute amounts collected in rates for
19 WCNOC OPEBs into KCPL employee OPEBs trust funds??

20 A. The calculation of FAS 106 is based on employee specific data such as age,
21 sex, marital status and employee-specific assumptions such as retirement dates,
22 mortality, etc. When a FAS 106 calculation for WCNOC is done, it is done with the intent to
23 determine how much WCNOC will have to pay current WCNOC employees for medical

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1 benefits when these employees retire. These WCNOE employee-specific costs have nothing
2 at all to do with KCPL and KCPL employees. These WCNOE FAS 106 costs should not
3 accrue to the benefit of KCPL employees by KCPL management putting the excess dollars
4 collected in rates from Missouri ratepayers into a KCPL employee fund.

5 In FAS 106 on page 7, the FASB describes the basis of FAS 106 as follows:

6 This Statement requires that an employer's obligation for
7 postretirement benefits expected to be provided to or for an employee
8 be fully accrued by the date that employee attains full eligibility for all
9 of the benefits expected to be received by that employee, any
10 beneficiaries, and covered dependents (the full eligibility date), even if
11 the employee is expected to render additional service beyond that date.

12 That accounting reflects the fact that at the full eligibility date the
13 employee has provided all of the service necessary to earn the right to
14 receive all of the benefits that employee is expected to receive under
15 the plan.

16 The beginning of the attribution (accrual) period is the employee's date
17 of hire unless the plan only grants credit for service from a later date,
18 in which case benefits are generally attributed from the beginning of
19 that credited service period.

20 An equal amount of the expected postretirement benefit obligation is
21 attributed to each year of service in the attribution period unless the
22 plan attributes a disproportionate share of the expected benefits to
23 employees' early years of service.

24 Q. How many WCNOE employees are included in its FAS 106
25 expense calculation?

26 A. There are approximately 1,000 WCNOE employees included in the 2011
27 FAS 106 Actuarial Report.

28 Q. What are some of the employee-specific criteria used by the WCNOE's
29 actuary to determine the employee-specific FAS 106 cost?

30 A. According to WCNOE's Actuarial Report, the WCNOE employee-specific
31 FAS 106 expense includes the following employee assumptions:

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1 Average employee age
2 Average credited service
3 Average future working life
4 Age of surviving spouses
5 Number of dependents
6 Dependents average age
7 Percent married

8 Q. Did the FASB make it explicitly clear that the calculation of FAS 106 OPEB
9 expense was an employee-specific form of employee compensation?

10 A. Yes. FASB stated that a FAS 106 postretirement benefit plan between a
11 certain employer and its employees is the same as a deferred compensation arrangement or
12 an employer-employee contract:

13 The Board concluded that, like accounting for other deferred
14 compensation agreements, accounting for postretirement benefits
15 should reflect the explicit or implicit contract between the employer
16 and its employees. (FAS 106 p. 7)

17 The Board views a postretirement benefit plan as a deferred
18 compensation arrangement whereby an employer promises to
19 exchange future benefits for employees' current services. Because the
20 obligation to provide benefits arises as employees render the services
21 necessary to earn the benefits pursuant to the terms of the plan, the
22 Board believes that the cost of providing the benefits should be
23 recognized over those employee service periods (FAS 106 p. 9)

24 Q. At page 10 of his rebuttal testimony Mr. Foltz states that KCPL believes
25 the statute (Section 386.315 RSMo) allows for funding criteria to be applied to the
26 "Company plans in total" which are based on a FAS 106 calculation for the "entire Company
27 including WCNOC". Why do you believe Mr. Foltz keeps asserting that the WCNOC OPEB
28 plan is a KCPL plan and that WCNOC is not a separate operating company from KCPL?

29 A. I believe that Mr. Foltz realizes that the only way KCPL can convince the
30 Commission that its position is more appropriate than the Staff position is to confuse the
31 Commission into believing that WCNOC is part of KCPL, when it clearly is not. That is

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1 why it is important for the Commission to understand that WCNOC is not a KCPL company
2 and it is not even majority owned or controlled by KCPL. As noted above, KCPL has no
3 influence over or control over WCNOC's OPEB fund. As Mr. Foltz stated in his testimony,
4 KCPL does not even have the ability to make a contribution to the WCNOC fund.

5 Q. Did KCPL hire the outside actuarial consultant to determine WCNOC's
6 FAS 106 OPEB expense?

7 A. No. According to a recent WCNOC actuarial report "Wolf Creek Nuclear
8 Operating Corporation retained Towers Watson Pennsylvania Inc. ("TowersWatson"), to
9 perform an actuarial valuation of its postretirement welfare program...".

10 Q. Did KCPL hire the outside actuarial consultant to determine its own KCPL
11 FAS OPEB 106 expense?

12 A. Yes.

13 Q. At page 11 of his rebuttal testimony Mr. Foltz states that if KCPL were
14 to make contributions to the WCNOC fund in the amount KCPL recovers in rates
15 (accrual basis) over the amount WCNOC charges KCPL (cash basis) KCPL would somehow
16 be harmed. Please comment.

17 A. The point Mr. Foltz was trying to make is not clear; however, if the
18 Commission accepts the Staff's cash basis methodology for WCNOC OPEB expense, this
19 supposed problem will not exist. The Staff proposes to include in cost of service only the
20 amount that KCPL pays WCNOC, not the higher FAS 106 WCNOC employee-specific
21 accrual method.

22 Q. Why is the Staff's proposal superior to KCPL's proposal on WCNOC
23 OPEB expense?

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1 A. The Staff method provides in rates the actual dollar amount that KCPL has to
2 pay WCNOC for KCPL's share of WCNOC retiree OPEB expense. With the exception of
3 pension and decommissioning expense, all other WCNOC operations and maintenance and
4 compensation costs that I am aware are paid by KCPL to WCNOC on a cash or pay-as-you-
5 go basis. This arrangement is very similar to a company paying a consultant on a cash basis
6 for specific services received. The Staff's proposal puts WCNOC OPEB expense, which is
7 not funded on a FAS 106 accrual, on the same basis as all other expenses that are not funded.
8 This Staff's method is the only reasonable, logical, and consistent method to account for
9 WCNOC's OPEB expense for ratemaking purposes.

10 **Regulatory Lag**

11 Q. At page 2 of his rebuttal testimony, Mr. Ives states that over the last several
12 years KCPL has been experiencing extensive regulatory lag that prevents it from realizing an
13 earned return on equity that is reasonable and expected based on the allowed returns on
14 equity authorized by this Commission in previous cases. Please comment.

15 A. Mr. Ives does not describe what he means by "over the last several years."
16 If his time horizon is broadened to include the last 25 years, then the exact opposite of what
17 Mr. Ives states is true. The truth, to paraphrase Mr. Ives, is that for most years from 1985
18 through 2012 KCPL has experienced extensive regulatory lag that allowed it to realize an
19 earned return on equity that would be higher than what would normally be considered
20 reasonable for ratemaking purposes.

21 Q. Mr. Ives includes the following chart at page 3 of his rebuttal testimony.
22 What is the meaning of the earned ROE numbers put forth by Mr. Ives?

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1

Kansas City Power & Light Company Authorized vs Actual Return on Equity				
Source: Rate Orders and Annual Missouri Surveillance Reports				
	Date Rates	Authorized	Calendar	Earned
ER-2006-0314	1/1/2007	11.25%	2007	10.04%
ER-2007-0291	1/1/2008	10.75%	2008	7.69%
ER-2009-0089	9/1/2009	Settlement	2009 2010	6.15% 6.91%
ER-2010-0355	5/4/2011	10.00%	2011	5.94%

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A. Very little. Mr. Ives' numbers are merely a mathematical calculation of net income divided by equity dollars as reflected in KCPL's financial reports. They do not take into consideration the reasonableness or the prudence of the costs KCPL incurred during these periods that could have a significant impact on the earned ROE numbers. There is substantial evidence in the record in this case that shows that KCPL's earned ROE could be even higher than the levels reflected in Mr. Ives' chart, if reasonable and additional operational efficiencies had been implemented. For example, KCPL's employee retirement costs, especially pension costs have been found in a recent benchmarking study **

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In addition to KCPL incurring excessive pension costs, as noted at page 250 of the Staff's Cost of Service Report in the case, there is evidence that KCPL's administrative and general (A&G) expenses continue to increase and be the highest per average customer, per megawatt hour sold, and per dollar of electric operating revenue basis than all other major Missouri regulated utilities. Staff presented an analysis of Administrative & General expenses in the 2010 Rate Case, and the Commission considered it in its Finding of Fact 458:

18

19

20

458. Staff did an analysis of the Companies' Administrative & General (A&G) expenses and other electric utilities in the region. [footnote omitted] Staff's analysis indicates that on a combined

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1 company basis, KCP&L and GMO have the highest A&G expenses
2 per customer, per megawatt hour sold and per dollar of operating
3 revenue. [footnote omitted]

4 Q. Would you expect that a company's earned ROE will usually match perfectly
5 or even closely to its authorized ROE?

6 A. No, not when taking into account such factors as abnormal weather,
7 incurrence of one-time or non-recurring charges, decisions by utilities to incur expenses that
8 are disallowed for ratemaking purposes, the existence of a general increasing or decreasing
9 cost trend, and other items.

10 Q. Has KCPL previously provided its actual earned ROE to the Staff for
11 years prior to those listed in Mr. Ives' "Authorized vs Actual Return on Equity 2007
12 through 2011" chart?

13 A. Yes. In response to Staff Data Request No. 0023 in Case No. ER-2006-0314
14 KCPL stated that it provided the actual return on average equity for Great Plains Energy and
15 all its subsidiaries from 2000 to 2005 in the spreadsheet file named "MPSC0023 Return on
16 Equity." The following KCPL actual earned ROEs are extracted from this spreadsheet:

17

<u>Year</u>	<u>KCPL Earned ROE</u>
2000	17.6%
2001	14.2%
2002	12.9%
2003	14.6%
2004	14.7%
2005	12.8%

18

Source: KCPL DR 23 ER-2006-0314

19 Q. How did the Commission allow regulatory lag to work during the period when
20 KCPL's actual earned ROEs may have been in excess of what was authorized by the
21 Commission?

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1 A. I think it is important to contrast the actions of the Commission during the
2 period of higher ROEs with the actions of KCPL during the more recent period of lower
3 ROEs. During the 20-year period 1985 through 2005 KCPL's earnings in some and maybe
4 in a majority of these years were in excess of what would be considered a reasonable
5 authorized ROE for ratemaking purposes. The Commission could have ordered ratemaking
6 mechanisms such as accounting authority orders, trackers, or sharing mechanisms to force
7 KCPL to defer excess earnings or share them with ratepayers. It did not. It allowed
8 regulatory lag to work as it was designed to work and that is, to provide incentives
9 to management to operate the utility in the most efficient and effective way it is capable
10 of doing.

11 Contrast the actions of the Commission with the actions of KCPL. KCPL has just
12 experienced a few years of earned ROEs that are less than the level authorized and its
13 response in previous rate cases and this rate case is to seek a number of ratemaking
14 mechanisms, primarily trackers, to prevent its shareholders from experiencing any of the
15 normal effects of regulatory lag in a significantly weak economic environment.

16 Q. Does regulatory lag provide incentives for utility companies to increase profits
17 to as high a level as economic circumstances and regulatory Commission oversight allow?

18 A. Yes. Regulatory lag created the incentives for KCPL to reap more and more
19 profits in the 1980s, 1990s and early 2000s. Regulatory lag allowed KCPL to enjoy hefty
20 earned ROE levels such as the almost 18% in the year 2000. Similarly, regulatory lag works
21 equally well force utilities to keep costs as low as possible in between rate cases, especially
22 in this weak economic period. That is how regulatory lag is supposed to work and does
23 work, if not manipulated.

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1 Q. Have you compiled a table which shows how KCPL's earned ROE compares
2 with authorized ROE from state regulatory commissions over a broader time period than the
3 short timeframe represented in Mr. Ives' chart?

4 A. Yes. In the table below, I compiled such a table and I compared the actual
5 earned ROEs as reported by KCPL to the annual average equity returns authorized for
6 electric utility companies during this period as reported by the Regulatory Research
7 Associates (RRA). The actual earned ROE by KCPL for 2006 was not readily available. In
8 its April 5, 2012 *Regulatory Focus* report RRA listed the average ROE for all U.S. electric
9 utilities authorized in major electric rate decisions annually from 1990 through the first
10 quarter of 2012:

11

<u>Year</u>	<u>KCPL Earned ROE</u>	<u>Electric Utilities ROE</u>	<u>Difference</u>
2000	17.6%	11.4%	6%
2001	14.2%	11.1%	3%
2002	12.9%	11.2%	2%
2003	14.6%	11.0%	4%
2004	14.7%	10.8%	4%
2005	12.8%	10.5%	2%
2007	10.0%	10.4%	0%
2008	7.7%	10.5%	-3%
2009	6.2%	10.5%	-4%
2010	6.9%	10.2%	-3%
2011	5.9%	10.8%	-5%
Average	11.2%	10.8%	

12

13 Q. What does this table reflect?

14 A. First of all it reflects that when you look at a longer 11-year time horizon as
15 opposed to a short five-year time horizon a more complete picture of the true impact of
16 regulatory lag on KCPL's shareholders can be gleaned. The true impact is that regulatory lag
17 has been very good to KCPL in the past as reflected in the fact that KCPL's actual average

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1 earned ROE for this period (11.2%) exceeded the average authorized ROEs for all major
2 electric utilities in the U.S. (10.8%).

3 Q. Do you have any general comments concerning Mr. Ives' discussion of
4 regulatory lag in his rebuttal testimony?

5 A. Yes. Mr. Ives devotes a lot of rebuttal testimony complaining that KCPL's
6 financial results have not been great because of a bad economy. I do not believe that it is
7 surprising news that companies do not do well in extremely tough economic times like the
8 U.S. has been experiencing since 2008. It may not be a coincidence that KCPL's earned
9 ROEs have decreased in tandem with the decline in the overall economy. It does not appear
10 reasonable for Mr. Ives to blame regulatory lag in entirety for conditions that relate, at least
11 in part, to the financial impact of a bad economy that it has had to endure for the past few
12 years. The facts are clear that most companies in the U.S. have had to endure the financial
13 impact of the bad economy.

14 Q. Does Mr. Ives realize the severity of the current economic crisis?

15 A. Yes. In KCPL's companion rate case in Kansas, Docket No. 12-KCPE-764-
16 RTS at page 23 of his recently-filed rebuttal testimony Mr. Ives stated "... in the last several
17 years the country has been experiencing the most significant economic downturn since the
18 Great Depression."

19 Q. In addition to the bad economy, was there another major event that occurred
20 in 2008, which appears to be the beginning of KCPL's decreased ROEs?

21 A. Yes. In 2008 GPE acquired the Missouri regulated operations of Aquila, Inc.
22 The impact of this acquisition and how GPE integrated the old Aquila regulated properties

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1 and employees could be a contributing factor to KCPL's earned ROEs which it finds
2 unsatisfactory.

3 **Organizational Realignment Voluntary Separation Program (ORVS)**

4 Q. At page 10 of his rebuttal testimony, Mr. Ives states that Staff has provided
5 recovery for ORVS-related FAS 88 pension costs in this case. Is this correct?

6 A. Yes. Mr. Ives correctly noted that the Staff has held to its "commitment in the
7 Nonunanimous Stipulation and Agreement Regarding Pensions and Other Post-Employment
8 Benefits entered into in the 2010 Rate Case that provided for the deferral and recovery of
9 pension settlement costs required by Statement of Financial Accounting Standard No. 88
10 ("FAS 88")."

11 Q. Is this Stipulation and Agreement commitment the only reason why Staff has
12 included ORVS-related FAS 88 costs in KCPL's cost of service in this case?

13 A. Yes. Due to what Mr. Ives refers to as "positive" regulatory lag, by the time
14 current rates are changed from this rate case, KCPL will have recovered directly in rates
15 significantly more dollars from terminated employee salary and benefits compensation than it
16 expended in severance and other ORVS-related costs, including its FAS 88 pension
17 settlement costs.

18 Q. At page 43 of his rebuttal testimony, Mr. Ives states that KCPL and GMO are
19 "merely requesting to recover, on a delayed basis, the one-time costs incurred to provide
20 these substantial customer benefits. I would note to the Commission that the Company
21 incurred these costs in 2011, and if its proposal is granted, the costs won't be fully recovered
22 until 2017." Please comment.

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1 A. This testimony is false as Mr. Ives knows that KCPL will not only fully
2 recover the severances costs paid to the ORVS employees but will significantly over-recover
3 these severance payments. As I noted in the Staff's Cost of Service Report, and provided
4 significant evidentiary support in my rebuttal testimony, any statement that ORVS costs
5 won't be fully recovered until 2017 is completely false. These costs are already fully
6 recovered through KCPL's continuous rate recovery of the salaries and benefits of the ORVS
7 employees, salaries and benefits which it no longer pays.

8 Q. At page 41 of his rebuttal testimony, Mr. Ives quotes the Commission's
9 Report and Order in the 2010 Rate Case, No. ER-2010-0355 at paragraph 442. Please
10 comment on the following Commission language quoted by Mr. Ives:

11 As a result of regulatory lag, if a utility experiences a cost decrease,
12 there is a lag in time until that reduced cost is reflected in rates.
13 During that lag, the Company shareholders reap, in the form of
14 increased earnings, the entirety of the benefit associated with the
15 reduced costs. The Company shareholders also reap, in the form of
16 decreased earnings, the entirety of the loss associated with the
17 increased costs.

18 A. I completely agree with these Commission statements.

19 Q. Is the Staff's position on ORVS completely consistent with this
20 Commission language?

21 A. Yes, it is.

22 Q. Does Mr. Ives' testimony state that the Staff's ORVS position is not
23 consistent with this Commission language?

24 A. Yes, he does. He states that the Staff's position attempts to take the
25 shareholder benefit from positive regulatory lag noted by the Commission and utilize that
26 benefit to cover the severance costs that were incurred to create the short-term benefits to

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1 shareholders and the long term, perpetual benefits to customers once the benefits are
2 reflected in rates in this rate case.

3 Q. Is Mr. Ives' explanation of the Staff's position correct?

4 A. Not at all. First of all, there is no evidence that there will necessarily be any
5 long-term benefit. Second, Mr. Ives defines "shareholder benefit from positive regulatory
6 lag" as the total dollars KCPL collected in rates for salaries and benefits from the date KCPL
7 stopped paying these salaries and benefits until the rates are changed from this case that will
8 no longer include the salaries and benefits of these 140 former management employees.
9 However, this is an incorrect definition and includes only one-half of the event that caused
10 the regulatory lag. Mr. Ives misses the key point that the only reason this regulatory lag
11 benefit could be realized at all is if KCPL engaged in a transaction to pay severance to these
12 employees to entice them to leave the company. When this event is looked at as a complete
13 transaction – payment of severance and then recovery of salaries and benefits – it is clear that
14 the net result is the positive regulatory lag. Mr. Ives is just taking a much too narrow view of
15 the event and puts forth an erroneous definition of "shareholder benefit from positive
16 regulatory lag."

17 Q. Could you describe, using the Commission language cited above, how the
18 Staff position is fully consistent with this Commission language?

19 A. Yes. As a result of regulatory lag, KCPL experienced a cost decrease. KCPL
20 paid severance to 140 management employees so that it could keep for its shareholders the
21 salaries and benefits it no longer had to pay to these 140 former employees. This positive
22 regulatory lag will continue until the reduced cost of 140 salaries and benefits no longer paid
23 is reflected in rates. During this lag, KCPL shareholders reap, in the form of increased

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1 earnings, the entirety of the benefit associated with the reduced costs. The benefit associated
2 with these reduced costs is the dollar amount of the salaries and benefits over and above the
3 cost of the transaction that caused the benefit – the payment of severance. Staff has made no
4 attempt to seek a deferral or rate recovery through any ratemaking mechanism of the
5 significant positive regulatory lag savings that have and continue to accrue to KCPL's
6 shareholders.

7 Q. Does Mr. Ives, who was significantly involved in GPE's acquisition of
8 Aquila, Inc. recognize that KCPL actually does recover savings through regulatory lag?

9 A. Yes. In a 8-K Current Report filed with the Securities and Exchange
10 Commission on February 25, 2008, KCPL described its Aquila acquisition application with
11 the Commission and how KCPL was going to allow naturally occurring positive regulatory
12 lag to retain savings. The savings referenced here are some of the exact same types of
13 savings KCPL realized through ORVS.

14 The filing also withdrew the proposal for a specific synergy savings
15 sharing mechanism, and instead proposed to utilize the natural
16 regulatory lag that occurs between rate cases to retain any portion of
17 synergy savings.

18 Q. You state that the Staff has made no attempt to include the regulatory lag
19 savings that have accrued to KCPL's shareholders in rates in this case. If the Staff took such
20 a position, what dollar amount would the Staff sought to be flowed back as a reduction to
21 KCPL's cost of service?

22 A. As I noted in my rebuttal testimony the total shareholder savings (KCPL and
23 GMO) from the ORVS program is approximately \$34 million. Subtract from this amount the
24 \$13 million cost of the ORVS program that is not being included in KCPL's cost of service,

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1 the net amount that the Staff would likely propose be deferred on KCPL and GMO's books
2 as a regulatory liability to customers is the Missouri jurisdictional portion of \$21 million.

3 Q. Why did the Staff not take this position?

4 A. As I also explained in my rebuttal testimony, the Staff believes that regulatory
5 lag is a natural and essential part of rate of return regulation. Any prolonged or widely
6 focused attempt to manipulate or distort this naturally occurring regulatory lag, such as the
7 proposals made by KCPL in this rate case, will likely result in improper, distorted and unfair
8 utility rates.

9 Q. Would Commission's adoption of KCPL's ORVS proposal likely result in
10 improper, distorted and unfair utility rates?

11 A. Yes. KCPL is seeking direct rate recovery for a cost that has already been
12 directly recovered in rates through the direct inclusion of the salaries and benefits in KCPL's
13 last rate case of the 140 management employees who departed KCPL under the ORVS
14 Program. This, by definition, is improper ratemaking and improper ratemaking likely leads
15 to improper utility rates.

16 Q. Beginning at page 40 and continuing to page 41 of his rebuttal testimony
17 Mr. Ives makes the following statement:

18 Rates generally reflect costs incurred in a historical test period.
19 Regulatory lag can be positive or negative and can span all areas of
20 cost of service. In other words, regulatory lag is purely the difference
21 between actual results and amounts used in the determination of rates
22 – mostly driven by changes from the historical-based test year utilized
23 in the determination of rates.

24 Do you agree with this testimony?

25 A. I do not agree with the first sentence. Many of a utility's revenues and
26 expenses are annualized and normalized to a level that is expected to be experienced on

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1 a going forward basis. In most cases a utility's expenses in a rate case do not match the
2 level incurred in a historical test year. A historical test year is merely a starting point,
3 or benchmark on which to adjust revenues and expenses based on the most current
4 information available.

5 I do agree, however, with Mr. Ives' statement that regulatory lag can be positive
6 or negative and can span all areas of cost of service. This statement is consistent with
7 the Staff's belief that regulatory lag is a naturally occurring phenomena of rate of
8 return regulation.

9 Finally, I also do not agree that regulatory lag is mostly driven by changes from the
10 historical-based test year utilized in the determination of rates. Changes from the historical-
11 based test year are reflected in all the revenue and expense cost of service adjustments that
12 are used to set rates. The costs incurred by a utility in any selected test year is not reflective
13 at all of the normalized and annualized costs that are included in the cost of service
14 calculations used to set rates.

15 Q. Please comment on the following testimony found at page 41 of Mr. Ives'
16 rebuttal testimony:

17 It is not appropriate to pick an area of positive regulatory lag and
18 attempt to utilize it to cover specific costs; there are many other cost of
19 service areas that experience negative regulatory lag. It can be seen
20 from the comparison of earned returns to authorized returns provided
21 earlier in my testimony that the Company has been impacted by
22 negative regulatory lag over the prior five years by a much greater
23 extent than it has benefitted from any areas of positive regulatory lag.

24 First to be clear, the Staff is not picking an area of positive regulatory lag and attempting to
25 use it to cover specific costs. Staff looks at the ORVS program as one complete transaction.
26 As the saying goes, to make money you have to spend money. To even get the \$34 million

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1 regulatory lag savings KCPL had to spend \$13 million in severance. The net effect of the
2 ORVS transaction is that KCPL shareholders reaped the benefit of an additional \$21 million
3 that it would not otherwise have received. This reality should not be ignored.

4 There is also great irony in Mr. Ives' statement that "it is not appropriate to pick an
5 area of positive regulatory lag and attempt to utilize it to cover specific costs; there are many
6 other cost of service areas that experience negative regulatory lag". This is the exact type of
7 behavior that Mr. Ives, not Staff is engaging in. It is KCPL who is picking areas of negative
8 regulatory lag (property taxes, transmission expense, rate case expense, etc.) and attempting
9 to use extraordinary regulatory mechanisms, such as trackers, to isolate this regulatory lag
10 when there are other cost of service areas, especially in past years, that have experienced
11 positive regulatory lag. To my knowledge, KCPL has never sought a tracker for costs that
12 are decreasing, or costs, like KCPL's Kansas City Earnings Tax, that have historically been
13 over-recovered in rates.

14 Finally, Mr. Ives attempts to blame regulatory lag for KCPL's inability to earn what
15 KCPL considers to be a reasonable rate of return. There are potentially a great number of
16 transactions and events that affect a utility's earnings, including the quality of the utility's
17 management and the reasonableness of its costs, such as employee compensation and
18 benefits, over which it does have significant control.

19 Q. Are you familiar with the testimony of Staff witness Keith Majors in Staff's
20 Cost of Service Report where he recommends the acquisition transition cost amortization be
21 offset by KCPL's ORVS savings?

22 A. Yes. Staff's primary position as described by Mr. Majors is that transition
23 costs should no longer be amortized through the cost of service. In the alternative, if the

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1 Commission orders the continued amortization of transition costs, Staff recommends that
2 KCPL offset the remaining transition cost deferral by KCPL's allocated share of the net
3 savings from ORVS. It is Staff's belief that the transition costs have been fully recovered
4 through regulatory lag, and that any continued shareholder retained acquisition savings, such
5 as KCPL's net savings from ORVS, should offset any amortization of transition costs
6 through the cost of service.

7 **Transmission Expense**

8 Q. Did KCPL witness John Carlson file rebuttal testimony regarding KCPL's
9 transmission expense?

10 A. Yes, he did.

11 Q. What was the purpose of his rebuttal testimony?

12 A. He stated the purpose of his rebuttal testimony is to discuss the annualization
13 methodology used to calculate the Southwest Power Pool, Inc. ("SPP") administration
14 charges and transmission costs in net revenue requirement projections.

15 Q. Is Mr. Carlson rebutting any positions taken by the Staff in this case?

16 A. No. His rebuttal testimony only asserts that KCPL believes transmission
17 expenses are increasing and need to be addressed in the Staff's August 31, 21012 true-up
18 audit in this rate case.

19 Q. Does the Staff intend to address KCPL's transmission expenses in its
20 true-up audit?

21 A. Yes, it does. Staff will address Mr. Carlson's concerns in its true-up audit of
22 KCPL's revenue requirement.

Iatan 2 Advanced Coal Income Tax Credit

1
2 Q. What is the purpose of Ms. Hardesty's rebuttal testimony on the
3 appropriateness of the Staff's reflection of the full amortization of the Iatan 2 Advanced Coal
4 Income Tax Credit in KCPL's income tax expense component of its cost of service in
5 this case?

6 A. At page 12 of her rebuttal testimony, Ms. Hardesty states that her purpose is to
7 explain why the Company did not reflect the full amount of Iatan 2 Advanced Coal Income
8 Tax Credit (she also refers to this as the ITC, or investment tax credit) amortization that may
9 be available to KCPL if it had filed a "stand-alone" KCP&L federal income tax return in
10 KCPL's revenue requirement.

11 Q. What is meant by the term "stand-alone"?

12 A. Many states, including Missouri, use the traditional "stand-alone" method for
13 calculating the amount of income taxes to be incorporated into a regulated utility company's
14 rates. This method calculates income tax expense based on the regulated revenues and
15 expenses of the utility itself without regard to the utility's unregulated activities or the
16 unregulated operations of its parent company and other affiliated companies.

17 The "stand-alone" approach to the calculation of income tax expense is used so that
18 the income taxes included in a utility's cost of service are based on the cost of the utility
19 providing the regulated utility service. In lieu of the stand-alone method, some states have
20 adopted a consolidated ratemaking methodology for income taxes. There are arguments in
21 favor of such a methodology for setting utility rates, but to my knowledge, the Commission
22 has only employed the "stand-alone" method in determining income tax expense for Missouri
23 jurisdictional utilities.

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1 Q. Has KCPL proposed a stand alone or a consolidated income tax methodology
2 in this case?

3 A. Neither. In its direct filing, KCPL proposed an income tax methodology that
4 is neither stand-alone nor consolidated, but a hybrid method. It is a method that purports to
5 be stand-alone, but it limits the amount of KCPL's Iatan 2 Advanced Coal Tax Credit
6 that can be used to offset KCPL's income tax expense in this case solely because of the lack
7 of available taxable income on GPE's (KCPL's parent company) consolidated income
8 tax return.

9 A principle of the stand-alone method which this Commission has adopted is that a
10 utility's customers will not be harmed by any detrimental financial impact from the utility's
11 nonregulated operations. In this rate case, KCPL's approach is not consistent with this
12 principle and KCPL has chosen to abandon the stand-alone income tax calculation
13 methodology in favor of a hybrid method that protects its shareholders to the clear detriment
14 of its customers.

15 Q. Is the Staff open to discussions with KCPL about the possibility of
16 KCPL using a consolidated income tax adjustment in lieu of a standalone tax adjustment in
17 this rate case?

18 A. Yes. In fact, the Staff believes that this could be a potential solution to the
19 predicament KCPL finds itself in with respect to the amortization of the Advanced Coal Tax
20 Credits in this rate case. KCPL is intentionally seeking to increase customer rates in this case
21 by refusing to amortize the Iatan 2 Advanced Coal Tax Credits solely because its parent
22 company's (Great Plains Energy or GPE) tax deductions have been so high that GPE was not

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1 able to generate sufficient taxable income on which to apply KCPL's the Advanced Coal Tax
2 Credit amortizations.

3 Q. What condition must be present for the Staff to consider agreeing to a
4 consolidated income tax methodology in this case?

5 A. The condition is that GPE must be willing to allocate to KCPL and reflect in
6 this rate case a portion of the nonregulated income tax deductions that it takes on its
7 consolidated income tax form. This allocation of GPE's consolidated tax adjustments will
8 allow KCPL's customers not to suffer harm caused by KCPL's reorganization in 2001 under
9 a holding company structure, which created GPE.

10 So while the Staff is open to discussion with KCPL on the use of a consolidated tax
11 adjustment to resolve this issue in this case, the Staff's current position is that KCPL's
12 income tax expense in this case should be calculated on the traditional stand-alone basis. The
13 Staff has reflected the full amount of investment tax credit amortization that is allowed by the
14 Internal Revenue Code's income tax normalization rules in this rate case.

15 Q. Does GPE have a Tax Allocation Agreement that addresses the sharing of
16 consolidated income tax deductions, credits and losses?

17 A. Yes. Attached to this testimony is a July 28, 2008 Memo from Mark English,
18 former counsel for KCPL, to the Presidents of GPE and its subsidiaries. In this Memo,
19 Mr. English explains that ** _____
20 _____
21 _____
22 _____

**

Surrebuttal Testimony of
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1 Q. Did Ms. Hardesty or any KCPL witness explain in direct testimony why
2 KCPL believes its customers are not entitled to a current amortization of the Iatan 2
3 Advanced Coal Tax Credit?

4 A. No. The only testimony in KCPL's direct filing even related to the
5 amortization of the Iatan 2 Advanced Coal Tax Credit is one Q&A in Ms. Hardesty's direct
6 testimony which is reflected below:

7 Q. Please explain the investment tax credit ("ITC") amortization
8 component in cost of service as calculated in Schedule MKH-2.

9 A. ITC amortization reduces the income tax component of cost of
10 service. ITC is amortized ratably over the remaining book lives of the
11 underlying assets.

12 Q. Do you agree with Ms. Hardesty that the ITC amortization should reduce the
13 level of income tax expense in cost of service by amortizing the tax credit as a reduction to
14 income tax expense over the book lives of the related asset?

15 A. Yes.

16 Q. As it relates to the Advanced Coal Tax Credit, is Ms. Hardesty proposing
17 to do what she said she was doing in her direct testimony – amortize this tax credit as
18 a reduction to income tax expense ratably over the life of the asset, in this case, the Iatan 2
19 coal plant?

20 A. No. Neither KCPL nor GMO have reflected the full amount of the Advanced
21 Coal Tax Credit amortization it is able to reflect as a reduction to income tax expense on a
22 stand-alone basis.

23 Q. What amount of Advanced Coal Tax Credit ITC is Ms. Hardesty proposing to
24 amortize as a reduction to KCPL's income tax expense in this case?

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1 A. She is proposing to amortize only \$427,784 on a total company basis to
2 KCPL's cost of service. Ms. Hardesty is not proposing to amortize any amount for GMO in
3 Case No. ER-2012-0175.

4 Q. What is the appropriate amount of Iatan 2 Advanced Coal Tax Credit that
5 should be amortized as a reduction to income tax expense on a total company basis?

6 A. The total company annual amortization should be \$2,365,873 as reflected
7 below:

8

Original Balance Advanced Coal Tax Credit	\$107,287,500
Amount Previously Amortized	(\$823,197)
Total Company Balance at 12/31/2011	\$106,464,303
Iatan 2 remaining amortization period	45
Annual Amortization -Advanced Coal Tax Credit-Total Company	\$2,365,873

9

10 Q. What is the appropriate amount of Iatan 2 Advanced Coal Tax Credit that
11 should be amortized as a reduction to income tax expense on a KCPL basis?

12 A. On a KCPL basis, the annual amortization should be \$1,780,125.

13

Annual Amortization -Advanced Coal Tax Credit-Total Company	\$2,365,873
KCPL allocation	75%
Annual Amortization -Advanced Coal Tax Credit-KCPL basis	\$1,780,125

14

15 Q. What does the KCPL allocation of 75% represent?

16 A. Since Staff is recommending that the total company Iatan 2 Advanced Coal
17 Tax Credit be allocated to both KCPL and GMO, the 75% allocation is for KCPL while the
18 remaining 25% is allocated to GMO.

19 Q. What is the revenue requirement impact of the difference between the Staff
20 and KCPL on this issue?

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1 A. The revenue requirement impact to KCPL is approximately \$1.1 million, as
2 calculated below:

Annual Amortization - Advanced Coal Tax Credit-KCPL basis	\$1,780,125
KCPL Proposed Amortization Advanced Coal Tax Credit	(\$427,784)
Difference between Staff and KCPL	\$1,352,341
Income Tax Grossup Factor	1.62
Total Company Revenue Requirement Impact	\$2,194,952
Missouri Jurisdictional Allocation	53%
Missouri Jurisdictional Revenue Requirement Impact	\$1,153,008

3
4
5 Q. Why is Ms. Hardesty only proposing to reflect an amortization of \$427,784
6 when the correct amount to amortize is \$1,780,125 for KCPL?

7 A. As Ms. Hardesty explains, KCPL is a subsidiary of GPE and, as a holding
8 company, GPE files a federal income tax return on a consolidated basis which includes the
9 operations of KCPL, GMO, and GPE's nonregulated entities. GPE's primary nonregulated
10 activities include the nonregulated assets of Aquila, Inc. that GPE acquired in its acquisition
11 of GMO.

12 GPE currently benefits from non-regulated deductions and tax credits that it is
13 entitled to reflect, has reflected, and intends to continue to reflect on its consolidated federal
14 income tax return. Because of these tax deductions and credits, GPE does not have sufficient
15 consolidated taxable income on which to offset KCPL's Iatan 2 Advanced Coal Tax Credit
16 amortization, a tax credit that KCPL is allowed to reflect to reduce its regulated income
17 tax expense.

18 In effect, KCPL is proposing that the Commission allow it to use a consolidated tax
19 method for the Iatan 2 Advanced Coal Tax Credit, which would allow KCPL not to amortize

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1 the credit as a reduction in income tax expense in this case. For all other income tax
2 deductions and credits KCPL proposes to use the stand-alone income tax method.

3 Q. Does Ms. Hardesty state that because KCPL prefers the consolidated tax basis
4 method for KCPL's Advanced Coal Tax Credit that KCPL wants to adopt this method on a
5 going forward basis?

6 A. No. Ms. Hardesty at page 12 of her rebuttal testimony explains that she
7 believes the traditional "stand-alone" method for calculating the amount of income taxes to
8 be incorporated in the rates of a regulated utility company is appropriate. However, as noted
9 earlier, she is asking the Commission for permission to deviate from the traditional stand
10 alone method to a consolidated method only for the Iatan 2 Advanced Coal Tax Credit.

11 Q. In KCPL's direct filing in this case did Ms. Hardesty request Commission
12 approval to deviate or make an exception for this current rate case to its longstanding
13 acceptance of the stand-alone income tax expense ratemaking methodology?

14 A. No. Ms. Hardesty made no such request in direct testimony nor did she even
15 mention a departure from the stand-alone ratemaking methodology in her direct testimony.

16 Q. Why is Ms. Hardesty asking for the Commission to allow KCPL to depart
17 from the traditional stand alone income tax methodology?

18 A. She explains at page 13 of her rebuttal testimony that KCPL believes that it
19 would violate the Internal Revenue Code's "normalization requirements" for ITC if it
20 computed the amount of amortization for ITC based on the amount of ITC that would have
21 been utilized to offset federal tax liabilities of KCPL on a "stand alone" basis instead of the
22 amount of ITC utilized to offset the GPE and subsidiaries federal tax liability on a
23 consolidated basis.

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1 Q. Does the Staff's proposal result in a violation of any IRC rules or
2 requirements?

3 A. No.

4 Q. Please explain.

5 A. Over the past few years KPCL has had sufficient taxable income on a stand-
6 alone regulated utility basis on which to apply the Iatan 2 Advanced Coal Tax Credit it
7 received as a result of the construction of the Iatan 2 coal plant. Once KCPL generated
8 sufficient taxable income on which to apply the tax credit, KCPL's customers became
9 entitled to an annual reduction in income tax expense based on the tax credit being amortized
10 ratably over the remaining book lives of Iatan 2.

11 As Ms. Hardesty readily admits, despite the fact that KCPL has generated sufficient
12 taxable income to amortize the tax credits, GPE has not. Because GPE has not generated
13 sufficient taxable income and GPE files a consolidated income tax return, Ms. Hardesty
14 believes that KCPL cannot reflect the amortization of the Advanced Coal Tax Credit in this
15 rate case or it will result income tax normalization rule violation.

16 Q. Is it KCPL's problem that GPE, a nonregulated affiliate, is not able to reflect
17 KCPL's regulated income tax credits on its consolidated tax form?

18 A. No. If GPE has not generated sufficient taxable income on which to apply
19 KCPL's Advanced Coal Tax Credit, that is a problem for GPE. It is not a problem for KCPL
20 and should not be a problem for KCPL's customers.

21 Q. Is the reason KCPL seeks an approval from the Commission to depart from its
22 historical stand alone income tax treatment to benefit its customers?

23 A. No.

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1 Q. Is the reason KCPL seeks an approval from the Commission to depart from its
2 historical stand alone income tax treatment to benefit its shareholders?

3 A. Yes.

4 Q. How can GPE fix this problem?

5 A. GPE needs to do whatever it needs to do to fix this problem. If that fix means
6 to delay or forego taking some of its non-regulated tax deductions and/or tax credits by filing
7 amended federal income tax returns, then that is what it should do. KCPL and GMO's
8 customers should be given first priority over GPE's nonregulated tax deductions and tax
9 credits. Under the Staff's proposal of reflecting the full amount of the Advanced Coal Tax
10 Credit amortization, these customers are given first priority.

11 Q. If GPE filed amended federal income tax returns to give priority to KCPL's
12 amortization of the Advanced Coal Tax Credit and delaying or foregoing the recognition of
13 nonregulated tax deductions or tax credits, would this satisfy Ms. Hardesty's concern about a
14 potential income tax normalization violation?

15 A. Yes, I believe it will. Under this scenario there would be no basis for a
16 normalization violation as it is explained in Ms. Hardesty's rebuttal testimony.

17 Q. In addition to the fact that KCPL and GMO's customers are entitled to an
18 annual reduction in income tax expense through the recognition in rates of the ratable
19 amortization of the Iatan 2 Advanced Coal Tax Credit, are there additional reasons why the
20 Commission should adopt the Staff's income tax methodology on this issue?

21 A. Yes. The first reason is that KCPL made a commitment to the Commission
22 when it sought Commission approval to create GPE under a holding company structure that
23 KCPL customers will not be harmed as a result of the Commission's approval.

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1 Ms. Hardesty, in her proposal to not reflect that pro rate share of the Iatan 2 Advanced Coal
2 Tax Credit, is abrogating this commitment made by KCPL to the Commission, and in my
3 opinion, is abrogating one of the conditions precedent to the Commission's approval of
4 KCPL's 2001 reorganization.

5 Q. Please continue.

6 A. The Commission approved KCPL's request to create a holding company
7 structure in Case in Case No. EM-2001-0464. The Commission approved this request in its
8 *Order Approving Stipulation and Agreement and Closing Case* in Case EM-2001-0464. In
9 this Order by granting KCPL's Application to reorganize itself into a holding company
10 structure, the Commission allowed KCPL to create its parent company – GPE.

11 At page 13 of its Order, in Ordered paragraph 4, the Commission stated that KCPL is
12 authorized to reorganize as described in its Application subject to the conditions contained in
13 the First Amended Stipulation and Agreement. Paragraph 6i, Financial Conditions, to the
14 First Amended Stipulation and Agreement states:

15 KCPL and GPE guarantee that the customers of KCPL shall be held
16 harmless if the reorganization creating GPE, with KCPL as a
17 subsidiary, results in a higher revenue requirement for KCPL than if
18 the reorganization had not occurred.

19 KCPL's proposal to limit the amount of ITC amortization reflected in this case due solely to
20 GPE's limited ability to reflect the full amount of this tax credit amortization on its parent-
21 company tax return is an abrogation of the guarantee made by KCPL to hold its customers
22 harmless from the results of its reorganization.

23 Q. Did KCPL commit to the Commission that the formation of GPE would
24 provide even greater protections to KCPL as a regulated utility?

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1 A. Yes. On July 24, 2001 in Case No. EM-2001-464, KCPL filed a document
2 with the Commission entitled *Statement of Chris B. Giles*. At page 8 of this document,
3 Mr. Giles, then an officer of KCPL, described how the holding company structure insulates
4 KCPL from unregulated business activities of the affiliates and provides greater assurance
5 that no subsidization occurs between regulated and unregulated activities:

6 The formation of the Holding Company, GPE, and its subsidiaries,
7 KCPL, GPP, and KLT, Inc., insulates the utility, KCPL, from the
8 unregulated business activities of KLT, Inc. and GPP, and provides an
9 opportunity for increased shareholder value. In addition, costs are
10 more easily identified, which permits greater assurance that no
11 subsidization occurs between regulated and unregulated business
12 activities.

13 Q. Through its proposal to abandon the stand alone income tax methodology in
14 this case and replace it with a hybrid method that harms KCPL's customers, is KCPL
15 abrogating these commitments to the Commission made by Mr. Giles?

16 A. The Staff asserts that it is. Mr. Giles committed that the formation of GPE
17 would insulate KCPL from financial detriment associated with its nonregulated operations.
18 Ms. Hardesty proposes to burden KCPL customers and increase utility rates in this case and
19 in future years solely due to the creation of GPE.

20 Q. Despite the inherent unfairness in Ms. Hardesty's hybrid income tax proposal
21 to KCPL's customers, and despite the fact that Ms. Hardesty's proposal is a clear abrogation
22 of the commitment made by KCPL to the Commission concerning GPE, is there still another
23 reason why the Commission should have concerns about this KCPL proposal?

24 A. Yes. This proposal by Ms. Hardesty and the resultant detrimental impact of
25 her proposal on KCPL's customers in this case is a direct result of the GPE's acquisition of
26 the nonregulated assets of Aquila, Inc. As a result, KCPL's proposal to increase rates in this

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1 case, by denying a tax credit to KCPL customers who are entitled to the benefits of this tax
2 credit, is a clear acquisition detriment. The nonregulated assets of Aquila, Inc., were
3 acquired by a nonregulated holding company, GPE and should not intermixed with and cause
4 harm to regulated utility customers of KCPL.

5 Q. Are you attaching schedules to your surrebuttal testimony?

6 A. Yes. I am attaching four schedules to this testimony:

7 Schedule 1 – Bureau of Labor Statistics News Release

8 Schedule 2 – RRA Regulatory Focus Report -Major Rate Case
9 Decisions

10 Schedule 3 – EM-2001-0464 Documents

11 *First Amended Stipulation and Agreement

12 *Order Approving Stipulation and Agreement and Closing Case

13 *Statement of Chris B. Giles

14 Schedule 4 – Mark English July 28, 2008 Memo re: Tax Allocation
15 Agreement (Highly Confidential)

16 Q. Does this conclude your surrebuttal testimony?

17 A. Yes, it does.



NEWS RELEASE



Transmission of material in this release is embargoed until
8:30 a.m. (EDT) Tuesday, July 31, 2012

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EMPLOYMENT COST INDEX – JUNE 2012

Compensation costs for civilian workers increased 0.5 percent, seasonally adjusted, for the 3-month period ending June 2012, the U.S. Bureau of Labor Statistics reported today. **Wages and salaries** (which make up about 70 percent of compensation costs) increased 0.4 percent, and **benefits** (which make up the remaining 30 percent of compensation) increased 0.6 percent.

Chart 1. Employment Cost Index, 3-month percent change, seasonally adjusted, civilian workers, compensation, June 2010-June 2012

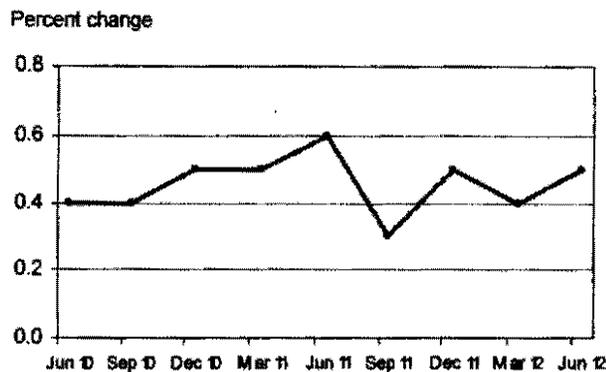
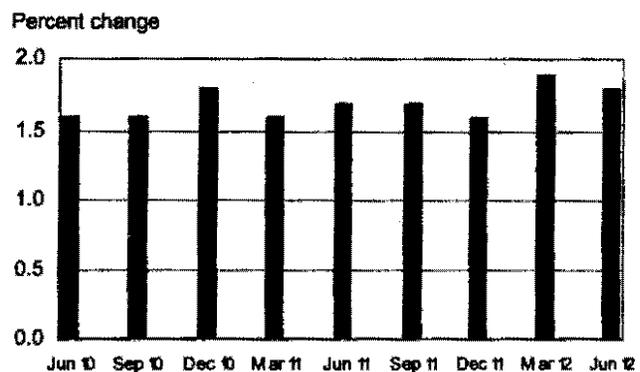


Chart 2. Employment Cost Index, 12-month percent change, not seasonally adjusted, private industry, wages and salaries, June 2010-June 2012



Civilian Workers

Compensation costs for civilian workers increased 1.7 percent for the 12-month period ending June 2012. In June 2011 the increase was 2.2 percent. **Wages and salaries** increased 1.7 percent for the current 12-month period, essentially unchanged from a year ago when wages and salaries increased 1.6 percent. **Benefit costs** increased 2.1 percent for the 12-month period ending June 2012 down from the June 2011 increase, which was 3.6 percent.

Private Industry Workers

Compensation costs for private industry workers increased 1.8 percent over the year. In June 2011 the increase was 2.3 percent. **Wages and salaries** increased 1.8 percent for the current 12-month period. The increase for the 12-month period ending June 2011 was 1.7 percent. The increase in the cost of **benefits** was 1.9 percent for the 12-month period ending June 2012, down from the June 2011 increase of 4.0 percent. Employer costs for **health benefits** decelerated over the year to a 2.4 percent increase, down from the June 2011 increase of 3.6 percent.

Among occupational groups, compensation cost increases for private industry workers for the 12-month period ending June 2012 ranged from 1.4 percent for production, transportation, and material moving occupations to 2.3 percent for sales and office occupations.

Among industry supersectors, compensation cost increases for private industry workers for the current 12-month period ranged from 1.2 percent for both leisure and hospitality and manufacturing to 3.7 percent for information.

State and Local Government Workers

Compensation costs for state and local government workers increased 1.6 percent for the 12-month period ending June 2012, essentially unchanged from the June 2011 increase of 1.7 percent. Values for this series—which began in June 1982—have ranged from 1.3 percent to 9.6 percent. **Wages and salaries** increased 1.1 percent for the 12-month period ending June 2012. A year earlier the increase was 1.2 percent. Prior values for this series, which also began in June 1982, ranged from 1.0 percent to 8.5 percent. **Benefit costs** increased 2.7 percent in June 2012. In June 2011 the increase was 3.0 percent. Prior values for this series, which began in June 1990, ranged from 1.2 percent to 8.3 percent.

The Employment Cost Index for September 2012 is scheduled to be released on Wednesday, October 31, 2012, at 8:30 a.m. (EDT).

Information in this release will be made available to sensory impaired individuals upon request—Voice phone: (202) 691-5200; Federal Relay Service: (800) 877-8339.

BLS news releases, including the ECI, are available through an e-mail subscription service at: www.bls.gov/bls/list.htm.

Table A. Major series of the Employment Cost Index
(Percent change)

Category	3-month, seasonally adjusted		12-month, not seasonally adjusted				
	Mar. 2012	June 2012	June 2011	Sep. 2011	Dec. 2011	Mar. 2012	June 2012
CIVILIAN WORKERS¹							
Compensation ²	0.4	0.5	2.2	2.0	2.0	1.9	1.7
Wages and salaries	0.5	0.4	1.6	1.6	1.4	1.7	1.7
Benefits	0.5	0.6	3.6	3.2	3.2	2.7	2.1
PRIVATE INDUSTRY							
Compensation ²	0.4	0.5	2.3	2.1	2.2	2.1	1.8
Wages and salaries	0.5	0.4	1.7	1.7	1.6	1.9	1.8
Benefits	0.3	0.6	4.0	3.3	3.6	2.8	1.9
STATE AND LOCAL GOVERNMENT							
Compensation ²	0.7	0.5	1.7	1.5	1.3	1.5	1.6
Wages and salaries	0.4	0.3	1.2	1.0	1.0	1.0	1.1
Benefits	1.1	0.9	3.0	2.5	2.1	2.3	2.7

¹ Includes private industry and state and local government.

² Includes wages and salaries and benefits.

TECHNICAL NOTE

The Employment Cost Index (ECI) measures the change in the cost of labor, free from the influence of employment shifts among occupations and industries. Detailed information on survey concepts, coverage, and methods can be found in *BLS Handbook of Methods*, Chapter 8, "National Compensation Measures," Bureau of Labor Statistics, on the Internet at www.bls.gov/opub/hom/pdf/homch8.pdf.

Sample size

Data for the June 2012 reference period were collected from a probability sample of approximately 47,400 occupational observations selected from a sample of about 9,500 establishments in private industry and approximately 9,200 occupations from a sample of about 1,400 establishments in state and local governments.

Health insurance data

Data from the ECI that provide 12-month percent changes in employer costs for health insurance in private industry are available at www.bls.gov/ect/sp/echealth.pdf.

Historical listings

Historical listings that provide all ECI data are available at www.bls.gov/ect/#tables. Included among these listings is one that provides continuous occupational and industry series. This listing uses the Standard Industrial Classification Manual and Census of Population series through 2005 and the North American Industry Classification System and Standard Occupational Classification from 2006 to the present. It provides the official series from the beginning of the ECI in 1975 through the current quarter. For more information on the criteria used in defining continuous series, see the article published in the *Monthly Labor Review* at www.bls.gov/opub/mlr/2006/04/art2full.pdf.

Employer Costs for Employee Compensation data

The costs per hour worked of compensation components, based on data from the ECI, are published in a separate news release titled "Employer Costs for Employee Compensation" (ECEC). The next ECEC release is scheduled for 10:00 a.m. (EDT), Tuesday, September 11, 2012. Historical ECEC data are available in summary documents at www.bls.gov/ect/#tables. Since the ECEC is calculated with current employment weights rather than the fixed weights used in computing the ECI, year-to-year changes in the cost levels usually differ from those in the ECI.

Table 1. Employment Cost Index for total compensation¹, by occupational group and industry

(Seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)		Percent changes for 3-months ended—							
	Mar. 2012	June 2012	Sep. 2010	Dec. 2010	Mar. 2011	June 2011	Sep. 2011	Dec. 2011	Mar. 2012	June 2012
Civilian workers										
All workers ²	116.2	116.8	0.4	0.5	0.5	0.6	0.3	0.5	0.4	0.5
Industry										
Goods-producing industries ³	114.0	114.5	.8	.4	.5	1.0	.3	.7	-.2	.4
Manufacturing	113.3	113.8	.9	.5	.6	1.2	.3	.7	-.3	.4
Service-providing industries ⁴	116.8	117.4	.4	.5	.5	.5	.3	.4	.7	.5
Education and health services	117.6	118.1	.4	.4	.4	.3	.2	.4	.8	.4
Education services	117.3	117.8	.3	.4	.4	.3	.1	.4	.6	.4
Elementary and secondary schools	117.3	117.8	.3	.3	.3	.3	.0	.3	.6	.4
Junior colleges, colleges, universities, and professional schools	116.7	117.4	.2	.8	.4	.2	.3	.3	.7	.6
Health care and social assistance ⁵	117.9	118.5	.4	.4	.3	.4	.3	.5	.9	.6
Hospitals	118.3	118.9	.4	.7	.3	.4	.4	.4	.3	.5
Nursing and residential care facilities	115.0	115.2	.4	.3	.4	.5	.3	.3	.4	.2
Public administration	119.0	119.8	.8	.3	.5	.3	.1	.3	.7	.7
Private industry workers										
All workers	115.7	116.3	.4	.5	.5	.8	.4	.5	.4	.5
Occupational group										
Management, professional, and related	116.2	117.0	.5	.5	.5	.7	.3	.6	.3	.7
Management, business, and financial	115.7	116.8	.4	.6	.5	.9	.4	.5	.3	1.0
Professional and related	116.6	117.1	.6	.5	.5	.6	.2	.6	.5	.4
Sales and office	115.1	115.7	.4	.6	.5	.8	.4	.4	.8	.5
Sales and related	112.0	112.4	.1	.6	.5	1.1	.5	.4	1.4	.4
Office and administrative support	117.3	118.0	.6	.5	.6	.6	.4	.5	.4	.6
Natural resources, construction, and maintenance	118.5	116.8	.4	.4	.4	.8	.5	.4	.5	.3
Construction, extraction, farming, fishing, and forestry	118.7	118.9	.6	.2	.5	.3	.4	.5	.2	.2
Installation, maintenance, and repair	116.1	116.7	.2	.5	.5	1.2	.7	.3	.8	.5
Production, transportation, and material moving	114.5	114.9	.7	.4	.4	1.1	.3	.7	.0	.3
Production	113.8	114.2	.6	.5	.5	1.3	.3	.7	-.3	.4
Transportation and material moving	115.6	115.9	.9	.4	.4	.7	.3	.7	.5	.3
Service occupations	115.9	116.4	.4	.4	.6	.3	.2	.6	.3	.4
Industry										
Goods-producing industries ³	114.0	114.5	.7	.4	.6	.9	.3	.7	-.1	.4
Construction	114.8	115.1	.4	.1	.2	.4	.4	.5	.3	.3
Manufacturing	113.3	113.8	.9	.5	.8	1.2	.3	.7	-.3	.4
Aircraft manufacturing	98.8	99.2	6.5	.3	2.3	.8	-5.7	.3	1.8	.4
Service-providing industries ⁶	116.3	116.9	.4	.5	.6	.6	.4	.4	.7	.5
Trade, transportation, and utilities	115.3	115.8	.2	.5	.5	.8	.5	.6	.9	.4
Wholesale trade ⁷	113.8	114.3	-.1	.8	.3	1.3	.8	.8	.6	.4
Retail trade	115.1	115.7	.0	.1	.5	.7	.4	.4	.6	.5
Transportation and warehousing	115.8	116.2	.9	.7	.8	.4	.4	.4	1.7	.3
Utilities	122.9	124.4	1.0	.6	.9	.7	1.0	.9	.3	1.2
Information	115.2	116.3	.4	.1	1.4	.4	.1	.4	2.2	1.0
Financial activities	114.4	115.3	.4	1.0	1.0	.6	.7	.3	-.2	.8
Finance and insurance	114.6	115.4	.4	1.1	1.0	.5	.7	.2	-.3	.7
Credit intermediation and related activities	114.5	114.8	.7	1.2	1.3	.3	1.0	-.1	.1	.3
Insurance carriers and related activities	115.2	115.9	.4	.4	.7	.8	.4	.7	-.4	.6

See footnotes at end of table.

Table 1. Employment Cost Index for total compensation¹, by occupational group and industry — Continued

(Seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)		Percent changes for 3-months ended—							
	Mar. 2012	June 2012	Sep. 2010	Dec. 2010	Mar. 2011	June 2011	Sep. 2011	Dec. 2011	Mar. 2012	June 2012
Industry										
Real estate and rental and leasing	113.3	114.5	0.4	0.7	0.8	0.7	1.1	0.6	0.1	1.1
Professional and business services	117.8	118.4	.6	.6	.6	1.0	.2	.5	.4	.5
Professional, scientific, and technical services	120.5	120.9	.8	.8	.5	.9	.3	.6	.3	.3
Administrative and support and waste management and remediation services	114.4	115.1	.5	.4	.4	.8	.0	.4	.5	.6
Education and health services	117.5	118.1	.4	.4	.3	.5	.3	.6	.8	.5
Education services	117.7	118.2	.5	.6	.3	.6	.3	.8	.3	.4
Junior colleges, colleges, universities, and professional schools	117.8	118.4	.5	.5	.4	.3	.3	.6	.9	.5
Health care and social assistance ⁵	117.5	118.1	.4	.4	.3	.4	.3	.5	.9	.5
Hospitals	117.9	118.5	.4	.6	.3	.4	.3	.4	.3	.5
Nursing and residential care facilities	114.3	114.5	.4	.2	.4	.5	.4	.2	.4	.2
Leisure and hospitality	115.4	116.2	.1	.3	.3	.3	.2	.2	.2	.7
Accommodation and food services	116.0	116.9	.1	.3	.4	.3	.2	.2	.0	.8
Other services, except public administration	116.4	116.9	.5	.3	.5	.4	.4	.8	.4	.4
State and local government workers										
All workers	118.4	119.0	.3	.5	.5	.3	.3	.3	.7	.5
Industry										
Education and health services	117.6	118.1	.3	.5	.5	.3	.1	.3	.6	.4
Education services	117.2	117.7	.2	.5	.4	.3	.1	.3	.7	.4
Schools	117.1	117.7	.2	.5	.4	.3	.0	.3	.6	.5
Elementary and secondary schools	117.4	117.9	.2	.3	.4	.3	.0	.3	.6	.4
Health care and social assistance ⁵	121.0	121.6	.5	.9	.8	.3	.4	.3	.7	.5
Hospitals	119.9	120.5	.3	.9	.7	.3	.4	.3	.5	.5
Public administration	119.0	119.8	.6	.3	.5	.3	.1	.3	.7	.7

¹ Includes wages, salaries, and employer costs for employee benefits.

² Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government.

³ Includes mining, construction, and manufacturing.

⁴ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and insurance; real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; educational services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; other services, except public administration; and public administration.

⁵ Includes ambulatory health care services and social assistance, not

shown separately.

⁶ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and insurance; real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; education services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services, except public administration.

⁷ The wholesale trade compensation series is seasonal as of the 2012 revision. Seasonality was first found in the 2007 revision and the series continued to be seasonally adjusted until the 2010 revision when it was discontinued for two years, as seasonality was not found. Historical data for this series is published beginning with March 2002.

Table 2. Employment Cost Index for wages and salaries, by occupational group and industry

(Seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)		Percent changes for 3-months ended—							
	Mar. 2012	June 2012	Sep. 2010	Dec. 2010	Mar. 2011	June 2011	Sep. 2011	Dec. 2011	Mar. 2012	June 2012
Civilian workers										
All workers ¹	115.3	115.8	0.3	0.4	0.4	0.4	0.4	0.3	0.5	0.4
Industry										
Goods-producing industries ²	114.0	114.5	.5	.2	.4	.4	.4	.4	.4	.4
Manufacturing	113.5	114.0	.5	.4	.5	.5	.4	.5	.4	.4
Service-providing industries ³	115.6	116.1	.3	.4	.4	.4	.3	.4	.5	.4
Education and health services	115.9	116.3	.2	.4	.4	.3	.1	.4	.5	.3
Education services	114.9	115.2	.1	.4	.4	.3	.0	.4	.4	.3
Elementary and secondary schools	114.6	114.9	.1	.3	.4	.2	.0	.4	.3	.3
Junior colleges, colleges, universities, and professional schools	114.8	115.3	.2	.5	.4	.3	.2	.3	.6	.4
Health care and social assistance ⁴	117.1	117.5	.3	.3	.2	.4	.3	.4	.8	.3
Hospitals	117.5	118.0	.3	.4	.3	.4	.3	.3	.3	.4
Nursing and residential care facilities ⁵	114.2	114.4	.4	.1	.3	.4	.2	.1	.4	.2
Public administration	115.5	115.9	.3	.2	.3	.3	.2	.2	.5	.3
Private industry workers										
All workers	115.3	115.8	.4	.4	.4	.5	.4	.4	.5	.4
Occupational group										
Management, professional, and related	116.1	116.9	.4	.4	.4	.4	.3	.4	.3	.7
Management, business, and financial	115.5	116.6	.3	.5	.3	.5	.5	.3	.3	.9
Professional and related	116.6	117.2	.5	.4	.3	.4	.3	.5	.4	.5
Sales and office	114.8	115.1	.3	.6	.4	.5	.5	.4	.9	.4
Sales and related	112.3	112.5	-.1	.8	.1	.8	.6	.4	1.6	.1
Office and administrative support	116.3	117.0	.6	.4	.5	.4	.5	.3	.4	.6
Natural resources, construction, and maintenance	115.8	115.9	.2	.3	.4	.5	.6	.3	.3	.1
Construction, extraction, farming, fishing, and forestry	115.8	116.0	.4	.2	.5	.3	.3	.3	.1	.2
Installation, maintenance, and repair	115.7	115.8	-.1	.4	.4	.8	.9	.2	.6	.1
Production, transportation, and material moving	113.8	114.1	.6	.3	.3	.4	.4	.4	.8	.3
Production	113.2	113.5	.4	.2	.5	.4	.4	.4	.7	.3
Transportation and material moving	114.6	114.8	.7	.4	.3	.4	.2	.4	1.0	.2
Service occupations	115.3	115.9	.4	.4	.4	.2	.2	.8	.1	.5
Industry										
Goods-producing industries ²	114.0	114.5	.5	.3	.4	.5	.4	.4	.4	.4
Construction	114.0	114.4	.5	-.2	.2	.4	.4	.4	.0	.3
Manufacturing	113.5	114.0	.5	.4	.5	.5	.4	.5	.4	.4
Aircraft manufacturing	118.9	119.7	.8	.5	.3	1.0	.7	.6	.7	.7
Service-providing industries ⁶	115.7	116.3	.4	.5	.3	.5	.4	.3	.6	.5
Trade, transportation, and utilities	114.1	114.5	.1	.5	.1	.5	.6	.5	1.0	.4
Retail trade	115.2	115.5	-.1	.2	.4	.4	.7	.6	.6	.2
Transportation and warehousing	113.9	114.3	.9	.6	.3	.3	.2	.3	1.5	.4
Utilities	119.6	121.0	.9	.4	.9	.8	.6	.8	.4	1.1
Information	113.3	113.9	.4	.0	1.4	.1	.1	.4	.5	.5
Financial activities	114.4	115.5	.3	1.2	.6	.1	.8	.1	.3	1.0
Finance and insurance	115.1	116.2	.4	1.3	.5	.1	.7	.0	.3	1.0
Credit intermediation and related activities	113.0	114.0	.6	1.4	1.2	-.4	1.0	-.4	.8	.9
Insurance carriers and related activities	115.3	115.7	.3	.5	.3	.5	.4	.8	.2	.3

See footnotes at end of table.

Table 2. Employment Cost Index for wages and salaries, by occupational group and industry — Continued

(Seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)		Percent changes for 3-months ended—							
	Mar. 2012	June 2012	Sep. 2010	Dec. 2010	Mar. 2011	June 2011	Sep. 2011	Dec. 2011	Mar. 2012	June 2012
Industry										
Professional and business services	117.6	118.2	0.7	0.6	0.3	0.9	0.2	0.3	0.4	0.5
Professional, scientific, and technical services	120.2	120.7	.8	.8	.4	1.0	.3	.3	.2	.4
Administrative and support and waste management and remediation services	114.2	114.9	.5	.4	.2	.6	.1	.4	.5	.6
Education and health services	116.9	117.4	.4	.4	.2	.5	.3	.5	.7	.4
Education services	117.2	117.5	.7	.5	.3	.4	.4	.8	.4	.3
Junior colleges, colleges, universities, and professional schools	116.9	117.3	.4	.4	.4	.3	.3	.5	.9	.3
Health care and social assistance ⁴	116.8	117.3	.4	.3	.2	.5	.2	.5	.7	.4
Hospitals	117.4	117.9	.2	.5	.3	.4	.3	.4	.4	.4
Leisure and hospitality	115.9	116.9	-.1	.3	.0	.3	.2	.2	.1	.9
Accommodation and food services	116.4	117.5	.0	.3	.2	.4	.3	.2	-.1	1.0
Other services, except public administration	115.9	116.4	.4	.3	.4	.2	.4	.8	.3	.4
State and local government workers										
All workers	115.3	115.6	.1	.4	.4	.3	.1	.3	.4	.3
Industry										
Education and health services	114.9	115.2	.0	.4	.4	.2	.0	.4	.3	.3
Education services	114.4	114.8	.0	.4	.4	.2	.0	.3	.4	.3
Schools	114.4	114.8	.0	.4	.4	.2	.0	.3	.4	.3
Elementary and secondary schools	114.6	114.9	.1	.4	.3	.2	.0	.3	.4	.3
Health care and social assistance ⁴	116.7	119.0	.1	.6	.4	.3	.2	.3	.5	.3
Hospitals	118.0	118.5	.1	.5	.4	.2	.3	.2	.5	.4
Public administration	115.5	115.9	.3	.2	.3	.3	.2	.2	.5	.3

¹ Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government.

² Includes mining, construction, and manufacturing.

³ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and insurance; real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; educational services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; other services, except public administration; and public administration.

⁴ Includes ambulatory health care services and social assistance, not shown separately.

⁵ The civilian nursing and residential care facilities wage series is seasonal as of the 2011 revision. The first seasonally adjusted estimates were published with the 2006 revision and the series continued to be seasonally adjusted until the 2010 revision when it was discontinued. Historical data for this series is published beginning with March 2003.

⁶ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and insurance; real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; education services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services, except public administration.

Table 3. Employment Cost Index for benefits, by occupational group and industry

(Seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)		Percent changes for 3-months ended--							
	Mar. 2012	June 2012	Sep. 2010	Dec. 2010	Mar. 2011	June 2011	Sep. 2011	Dec. 2011	Mar. 2012	June 2012
Civilian workers										
All workers ¹	118.5	119.2	0.8	0.6	1.1	1.1	0.3	0.7	0.5	0.6
Private industry workers										
All workers	116.7	117.4	.8	.5	1.1	1.4	.3	.8	.3	.6
Occupational group										
Management, professional, and related	116.4	117.1	.6	.7	1.1	1.3	.3	1.0	.4	.6
Sales and office	116.6	117.4	.6	.4	1.1	1.3	.4	.4	.7	.7
Natural resources, construction, and maintenance	117.9	118.7	.8	.5	.6	1.1	.6	.9	.6	.7
Production, transportation, and material moving	116.0	116.7	1.1	.7	.8	2.4	.1	1.1	-1.3	.6
Service occupations	117.7	118.0	1.0	.6	1.0	.6	.3	.8	.6	.2
Industry										
Goods-producing industries ²	114.0	114.5	1.2	.5	.9	1.9	.1	1.1	-1.0	.4
Manufacturing	112.9	113.4	1.5	.8	1.1	2.3	.0	1.1	-1.6	.4
Service-providing industries ³	117.8	118.5	.5	.5	1.2	1.2	.3	.7	.9	.6
State and local government workers										
All workers	124.9	126.0	.9	.7	.9	.4	.4	.4	1.1	.9

¹ Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government.

² Includes mining, construction, and manufacturing.

³ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and insurance;

real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; education services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services, except public administration.

Table 4. Employment Cost Index for total compensation¹, for civilian workers, by occupational group and industry

(Not seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)			Percent changes for—					
	June 2011	Mar. 2012	June 2012	3-months ended—			12-months ended—		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Civilian workers									
All workers ²	114.8	116.2	116.8	0.7	0.6	0.5	2.2	1.9	1.7
Excluding incentive paid occupations ³	115.2	116.7	117.2	.5	.6	.4	2.1	1.8	1.7
Occupational group									
Management, professional, and related	115.2	116.8	117.3	.4	.9	.4	2.1	1.8	1.8
Management, business, and financial	114.7	116.2	117.2	.7	.8	.9	2.3	2.0	2.2
Professional and related	115.4	117.1	117.4	.3	.8	.3	1.9	1.7	1.7
Sales and office	113.7	115.4	116.2	1.0	.7	.7	2.2	2.5	2.2
Sales and related	109.8	111.4	112.7	1.8	.5	1.2	2.1	3.2	2.6
Office and administrative support	116.1	117.7	118.3	.6	.8	.5	2.4	2.0	1.9
Natural resources, construction, and maintenance	115.2	116.7	117.3	.9	.5	.5	2.0	2.2	1.8
Construction, extraction, farming, fishing, and forestry	115.6	116.7	117.2	.6	.2	.4	1.7	1.6	1.4
Installation, maintenance, and repair	114.7	116.6	117.3	1.2	.9	.6	2.4	2.9	2.3
Production, transportation, and material moving	113.9	114.9	115.4	1.1	.3	.4	2.8	2.0	1.3
Production	113.2	113.9	114.4	1.3	.1	.4	2.9	1.9	1.1
Transportation and material moving	114.7	116.2	116.7	.8	.5	.4	2.5	2.1	1.7
Service occupations	115.9	117.3	117.6	.2	.6	.3	1.9	1.4	1.5
Industry									
Goods-producing industries ⁴	113.2	114.1	114.7	1.0	.2	.5	2.6	1.8	1.3
Manufacturing	112.7	113.4	114.0	1.2	.3	.5	3.3	1.8	1.2
Service-providing industries ⁵	115.0	116.6	117.2	.6	.7	.5	2.1	2.0	1.9
Education and health services	115.7	117.5	117.9	.2	.6	.3	1.6	1.7	1.9
Education services	115.5	117.1	117.3	.0	.3	.2	1.5	1.4	1.6
Elementary and secondary schools	115.7	117.1	117.3	.0	.3	.2	1.3	1.2	1.4
Junior colleges, colleges, universities, and professional schools	114.8	116.7	116.9	-.2	.6	.2	1.7	1.5	1.8
Health care and social assistance ⁶	115.9	118.0	118.5	.3	1.0	.4	1.6	2.2	2.2
Hospitals	116.9	118.5	118.9	.3	.6	.3	1.9	1.7	1.7
Nursing and residential care facilities	113.9	115.0	115.3	.4	.6	.3	1.5	1.4	1.2
Public administration	117.6	119.1	119.5	.1	.8	.3	1.9	1.4	1.8

¹ Includes wages, salaries, and employer costs for employee benefits.

² Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government.

³ The index for this series is not strictly comparable with other series in this table.

⁴ Includes mining, construction, and manufacturing.

⁵ Includes the following industries: wholesale trade; retail trade;

transportation and warehousing; utilities; information; finance and insurance; real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; educational services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; other services, except public administration; and public administration.

⁶ Includes ambulatory health care services and social assistance, not shown separately.

Table 5. Employment Cost Index for total compensation¹, for private industry workers, by occupational group and industry

(Not seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)			Percent changes for-					
	June 2011	Mar. 2012	June 2012	3-months ended-			12-months ended-		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Private industry workers									
All workers	114.3	115.7	116.4	0.9	0.6	0.6	2.3	2.1	1.8
Excluding incentive paid occupations ²	114.9	116.2	116.8	.8	.6	.5	2.3	1.9	1.7
Occupational group									
Management, professional, and related	114.8	116.4	117.1	.6	.9	.6	2.3	2.0	2.0
Excluding incentive paid occupations ²	115.1	116.5	117.1	.7	.8	.5	2.5	1.9	1.7
Management, business, and financial	114.5	116.0	116.9	.8	.9	.8	2.5	2.1	2.1
Excluding incentive paid occupations ²	114.9	116.3	117.1	.7	.8	.7	2.7	1.9	1.9
Professional and related	115.1	116.6	117.3	.4	1.0	.4	2.2	1.9	1.9
Sales and office	113.3	115.0	115.9	1.1	.7	.8	2.3	2.6	2.3
Excluding incentive paid occupations ²	115.0	116.6	117.2	.6	.7	.5	2.0	2.0	1.9
Sales and related	109.8	111.4	112.6	1.9	.6	1.1	2.1	3.3	2.6
Excluding incentive paid occupations ²	113.6	114.8	115.4	.8	.5	.5	1.3	1.9	1.6
Office and administrative support	115.8	117.5	118.1	.6	.9	.5	2.4	2.1	2.0
Natural resources, construction, and maintenance	114.9	116.3	117.0	1.0	.4	.6	2.0	2.2	1.8
Construction, extraction, farming, fishing, and forestry	115.5	116.6	117.1	.6	.1	.4	1.7	1.6	1.4
Installation, maintenance, and repair	114.2	116.1	116.8	1.4	1.0	.6	2.4	3.1	2.3
Production, transportation, and material moving	113.5	114.5	115.1	1.2	.3	.5	2.7	2.0	1.4
Excluding incentive paid occupations ²	113.8	114.6	115.2	1.1	.1	.5	2.8	1.8	1.2
Production	113.2	113.8	114.4	1.3	.0	.5	2.9	1.9	1.1
Excluding incentive paid occupations ²	113.4	114.0	114.5	1.3	.0	.4	3.0	1.9	1.0
Transportation and material moving	114.0	115.5	116.0	.9	.5	.4	2.5	2.2	1.6
Service occupations	114.7	116.0	116.4	.2	.5	.3	1.8	1.3	1.5
Industry and occupational group									
Goods-producing industries ³	113.2	114.1	114.7	1.1	.3	.5	2.6	1.9	1.3
Excluding incentive paid occupations ²	113.7	114.5	115.0	1.1	.3	.4	2.6	1.8	1.1
Management, professional, and related	112.1	113.2	113.8	1.2	.8	.5	3.2	2.2	1.5
Sales and office	111.4	113.5	114.5	.9	.9	.9	2.4	2.8	2.8
Natural resources, construction, and maintenance	115.2	115.8	116.3	.9	-.1	.4	1.9	1.4	1.0
Production, transportation, and material moving	113.0	113.4	114.0	1.3	-.2	.5	2.9	1.6	.9
Construction	113.8	114.6	115.2	.7	.1	.5	1.2	1.6	1.4
Manufacturing	112.7	113.4	114.0	1.2	.3	.5	3.3	1.8	1.2
Management, professional, and related	112.0	113.2	113.7	1.0	.9	.4	3.7	2.1	1.5
Sales and office	113.2	115.1	115.4	.9	1.2	.3	3.9	2.6	1.9
Natural resources, construction, and maintenance	114.0	113.7	114.5	1.8	-.4	.7	3.5	1.5	.4
Production, transportation, and material moving	112.8	113.1	113.8	1.3	-.3	.6	2.9	1.5	.9
Aircraft manufacturing	102.7	99.2	99.4	.4	2.6	.2	10.0	-3.0	-3.2

See footnotes at end of table.

Table 5. Employment Cost Index for total compensation¹, for private industry workers, by occupational group and industry — Continued

(Not seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)			Percent changes for—					
	June 2011	Mar. 2012	June 2012	3-months ended—			12-months ended—		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Service-providing industries ⁴	114.6	116.3	117.0	0.7	0.9	0.6	2.2	2.2	2.1
Excluding incentive paid occupations ²	115.3	116.8	117.4	.6	.7	.5	2.2	1.9	1.8
Management, professional, and related	115.4	117.0	117.7	.5	.9	.6	2.2	1.9	2.0
Sales and office	113.6	115.1	118.0	1.2	.7	.8	2.3	2.5	2.1
Natural resources, construction, and maintenance	114.4	117.2	118.0	1.1	1.4	.7	2.0	3.5	3.1
Production, transportation, and material moving	114.2	116.0	116.4	1.0	.8	.3	2.6	2.6	1.9
Service occupations	114.7	116.0	116.4	.2	.5	.3	1.8	1.3	1.5
Trade, transportation, and utilities	113.2	115.2	116.0	1.1	1.0	.7	2.1	2.9	2.5
Excluding incentive paid occupations ²	114.5	116.1	116.6	.7	.7	.6	2.1	2.1	2.0
Wholesale trade	111.4	113.9	114.4	1.4	1.0	.4	2.3	3.6	2.7
Excluding incentive paid occupations ²	114.5	116.2	116.5	1.2	.6	.3	2.4	2.7	1.7
Retail trade	113.5	114.9	115.8	1.0	.4	.8	1.4	2.2	2.0
Excluding incentive paid occupations ²	114.0	115.0	115.8	.6	.3	.7	1.5	1.5	1.6
Transportation and warehousing	113.1	115.7	116.4	.5	1.8	.6	2.8	2.8	2.9
Utilities	120.9	122.9	125.2	1.3	1.1	1.9	3.3	3.0	3.6
Information	112.3	115.2	116.4	.6	2.4	1.0	2.3	3.2	3.7
Financial activities	113.8	114.4	115.8	.8	.2	1.0	3.0	1.3	1.6
Excluding incentive paid occupations ²	114.9	115.6	116.4	.7	.1	.7	2.7	1.3	1.3
Finance and insurance	114.3	114.6	115.8	.9	.1	1.0	3.0	1.1	1.3
Credit intermediation and related activities	113.9	114.4	115.3	.6	.3	.8	3.6	1.2	1.2
Excluding incentive paid occupations ²	116.7	117.3	117.6	1.0	.1	.3	2.8	1.6	.8
Insurance carriers and related activities	114.8	115.3	116.3	1.0	.1	.9	2.3	1.4	1.3
Excluding incentive paid occupations ²	115.4	115.6	116.9	.8	-.1	1.1	2.2	1.0	1.3
Real estate and rental and leasing	111.4	113.5	114.6	.5	.5	1.0	2.8	2.4	2.9
Excluding incentive paid occupations ²	114.3	116.4	117.9	.4	.6	1.3	2.7	2.2	3.1
Professional and business services	116.6	117.9	118.5	1.0	.7	.5	2.8	2.1	1.6
Professional, scientific, and technical services	119.2	120.7	121.0	.8	.8	.2	3.0	2.1	1.5
Administrative and support and waste management and remediation services	113.4	114.3	115.2	1.0	.4	.8	2.2	1.8	1.6
Education and health services	115.5	117.6	118.0	.3	.9	.3	1.6	2.2	2.2
Education services	115.6	117.6	117.8	.3	.3	.2	2.0	2.1	1.9
Junior colleges, colleges, universities, and professional schools	115.4	117.8	118.0	.1	.8	.2	1.9	2.2	2.3
Health care and social assistance ⁵	115.5	117.6	118.1	.4	1.0	.4	1.6	2.3	2.3
Hospitals	116.6	118.1	118.5	.3	.5	.3	1.8	1.6	1.6
Nursing and residential care facilities	113.3	114.4	114.6	.5	.6	.2	1.4	1.5	1.1
Nursing care facilities ²	113.9	114.7	114.9	.6	.4	.2	1.5	1.3	.9
Leisure and hospitality	114.6	115.6	116.0	.1	.3	.3	1.1	1.0	1.2
Accommodation and food services	115.3	116.3	116.7	-.1	.3	.3	1.1	.8	1.2
Other services, except public administration	114.5	116.6	116.9	.1	.9	.3	1.6	1.9	2.1

¹ Includes wages, salaries, and employer costs for employee benefits.

² The index for this series is not strictly comparable with other series in this table.

³ Includes mining, construction, and manufacturing.

⁴ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and insurance; real estate and rental and leasing; professional and technical services;

management of companies and enterprises; administrative and waste services; education services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services, except public administration.

⁵ Includes ambulatory health care services and social assistance, not shown separately.

Table 6. Employment Cost Index for total compensation¹, for private industry workers, by bargaining status and census region and division

(Not seasonally adjusted)

Bargaining status and census region and division	Indexes (Dec. 2005 = 100)			Percent changes for--					
	June 2011	Mar. 2012	June 2012	3-months ended--			12-months ended--		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Bargaining status									
Union	117.1	118.3	119.3	1.3	0.3	0.8	3.0	2.3	1.9
Goods-producing industries ²	116.4	115.8	118.6	1.8	-9	.7	3.4	1.3	.2
Manufacturing	113.8	112.1	112.8	2.6	-1.5	.6	4.3	1.1	-9
Service-providing industries ³	117.7	120.4	121.5	.8	1.3	.9	2.8	3.1	3.2
Nonunion	113.8	115.3	116.0	.7	.7	.6	2.2	2.0	1.9
Goods-producing industries ²	112.2	113.5	114.1	.8	.5	.5	2.5	2.0	1.7
Manufacturing	112.5	113.9	114.4	.8	.8	.4	3.0	2.1	1.7
Service-providing industries ³	114.3	115.8	116.5	.7	.7	.6	2.1	2.0	1.9
Census region and division⁴									
Northeast	115.3	116.5	117.1	.8	.3	.5	2.3	1.8	1.6
New England	116.0	116.9	117.4	1.0	.5	.4	2.6	1.8	1.2
Middle Atlantic	115.1	116.4	117.0	.7	.3	.5	2.3	1.8	1.7
South	114.3	116.0	116.8	.8	.9	.7	2.1	2.3	2.2
South Atlantic	114.6	116.4	117.3	.7	.9	.8	1.8	2.3	2.4
East South Central	112.7	114.0	115.1	.5	.7	1.0	1.7	1.7	2.1
West South Central	114.4	116.2	116.8	1.1	1.0	.5	2.7	2.7	2.1
Midwest	113.3	114.7	115.3	1.0	.7	.5	2.6	2.2	1.8
East North Central	112.7	113.9	114.5	1.0	.6	.5	2.8	2.1	1.6
West North Central	114.8	116.9	117.5	.8	1.1	.5	2.5	2.6	2.4
West	114.3	115.7	116.3	.7	.5	.5	2.3	1.9	1.7
Mountain	113.9	115.4	116.0	.4	.1	.5	1.4	1.8	1.8
Pacific	114.5	115.9	116.5	.8	.7	.5	2.7	2.0	1.7

¹ Includes wages, salaries, and employer costs for employee benefits.
² Includes mining, construction, and manufacturing.
³ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and insurance; real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; education services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services, except public administration.
⁴ The states (including the District of Columbia) that comprise the census divisions are: New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont; Middle Atlantic: New Jersey, New York, and Pennsylvania; South Atlantic: Delaware, District of

Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and West Virginia; East South Central: Alabama, Kentucky, Mississippi, and Tennessee; West South Central: Arkansas, Louisiana, Oklahoma, and Texas; East North Central: Illinois, Indiana, Michigan, Ohio, and Wisconsin; West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota; Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming; and Pacific: Alaska, California, Hawaii, Oregon, and Washington.

NOTE: The indexes for these series are not strictly comparable to those for the aggregate, occupation, and industry series. Dashes indicate data not available.

Table 7. Employment Cost Index for total compensation¹, for State and local government workers, by occupational group and industry

(Not seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)			Percent changes for—					
	June 2011	Mar. 2012	June 2012	3-months ended—			12-months ended—		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
State and local government workers									
All workers	116.7	118.3	118.6	0.1	0.5	0.3	1.7	1.5	1.6
Occupational group									
Management, professional, and related	116.0	117.6	117.9	.1	.6	.3	1.6	1.5	1.6
Professional and related	115.9	117.5	117.7	.0	.5	.2	1.5	1.4	1.6
Sales and office	117.3	118.9	119.4	.2	.4	.4	1.8	1.5	1.8
Office and administrative support	117.7	119.1	119.6	.2	.4	.4	1.8	1.4	1.6
Service occupations	118.6	120.1	120.4	.1	.5	.2	2.1	1.4	1.5
Industry									
Education and health services	115.9	117.5	117.7	.0	.4	.2	1.5	1.4	1.6
Education services	115.5	117.0	117.2	.0	.3	.2	1.4	1.3	1.5
Schools ²	115.5	117.0	117.2	.0	.4	.2	1.4	1.3	1.5
Elementary and secondary schools	115.8	117.2	117.4	.0	.3	.2	1.3	1.2	1.4
Health care and social assistance ³	119.2	121.1	121.4	.2	.8	.2	2.5	1.8	1.8
Hospitals	118.3	120.1	120.5	.1	.6	.3	2.3	1.6	1.9
Public administration	117.6	119.1	119.5	.1	.8	.3	1.9	1.4	1.6

¹ Includes wages, salaries, and employer costs for employee benefits.

² Includes elementary and secondary schools; junior colleges; colleges, universities, and professional schools.

³ Includes ambulatory health care services and social assistance, not shown separately.

Table 8. Employment Cost Index for wages and salaries, for civilian workers, by occupational group and industry

(Not seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)			Percent changes for--					
	June 2011	Mar. 2012	June 2012	3-months ended--			12-months ended--		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Civilian workers									
All workers ¹	113.9	115.3	115.8	0.4	0.6	0.4	1.6	1.7	1.7
Excluding incentive paid occupations ²	114.4	115.6	116.0	.4	.4	.3	1.6	1.4	1.4
Occupational group									
Management, professional, and related	114.6	115.9	116.4	.4	.6	.4	1.6	1.5	1.6
Management, business, and financial	114.3	115.6	116.5	.4	.6	.8	1.5	1.5	1.9
Professional and related	114.7	116.0	116.4	.3	.5	.3	1.6	1.4	1.5
Sales and office	112.7	114.3	115.1	.9	.5	.7	1.7	2.3	2.1
Sales and related	109.7	111.4	112.7	1.8	.5	1.2	1.6	3.3	2.7
Office and administrative support	114.7	116.2	116.7	.3	.6	.4	1.8	1.7	1.7
Natural resources, construction, and maintenance	114.5	115.7	116.0	.6	.3	.3	1.4	1.7	1.3
Construction, extraction, farming, fishing, and forestry	114.8	115.6	115.9	.3	.0	.3	1.4	1.0	1.0
Installation, maintenance, and repair	114.1	115.7	116.1	.9	.4	.3	1.5	2.3	1.8
Production, transportation, and material moving	112.2	113.9	114.2	.4	.7	.3	1.5	1.9	1.8
Production	111.6	113.3	113.6	.4	.8	.3	1.4	1.9	1.8
Transportation and material moving	113.1	114.6	115.0	.4	.7	.3	1.8	1.8	1.7
Service occupations	114.6	115.7	116.0	.1	.3	.3	1.3	1.0	1.2
Industry									
Goods-producing industries ³	112.7	114.0	114.5	.4	.4	.4	1.6	1.6	1.6
Manufacturing	112.0	113.6	114.0	.4	.8	.4	1.8	1.9	1.8
Service-providing industries ⁴	114.1	115.5	116.1	.4	.5	.5	1.5	1.7	1.8
Education and health services	114.4	115.8	116.1	.2	.4	.3	1.2	1.4	1.5
Education services	113.6	114.8	114.9	.0	.2	.1	1.2	1.1	1.1
Elementary and secondary schools	113.6	114.5	114.8	.0	.1	.1	1.0	.8	.9
Junior colleges, colleges, universities, and professional schools	113.2	114.7	114.8	.0	.4	.1	1.4	1.3	1.4
Health care and social assistance ⁵	115.4	117.1	117.5	.4	.8	.3	1.3	1.9	1.8
Hospitals	116.2	117.6	117.9	.3	.3	.3	1.5	1.6	1.5
Nursing and residential care facilities	113.5	114.2	114.4	.4	.4	.2	1.2	1.1	.8
Public administration	114.5	115.6	115.8	.1	.5	.2	1.0	1.0	1.1

¹ Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government.

² The index for this series is not strictly comparable with other series in this table.

³ Includes mining, construction, and manufacturing.

⁴ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and

insurance; real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; educational services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; other services, except public administration; and public administration.

⁵ Includes ambulatory health care services and social assistance, not shown separately.

Table 9. Employment Cost Index for wages and salaries, for private industry workers, by occupational group and industry

(Not seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)			Percent changes for-					
	June 2011	Mar. 2012	June 2012	3-months ended-			12-months ended-		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Private industry workers									
All workers	113.8	115.3	115.9	0.5	0.6	0.5	1.7	1.9	1.8
Excluding incentive paid occupations ¹	114.4	115.7	116.2	.4	.4	.4	1.6	1.5	1.6
Occupational group									
Management, professional, and related	114.9	116.3	117.0	.4	.7	.6	1.8	1.7	1.8
Excluding incentive paid occupations ¹	115.1	116.4	116.9	.4	.5	.4	1.9	1.6	1.6
Management, business, and financial	114.4	115.7	116.7	.4	.6	.9	1.6	1.6	2.0
Excluding incentive paid occupations ¹	114.9	116.1	116.8	.3	.6	.6	1.9	1.4	1.7
Professional and related	115.2	116.7	117.2	.3	.7	.4	1.8	1.7	1.7
Sales and office	112.7	114.3	115.2	1.0	.6	.8	1.8	2.4	2.2
Excluding incentive paid occupations ¹	114.4	115.9	116.5	.4	.5	.5	1.4	1.7	1.8
Sales and related	109.8	111.5	112.8	1.9	.5	1.2	1.7	3.4	2.7
Excluding incentive paid occupations ¹	113.7	114.9	115.5	.4	.3	.5	.5	1.5	1.6
Office and administrative support	114.8	116.4	117.0	.3	.6	.5	2.0	1.7	1.9
Natural resources, construction, and maintenance	114.4	115.6	116.0	.6	.2	.3	1.4	1.7	1.4
Construction, extraction, farming, fishing, and forestry	114.9	115.7	116.0	.3	.0	.3	1.4	1.0	1.0
Installation, maintenance, and repair	113.9	115.5	115.9	1.1	.4	.3	1.6	2.5	1.8
Production, transportation, and material moving	112.0	113.7	114.0	.4	.8	.3	1.5	1.9	1.8
Excluding incentive paid occupations ¹	112.3	113.9	114.2	.3	.7	.3	1.5	1.7	1.7
Production	111.5	113.2	113.5	.4	.8	.3	1.4	1.9	1.8
Excluding incentive paid occupations ¹	111.6	113.4	113.7	.3	.9	.3	1.4	1.9	1.9
Transportation and material moving	112.8	114.4	114.8	.5	.7	.3	1.8	2.0	1.8
Service occupations	114.2	115.4	115.8	.0	.3	.3	1.3	1.1	1.4
Industry and occupational group									
Goods-producing industries ²	112.7	114.0	114.5	.4	.4	.4	1.6	1.6	1.6
Excluding incentive paid occupations ¹	113.3	114.5	114.9	.4	.4	.3	1.7	1.5	1.4
Management, professional, and related	113.2	114.4	115.2	.6	.6	.7	2.0	1.7	1.8
Sales and office	110.9	113.2	114.1	.8	.8	.8	1.8	2.9	2.9
Natural resources, construction, and maintenance	114.6	115.3	115.5	.5	.0	.2	1.5	1.1	.8
Production, transportation, and material moving	111.4	112.9	113.2	.3	.6	.3	1.4	1.6	1.6
Construction	113.2	113.9	114.4	.4	-.2	.4	.9	1.1	1.1
Manufacturing	112.0	113.6	114.0	.4	.8	.4	1.8	1.9	1.8
Management, professional, and related	112.9	114.3	115.1	.5	.8	.7	2.0	1.8	1.9
Sales and office	112.8	114.9	115.2	.8	1.2	.3	3.5	2.7	2.1
Natural resources, construction, and maintenance	112.9	114.1	114.4	.6	.5	.3	1.8	1.7	1.3
Production, transportation, and material moving	111.2	112.7	113.0	.4	.6	.3	1.5	1.7	1.6
Aircraft manufacturing	116.8	119.6	119.9	.5	2.0	.3	2.5	2.9	2.7

See footnotes at end of table.

Table 9. Employment Cost Index for wages and salaries, for private industry workers, by occupational group and industry — Continued

(Not seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)			Percent changes for—					
	June 2011	Mar. 2012	June 2012	3-months ended—			12-months ended—		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Service-providing industries ³	114.1	115.6	116.3	0.5	0.6	0.6	1.6	1.9	1.9
Excluding incentive paid occupations ¹	114.8	116.1	116.6	.3	.5	.4	1.6	1.5	1.6
Management, professional, and related.....	115.2	116.6	117.3	.3	.7	.6	1.8	1.6	1.8
Sales and office.....	112.9	114.4	115.3	1.1	.5	.8	1.8	2.4	2.1
Natural resources, construction, and maintenance.....	114.2	116.2	116.7	.9	.6	.4	1.3	2.7	2.2
Production, transportation, and material moving.....	112.7	114.7	115.0	.4	1.0	.3	1.6	2.2	2.0
Service occupations.....	114.2	115.4	115.8	.0	.3	.3	1.2	1.1	1.4
Trade, transportation, and utilities.....	111.7	113.9	114.5	.7	.9	.5	1.1	2.7	2.5
Excluding incentive paid occupations ¹	113.2	114.7	115.3	.4	.5	.5	1.3	1.7	1.9
Wholesale trade.....	108.5	111.6	111.9	.6	1.3	.3	.4	3.5	3.1
Excluding incentive paid occupations ¹	111.8	113.6	113.7	.4	.7	.1	.3	2.0	1.7
Retail trade.....	113.1	114.9	115.6	.8	.4	.6	1.0	2.4	2.2
Excluding incentive paid occupations ¹	113.7	114.9	115.6	.4	.3	.6	1.2	1.4	1.7
Transportation and warehousing.....	111.8	113.7	114.4	.5	1.4	.6	2.1	2.2	2.3
Utilities.....	118.1	119.6	121.3	1.0	.7	1.4	3.0	2.3	2.7
Information.....	112.3	113.1	114.0	.3	.4	.8	1.8	1.0	1.5
Financial activities.....	113.4	114.3	115.8	.4	.4	1.3	2.2	1.2	2.1
Excluding incentive paid occupations ¹	114.5	115.6	116.6	.2	.3	.9	1.6	1.1	1.8
Finance and insurance.....	114.3	115.0	116.6	.4	.4	1.4	2.1	1.0	2.0
Credit intermediation and related activities.....	111.8	113.0	114.4	.0	.9	1.2	2.9	1.1	2.3
Excluding incentive paid occupations ¹	114.7	116.2	117.0	.0	.9	.7	1.5	1.3	2.0
Insurance carriers and related activities.....	114.0	115.3	116.0	.8	.4	.6	1.6	1.9	1.8
Excluding incentive paid occupations ¹	114.4	115.1	116.4	.6	.2	1.1	1.5	1.2	1.7
Real estate and rental and leasing.....	109.6	111.5	112.2	.4	.4	.6	2.2	2.1	2.4
Excluding incentive paid occupations ¹	112.7	114.6	115.7	.1	.4	1.0	2.2	1.8	2.7
Professional and business services.....	116.6	117.6	118.3	.9	.5	.6	2.6	1.7	1.5
Professional, scientific, and technical services.....	119.2	120.4	120.8	.9	.7	.3	3.1	1.9	1.3
Administrative and support and waste management and remediation services.....	113.2	114.1	115.0	.8	.4	.8	1.7	1.6	1.6
Education and health services.....	115.1	116.9	117.3	.4	.7	.3	1.4	2.0	1.9
Education services.....	114.9	117.1	117.1	.2	.3	.0	2.0	2.1	1.9
Junior colleges, colleges, universities, and professional schools.....	114.4	116.8	116.8	.0	.6	.0	1.6	2.1	2.1
Health care and social assistance ⁴	115.1	116.9	117.3	.4	.8	.3	1.2	2.0	1.9
Hospitals.....	116.0	117.4	117.8	.3	.3	.3	1.5	1.6	1.6
Nursing and residential care facilities.....	113.3	114.1	114.3	.4	.4	.2	1.2	1.2	.9
Nursing care facilities ¹	113.7	114.3	114.5	.5	.4	.2	1.2	1.1	.7
Leisure and hospitality.....	115.1	116.1	116.6	-.1	.3	.4	.7	.8	1.3
Accommodation and food services.....	115.6	116.6	117.1	-.1	.1	.4	.9	.8	1.3
Other services, except public administration.....	114.1	116.1	116.3	-.1	.8	.2	1.2	1.7	1.9

¹ The index for this series is not strictly comparable with other series in this table.

² Includes mining, construction, and manufacturing.

³ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and insurance; real estate and rental and leasing; professional and technical services;

management of companies and enterprises; administrative and waste services; education services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services, except public administration.

⁴ Includes ambulatory health care services and social assistance, not shown separately.

Table 10. Employment Cost Index for wages and salaries, for private industry workers, by bargaining status and census region and division

(Not seasonally adjusted)

Bargaining status and census region and division	Indexes (Dec. 2005 = 100)			Percent changes for--					
	June 2011	Mar. 2012	June 2012	3-months ended--			12-months ended--		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Bargaining status									
Union	114.0	115.6	116.2	0.4	0.6	0.5	1.7	1.8	1.9
Goods-producing industries ¹	112.1	113.5	113.8	.4	.5	.3	1.3	1.6	1.5
Manufacturing	109.8	111.5	111.8	.4	.7	.3	1.5	1.9	1.8
Service-providing industries ²	115.3	117.0	117.9	.3	.6	.8	1.9	1.7	2.3
Nonunion	113.8	115.2	115.9	.5	.5	.6	1.7	1.8	1.8
Goods-producing industries ¹	112.9	114.2	114.7	.5	.4	.4	1.7	1.7	1.6
Manufacturing	112.6	114.1	114.6	.4	.7	.4	1.9	1.8	1.8
Service-providing industries ²	114.0	115.5	116.2	.5	.6	.6	1.6	1.9	1.9
Census region and division³									
Northeast	114.6	115.8	116.4	.8	.4	.5	1.8	1.8	1.6
New England	115.9	116.8	117.2	1.2	.5	.5	2.2	1.8	1.1
Middle Atlantic	114.0	115.4	116.1	.5	.3	.6	1.5	1.8	1.8
South	114.4	116.0	116.7	.6	.7	.6	1.8	2.0	2.0
South Atlantic	114.6	116.4	117.3	.5	.7	.8	1.5	2.1	2.4
East South Central	112.9	114.1	114.8	.3	.5	.6	1.3	1.3	1.7
West South Central	114.5	116.1	116.6	.7	.8	.4	2.3	2.1	1.8
Midwest	112.2	113.8	114.3	.4	.8	.4	1.6	1.8	1.9
East North Central	111.3	112.7	113.1	.4	.7	.4	1.5	1.6	1.6
West North Central	114.5	116.5	117.1	.4	1.0	.5	1.9	2.2	2.3
West	114.1	115.4	116.1	.4	.4	.6	1.5	1.6	1.8
Mountain	114.1	115.2	115.7	.4	.0	.4	.8	1.3	1.4
Pacific	114.1	115.5	116.3	.4	.5	.7	1.8	1.7	1.9

¹ Includes mining, construction, and manufacturing.

² Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and insurance; real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; education services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services, except public administration.

³ The states (including the District of Columbia) that comprise the census divisions are: New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont; Middle Atlantic: New Jersey, New York, and Pennsylvania; South Atlantic: Delaware, District of

Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and West Virginia; East South Central: Alabama, Kentucky, Mississippi, and Tennessee; West South Central: Arkansas, Louisiana, Oklahoma, and Texas; East North Central: Illinois, Indiana, Michigan, Ohio, and Wisconsin; West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota; Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming; and Pacific: Alaska, California, Hawaii, Oregon, and Washington.

NOTE: The indexes for these series are not strictly comparable to those for the aggregate, occupation, and industry series. Dashes indicate data not available.

Table 11. Employment Cost Index for wages and salaries, for State and local government workers, by occupational group and industry

(Not seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)			Percent changes for--					
	June 2011	Mar. 2012	June 2012	3-months ended--			12-months ended--		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
State and local government workers									
All workers	114.2	115.2	115.4	0.1	0.3	0.2	1.2	1.0	1.1
Occupational group									
Management, professional, and related	113.8	114.9	115.0	.0	.3	.1	1.1	1.0	1.1
Professional and related	113.8	114.9	115.0	.0	.3	.1	1.1	1.0	1.1
Sales and office	113.7	114.5	114.7	.2	.3	.2	1.1	.9	.9
Office and administrative support	114.1	114.9	115.1	.2	.3	.2	1.0	.9	.9
Service occupations	115.5	116.6	116.7	.1	.3	.1	1.1	1.0	1.0
Industry									
Education and health services	113.8	114.8	114.9	.0	.2	.1	1.1	.9	1.0
Education services	113.4	114.3	114.4	.0	.2	.1	1.1	.8	.9
Schools ¹	113.4	114.3	114.4	.0	.2	.1	1.1	.8	.9
Elementary and secondary schools	113.6	114.5	114.6	.0	.2	.1	1.0	.8	.9
Health care and social assistance ²	117.4	118.8	118.9	.1	.6	.1	1.4	1.3	1.3
Hospitals	116.9	118.2	118.4	-.1	.6	.2	1.2	1.0	1.3
Public administration	114.5	115.6	115.8	.1	.5	.2	1.0	1.0	1.1

¹ Includes elementary and secondary schools; junior colleges; colleges, universities, and professional schools.

² Includes ambulatory health care services and social assistance, not shown separately.

Table 12. Employment Cost Index for benefits, by occupational group, industry, and bargaining status

(Not seasonally adjusted)

Occupational group, industry, and bargaining status	Indexes (Dec. 2005 = 100)			Percent changes for—					
	June 2011	Mar. 2012	June 2012	3-months ended—			12-months ended—		
				June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Civilian workers									
All workers ¹	116.8	118.6	119.3	1.1	0.9	0.6	3.6	2.7	2.1
Private industry workers									
All workers	115.4	116.9	117.6	1.5	.9	.6	4.0	2.8	1.9
Occupational group									
Management, professional, and related	114.8	116.8	117.4	1.2	1.4	.5	3.9	3.0	2.3
Sales and office	115.0	116.7	117.6	1.4	1.0	.8	3.5	2.9	2.3
Natural resources, construction, and maintenance	115.9	117.9	119.1	1.6	.9	1.0	3.1	3.3	2.8
Production, transportation, and material moving	116.5	116.1	117.1	2.6	-.8	.9	5.1	2.3	.5
Service occupations	116.1	118.1	118.3	.5	1.5	.2	3.2	2.3	1.9
Industry									
Goods-producing industries ²	114.1	114.2	114.9	2.1	-.2	.6	4.7	2.2	.7
Manufacturing	114.0	113.2	114.0	2.6	-.6	.7	6.1	1.9	.0
Aircraft manufacturing	87.6	77.3	77.4	.2	3.6	.1	22.3	-11.6	-11.6
Service-providing industries ³	115.9	118.0	118.7	1.2	1.4	.6	3.6	3.1	2.4
Bargaining status									
Union	122.3	122.9	124.3	2.8	.1	1.1	5.2	3.3	1.6
Nonunion	113.9	115.6	116.2	1.2	1.0	.5	3.5	2.7	2.0
State and local government workers									
All workers	122.1	124.8	125.4	.1	1.0	.5	3.0	2.3	2.7

¹ Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government.

² Includes mining, construction, and manufacturing.

³ Includes the following industries: wholesale trade; retail trade; transportation and warehousing; utilities; information; finance and

insurance; real estate and rental and leasing; professional and technical services; management of companies and enterprises; administrative and waste services; education services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services, except public administration.

Table 13. Employment Cost Index for total compensation,¹ and wages and salaries, for private industry workers, by area

(Not seasonally adjusted)

Census region and metropolitan area	Percent changes for 12-months ended—					
	Total compensation			Wages and salaries		
	June 2011	Mar. 2012	June 2012	June 2011	Mar. 2012	June 2012
Northeast						
Boston-Worcester-Manchester, MA-NH CSA	3.1	1.9	1.2	2.7	1.6	0.8
New York-Newark-Bridgeport, NY-NJ-CT-PA CSA	2.6	1.8	1.7	1.9	1.5	1.7
Philadelphia-Camden-Vineland, PA-NJ-DE-MD CSA	2.1	2.1	2.1	1.4	2.3	2.4
South						
Atlanta-Sandy Springs-Gainesville, GA-AL CSA	1.3	3.2	2.7	1.1	2.7	2.2
Dallas-Fort Worth, TX CSA	3.2	2.6	1.4	2.3	1.1	.8
Houston-Baytown-Huntsville, TX CSA	3.2	1.7	2.0	3.0	1.5	1.9
Miami-Fort Lauderdale-Pompano Beach, FL MSA	1.4	1.6	1.7	1.2	1.5	1.7
Washington-Baltimore-Northern Virginia, DC-MD-VA-WV CSA	1.5	1.8	2.0	1.3	1.4	1.9
Midwest						
Chicago-Naperville-Michigan City, IL-IN-WI CSA ...	2.6	1.8	1.7	1.5	1.3	1.1
Detroit-Warren-Flint, MI CSA	4.9	1.9	.3	.7	1.2	2.6
Minneapolis-St. Paul-St. Cloud, MN-WI CSA	2.2	1.8	2.0	1.7	1.3	1.7
West						
Los Angeles-Long Beach-Riverside, CA CSA	1.9	1.6	1.6	1.2	1.4	1.6
Phoenix-Mesa-Scottsdale, AZ MSA	3.1	1.5	.4	2.1	1.0	1.0
San Jose-San Francisco-Oakland, CA CSA	2.5	2.1	2.1	1.9	1.4	1.6
Seattle-Tacoma-Olympia, WA CSA	4.4	.8	.5	1.7	1.7	1.7

¹ Includes wages, salaries, and employer costs for employee benefits.



REGULATORY FOCUS

April 5, 2012

MAJOR RATE CASE DECISIONS--JANUARY-MARCH 2012

The average return on equity (ROE) authorized electric utilities in the first quarter of 2012 was 10.84% (12 observations), significantly higher than 10.22% in calendar-2011. This increase was largely driven by several surcharge/rider generation cases in Virginia that incorporate ROE premiums. Virginia statutes authorize the State Corporation Commission to approve ROE premiums of up to 200 basis points for certain generation projects (see the [Virginia Commission Profile](#)). Excluding these Virginia surcharge/rider generation cases from the data, the average authorized electric ROE approximated 10.3% for the first quarter of 2012. The average ROE authorized gas utilities for the first three months of 2012 was 9.63% (five observations), slightly lower than the 9.92% in calendar-2011. We note that this report utilizes the simple mean for the return averages.

After reaching a low in the early-2000's, the number of rate case decisions for energy companies has generally increased over the last several years, although the number of decisions declined in 2011. There were 84 electric and gas rate decisions in 2011, versus 126 in 2010, 95 in 2009, and only 32 back in 2001. Increased costs, including environmental compliance expenditures, the need for generation and delivery infrastructure upgrades and expansion, renewable generation mandates, and higher employee benefit expenses argue for the continuation of an active rate case schedule over the next few years.

As a result of electric industry restructuring, certain states have unbundled electric rates and implemented retail competition for generation. Commissions in those states now have jurisdiction over the revenue requirement and return parameters for delivery operations only (which we footnote in our chronology beginning on page 5), thus complicating historical data comparability. We also note that while the heightened business risk associated with the sluggish economy may have increased corporate capital costs, average authorized ROEs have declined slightly since 2008. In fact, some state commissions have cited customer hardship as a significant factor influencing their equity return authorizations.

The table on page 2 shows the average ROE authorized in major electric and gas rate decisions annually since 1990, and by quarter since 2006, followed by the number of observations in each period. The tables on page 3 show the composite electric and gas industry data for all major cases summarized annually since 1998 and by quarter for the past nine quarters. The individual electric and gas cases decided in the first quarter of 2012 are listed on pages 4-5, with the decision date (generally the date on which the final order was issued) shown first, followed by the company name, the abbreviation for the state issuing the decision, the authorized rate of return (ROR), return on equity (ROE), and percentage of common equity in the adopted capital structure. Next we show the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base, and the amount of the permanent rate change authorized. The dollar amounts represent the permanent rate change ordered at the time decisions were rendered. Fuel adjustment clause rate changes are not reflected in this study. We note that the cases and averages included in this study may be slightly different from those in our on-line Rate Case History database, with any differences reflecting, for example, this study's inclusion of ROE determinations that are rendered in cost-of-capital-only proceedings in California.

Dennis Sperduto

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Average Equity Returns Authorized January 1990 - March 2012

Year	Period	Electric Utilities		Gas Utilities	
		ROE %	(# Cases)	ROE %	(# Cases)
1990	Full Year	12.70	(44)	12.67	(31)
1991	Full Year	12.55	(45)	12.46	(35)
1992	Full Year	12.09	(48)	12.01	(29)
1993	Full Year	11.41	(32)	11.35	(45)
1994	Full Year	11.34	(31)	11.35	(28)
1995	Full Year	11.55	(33)	11.43	(16)
1996	Full Year	11.39	(22)	11.19	(20)
1997	Full Year	11.40	(11)	11.29	(13)
1998	Full Year	11.66	(10)	11.51	(10)
1999	Full Year	10.77	(20)	10.66	(9)
2000	Full Year	11.43	(12)	11.39	(12)
2001	Full Year	11.09	(18)	10.95	(7)
2002	Full Year	11.16	(22)	11.03	(21)
2003	Full Year	10.97	(22)	10.99	(25)
2004	Full Year	10.75	(19)	10.59	(20)
2005	Full Year	10.54	(29)	10.46	(26)
	1st Quarter	10.38	(3)	10.63	(6)
	2nd Quarter	10.68	(6)	10.50	(2)
	3rd Quarter	10.06	(7)	10.45	(3)
	4th Quarter	10.39	(10)	10.14	(5)
2006	Full Year	10.36	(26)	10.43	(16)
	1st Quarter	10.27	(8)	10.44	(10)
	2nd Quarter	10.27	(11)	10.12	(4)
	3rd Quarter	10.02	(4)	10.03	(8)
	4th Quarter	10.56	(16)	10.27	(15)
2007	Full Year	10.36	(39)	10.24	(37)
	1st Quarter	10.45	(10)	10.38	(7)
	2nd Quarter	10.57	(8)	10.17	(3)
	3rd Quarter	10.47	(11)	10.49	(7)
	4th Quarter	10.33	(8)	10.34	(13)
2008	Full Year	10.46	(37)	10.37	(30)
	1st Quarter	10.29	(9)	10.24	(4)
	2nd Quarter	10.55	(10)	10.11	(8)
	3rd Quarter	10.46	(3)	9.88	(2)
	4th Quarter	10.54	(17)	10.27	(15)
2009	Full Year	10.48	(39)	10.19	(29)
	1st Quarter	10.66	(17)	10.24	(9)
	2nd Quarter	10.08	(14)	9.99	(11)
	3rd Quarter	10.26	(11)	9.93	(4)
	4th Quarter	10.30	(17)	10.09	(12)
2010	Full Year	10.34	(59)	10.08	(37)
	1st Quarter	10.32	(13)	10.10	(5)
	2nd Quarter	10.12	(10)	9.88	(5)
	3rd Quarter	10.00	(7)	9.65	(2)
	4th Quarter	10.34	(11)	9.88	(4)
2011	Full Year	10.22	(41)	9.92	(16)
2012	1st Quarter	10.84	(12)	9.63	(5)

Electric Utilities--Summary Table*

Period	ROR % (# Cases)	ROE % (# Cases)	Eq. as %		Amt.	
			Cap. Struc. (# Cases)		\$ Mil. (# Cases)	
1998	Full Year	9.44 (9)	11.66 (10)	46.14 (8)		-429.3 (31)
1999	Full Year	8.81 (18)	10.77 (20)	45.08 (17)		-1,683.8 (30)
2000	Full Year	9.20 (12)	11.43 (12)	48.85 (12)		-291.4 (34)
2001	Full Year	8.93 (15)	11.09 (18)	47.20 (13)		14.2 (21)
2002	Full Year	8.72 (20)	11.16 (22)	46.27 (19)		-475.4 (24)
2003	Full Year	8.86 (20)	10.97 (22)	49.41 (19)		313.8 (12)
2004	Full Year	8.44 (18)	10.75 (19)	46.84 (17)		1,091.5 (30)
2005	Full Year	8.30 (26)	10.54 (29)	46.73 (27)		1,373.7 (36)
2006	Full Year	8.24 (24)	10.36 (26)	48.67 (23)		1,465.0 (42)
2007	Full Year	8.22 (38)	10.36 (39)	48.01 (37)		1,401.9 (46)
2008	Full Year	8.25 (35)	10.46 (37)	48.41 (33)		2,899.4 (42)
2009	Full Year	8.23 (38)	10.48 (39)	48.61 (37)		4,192.3 (58)
	1st Quarter	7.95 (17)	10.66 (17)	48.36 (16)		2,010.0 (19)
	2nd Quarter	7.95 (15)	10.08 (14)	47.07 (13)		937.5 (19)
	3rd Quarter	8.16 (12)	10.26 (11)	49.52 (11)		730.6 (18)
	4th Quarter	7.95 (15)	10.30 (17)	49.00 (14)		1,889.6 (21)
2010	Full Year	7.99 (59)	10.34 (59)	48.45 (54)		5,567.7 (77)
	1st Quarter	8.12 (13)	10.32 (13)	49.05 (13)		610.5 (15)
	2nd Quarter	8.01 (10)	10.12 (10)	46.36 (10)		1,055.9 (12)
	3rd Quarter	8.09 (7)	10.00 (7)	48.33 (7)		642.4 (11)
	4th Quarter	7.61 (11)	10.34 (11)	47.91 (10)		544.7 (15)
2011	Full Year	7.95 (41)	10.22 (41)	47.97 (40)		2,853.5 (53)
2012	1st Quarter	8.00 (11)	10.84 (12)	50.20 (10)		970.6 (16)

Gas Utilities--Summary Table*

Period	ROR % (# Cases)	ROE % (# Cases)	Eq. as %		Amt.	
			Cap. Struc. (# Cases)		\$ Mil. (# Cases)	
1998	Full Year	9.46 (10)	11.51 (10)	49.50 (10)		93.9 (20)
1999	Full Year	8.86 (9)	10.66 (9)	49.06 (9)		51.0 (14)
2000	Full Year	9.33 (13)	11.39 (12)	48.59 (12)		135.9 (20)
2001	Full Year	8.51 (6)	10.95 (7)	43.96 (5)		114.0 (11)
2002	Full Year	8.80 (20)	11.03 (21)	48.29 (18)		303.6 (26)
2003	Full Year	8.75 (22)	10.99 (25)	49.93 (22)		260.1 (30)
2004	Full Year	8.34 (21)	10.59 (20)	45.90 (20)		303.5 (31)
2005	Full Year	8.25 (29)	10.46 (26)	48.66 (24)		458.4 (34)
2006	Full Year	8.51 (16)	10.43 (16)	47.43 (16)		444.0 (25)
2007	Full Year	8.12 (32)	10.24 (37)	48.37 (30)		813.4 (48)
2008	Full Year	8.48 (30)	10.37 (30)	50.47 (30)		884.8 (41)
2009	Full Year	8.15 (28)	10.19 (29)	48.72 (28)		475.0 (37)
	1st Quarter	8.20 (10)	10.24 (9)	50.27 (9)		177.3 (11)
	2nd Quarter	7.80 (11)	9.99 (11)	46.31 (11)		230.2 (12)
	3rd Quarter	8.13 (4)	9.93 (4)	49.00 (4)		290.5 (10)
	4th Quarter	7.84 (13)	10.09 (13)	49.11 (14)		118.7 (16)
2010	Full Year	7.95 (38)	10.08 (37)	48.56 (38)		816.7 (49)
	1st Quarter	8.07 (6)	10.10 (5)	52.47 (4)		48.3 (9)
	2nd Quarter	8.05 (4)	9.88 (5)	54.45 (3)		234.0 (7)
	3rd Quarter	8.09 (2)	9.65 (2)	49.44 (2)		26.5 (4)
	4th Quarter	8.07 (5)	9.88 (4)	52.03 (4)		127.5 (11)
2011	Full Year	8.57 (16)	9.92 (16)	48.04 (13)		436.3 (31)
2012	1st Quarter	7.63 (5)	9.63 (5)	51.40 (5)		125.3 (5)

ELECTRIC UTILITY DECISIONS

<u>Date</u>	<u>Company (State)</u>	<u>ROR</u> <u>%</u>	<u>ROE</u> <u>%</u>	<u>Common</u> <u>Eq. as %</u> <u>Cap. Str.</u>	<u>Test Year</u> <u>&</u> <u>Rate Base</u>	<u>Amt.</u> <u>\$ Mil.</u>
2011	FULL-YEAR: AVERAGES/TOTAL	7.95	10.22	47.97		2,853.5
	MEDIAN	8.11	10.15	47.87		---
	OBSERVATIONS	41	41	40		53
1/3/12	Appalachian Power (VA)	---	11.40	---	2/13-YE	26.1 (B,1)
1/10/12	PacifiCorp (ID)	---	---	---	12/10	34.0 (B,Z)
1/25/12	Duke Energy Carolinas (SC)	8.10	10.50	53.00	12/10-YE	92.8 (B)
1/27/12	Duke Energy Carolinas (NC)	8.11	10.50	53.00	12/10-YE	368.0 (B,2)
2/2/12	Virginia Electric and Power (VA)	8.77	11.40	53.25	3/13-A	34.1 (3)
2/15/12	Indiana Michigan Power (MI)	6.84	10.20	42.07 *	12/12-A	14.6 (B)
2/23/12	Idaho Power (OR)	7.76	9.90	49.90	12/11-A	1.8 (B)
2/22/12	Florida Power (FL)	---	---	---	---	150.0 (B,4)
2/27/12	Gulf Power (FL)	6.39	10.25	38.50 *	12/12-A	68.1 (I,Z)
2/29/12	Northern States Power-Minnesota (ND)	---	10.40	---	12/11	15.7 (B,I,Z)
3/16/12	Virginia Electric and Power (VA)	9.03	12.40	53.25	3/13-A	6.4 (5)
3/20/12	Virginia Electric and Power (VA)	8.48	11.40	53.25	3/13-A	-4.3 (6)
3/21/12	NorthWestern Corp. (MT)	---	---	---	A	39.1 (I,Z,7)
3/23/12	Virginia Electric and Power (VA)	8.48	11.40	53.25	3/13-A	46.8 (8)
3/29/12	Northern States Power-Minnesota (MN)	8.32	10.37	52.56	12/11-A	72.9 (B,I,Z)
3/30/12	PacifiCorp (WA)	7.74	---	---	12/10	4.5 (B)
2012	1ST QUARTER: AVERAGES/TOTAL	8.00	10.84	50.20		970.6
	MEDIAN	8.11	10.50	53.00		---
	OBSERVATIONS	11	12	10		16

GAS UTILITY DECISIONS

<u>Date</u>	<u>Company (State)</u>	<u>ROR</u> <u>%</u>	<u>ROE</u> <u>%</u>	<u>Common</u> <u>Eq. as %</u> <u>Cap. Str.</u>	<u>Test Year</u> <u>&</u> <u>Rate Base</u>	<u>Amt.</u> <u>\$ Mil.</u>
2011	FULL-YEAR: AVERAGES/TOTAL	8.57	9.92	48.04		436.3
	MEDIAN	8.09	10.03	52.30		---
	OBSERVATIONS	16	16	13		31
1/10/12	Ameren Illinois (IL)	8.33	9.06	53.27	12/12-A	32.2
1/10/12	North Shore Gas (IL)	7.43	9.45	50.00 (9)	12/12-A	1.9
1/10/12	Peoples Gas Light & Coke (IL)	6.94	9.45	49.00 (9)	12/12-A	57.8
1/23/12	Piedmont Natural Gas (TN)	7.98	10.20	52.71	2/13-A	11.9 (B)
1/31/12	New Mexico Gas (NM)	7.48	10.00	52.00	9/10-YE	21.5 (B)
2012	1ST QUARTER: AVERAGES/TOTAL	7.63	9.63	51.40		125.3
	MEDIAN	7.48	9.45	52.00		---
	OBSERVATIONS	5	5	5		5

FOOTNOTES

A- Average

B- Order followed stipulation or settlement by the parties. Decision particulars not necessarily precedent-setting or specifically adopted by the regulatory body.

D- Applies to electric delivery only

E- Estimated

I- Interim rates implemented prior to the issuance of final order, normally under bond and subject to refund.

YE- Year-end

Z- Rate change implemented in multiple steps.

* Capital structure includes cost-free items or tax credit balances at the overall rate of return.

- (1) Rate increase authorized through a generation rider/adjustment clause.
- (2) The approved/stipulated \$368 million base rate increase includes \$51 million that the company is to defer until its next rate case, representing a cash return on construction work in progress.
- (3) Increase authorized through a surcharge, Rider W, which reflects in rates the investment in the Warren County Power Station and associated transmission facilities.
- (4) PSC adopted a settlement that addresses base rates and issues related to the company's nuclear plants. Effective January 2013, the company is to increase base rates by \$150 million, and base rates would then be frozen through 2016, except as otherwise provide for by the settlement.
- (5) Increase authorized through a surcharge (Rider B) related to generation conversion project investments.
- (6) Rate change approved through surcharge (Rider R) related to the Bear Garden Generating Station.
- (7) Case is a limited-issue rate proceeding, covering NorthWestern's incremental investment in the Dave Gates (formerly Mill Creek) generating facility.
- (8) Increase authorized through a surcharge, Rider S, associated with the Virginia City Hybrid Energy Center.
- (9) Component of an "imputed" capital structure.

Dennis Spurduto

FILED²
JUL 9 2001

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

Missouri Public
Service Commission

In the Matter of the Application of Kansas City)
Power & Light Company for an Order Authorizing)
Its Plan to Reorganize Itself Into a Holding)
Company Structure.)

Case No. EM-2001-464

**FIRST AMENDED
STIPULATION AND AGREEMENT**

As a result of discussions among the parties to Case No. EM-2001-464, the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("Public Counsel"), Kansas City Power & Light Company ("KCPL"), Great Plains Energy, Incorporated ("GPE") and Great Plains Power, Incorporated ("GPP"), hereby submit to the Missouri Public Service Commission ("Commission") for its consideration and approval the following Stipulation And Agreement:

I. Kansas City Power & Light Company's Application

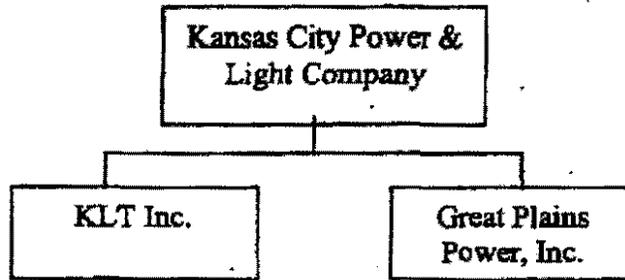
On February 26, 2001, KCPL filed its Application. KCPL is a vertically integrated electric utility company under the jurisdiction of the Commission. In its Application, KCPL proposed to reorganize into a registered holding company structure as follows:

A. After reorganization, a new holding company, GPE¹ will be the sole owner of three subsidiary companies, all of which already exist - i.e., KCPL, KLT Inc. ("KLT") and Great Plains Power, Incorporated ("GPP"). KCPL will remain a vertically integrated electric utility subject to this Commission's jurisdiction and will not transfer any of its generating assets as a part of this proposed restructuring plan. KLT will continue to invest in competitive, high growth businesses. GPP will pursue opportunities in the competitive wholesale generation market. KCPL's existing corporate structure, and the corporate ~~structure~~ ~~that will exist~~

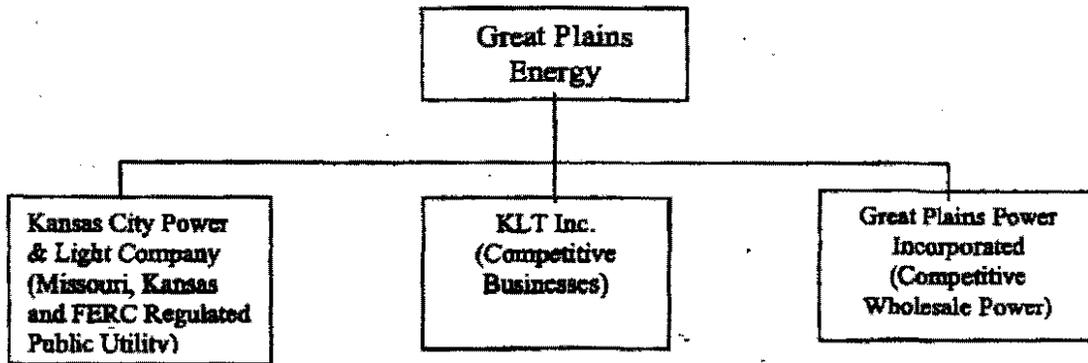
¹The Articles of Incorporation for GPE were filed with the Missouri Secretary of State on February 26, 2001.

immediately following the completion of the restructuring plan proposed herein, are illustrated below.

CURRENT CORPORATE STRUCTURE²



RESTRUCTURED COMPANY



The two corporate structures illustrated above are snapshots of KCPL at the beginning and end of the proposed restructuring process. KCPL's restructuring process contains several intermediary steps. KCPL has formed a wholly owned subsidiary, GPE. In turn, GPE will form a wholly owned, new subsidiary, NewCo. Pursuant to a merger agreement ("Merger Agreement") between KCPL, GPE and NewCo, KCPL then will merge with NewCo. A copy of the Merger Agreement was attached to the Application as

² The only other existing subsidiary of KCPL that is relatively significant in terms of its size is Home Services Solutions ("HSS"). It is anticipated that HSS will be sold or otherwise disposed of in the near future. None of KCPL's subsidiaries are involved in the provision of regulated utility services.

Exhibit 1. Under the terms of the Merger Agreement, the separate existence of NewCo will cease and KCPL will continue as the surviving corporation of the merger. At this point, KCPL will be a wholly owned subsidiary of GPE. As a part of the merger, each outstanding share of KCPL stock automatically converts into the right to receive one share of GPE stock. Similarly, each share of KCPL's various series of preferred stock will be converted into one share of an identical series of GPE preferred stock. The pro forma balance sheets and income statements of KCPL before and after the proposed restructuring plan were attached to the Application as Exhibit 2. Once the merger is consummated, KCPL will dividend its stock of KLT and GPP to GPE. At this point, GPE will be a publicly held corporation that owns 100% of KCPL, KLT and GPP.

B. KCPL further stated that KCPL anticipates that it will form a service company ("ServCo") within a certain period of time following the completion of the reorganization. The ServCo will provide certain shared services to the affiliated companies. A form of the General Services Agreement that will be used for the provision of support services was attached to the Application as Exhibit 3. A copy of KCPL's cost allocation manual ("CAM"), which describes the bases currently used by KCPL for allocating certain costs related to shared services, was attached to the Application as Exhibit 4. KCPL stated that the new holding company system will continue to use service agreements, work orders and a CAM to assure that costs are properly tracked and assigned. Upon completion of the reorganization, GPE will register with the SEC and become subject to additional regulation under the Public Utility Holding Company Act of 1935 ("PUHCA").

C. The proposed reorganization will not involve the transfer of any assets, including generating assets, from KCPL to affiliates. KCPL will remain a vertically integrated electric utility. It is the intent of this Stipulation And Agreement that this Commission will continue to have the authority to ensure that KCPL's retail electric customers receive electric service that is safe, reliable and reasonably priced.

II. STIPULATIONS AND AGREEMENTS

Having considered the verified Application that KCPL submitted in this matter and having conducted settlement negotiations and discussions with other parties, KCPL and GPE, the Staff and the Public Counsel agree and recommend, subject to the conditions set forth below, that the Commission should approve KCPL's Application to restructure and reorganize, as proposed in its Application and as conditioned and modified in this Stipulation And Agreement.

1. Approval of the Proposed Restructuring and Reorganization

The signatories agree that the Commission should approve the restructuring and reorganization of KCPL as requested in the Application filed February 26, 2001, on the basis that, subject to the conditions and modifications set forth below, said restructuring and reorganization is not detrimental to the public interest. In addition, the Commission should grant KCPL authority to merge with NewCo with KCPL being the surviving corporation, grant GPE the authority to own more than ten percent (10%) of the common stock of KCPL, and grant all other approvals requested in KCPL's Application necessary to implement the restructuring plan described in KCPL's Application, including authority of KCPL to issue the stock dividends to GPE, as conditioned and modified in this Stipulation And Agreement.

2. State Jurisdictional Issues

In *Re Western Resources, Inc./Kansas City Power & Light Company*, Case No. EM-97-515, and *Re Union Electric Company/Central Illinois Public Service Company*, Case No. EM-96-149, the Commission approved settlement agreements designed to ensure the protection of customers of Missouri utilities that were to possibly become or become a subsidiary of a Registered Holding Company. KCPL and GPE hereby agree to those same conditions as set forth below. KCPL further commits that it and its affiliates will continue to comply with the provisions of 4 CSR 240-20.015 and 20.017 after the reorganization is completed. As used in this Stipulation And Agreement, and in all attachments to this document, any reference to "GPE" includes both GPE and its successors in interest.

a. Access to Books, Records and Personnel

GPE and KCPL agree to make available to the Staff and Public Counsel, at reasonable times and places, all books, records, employees and officers of GPE, KCPL and any affiliate of KCPL as provided under applicable law and Commission rules; provided that KCPL and any affiliate or subsidiary of GPE shall have the right to object to such production of records or personnel on any basis under applicable law and Commission rules, excluding any objection that such records and personnel of affiliates or subsidiaries are not subject to the Commission's jurisdiction and statutory authority or are not in the control, custody or possession of KCPL, including objections based on the operation of PUHCA.

GPE and its affiliates (including KCPL) will provide the following documents to the Staff and Public Counsel on an annual basis:

- All new, revised and updated business plans for GPE and its affiliates (including KCPL).
- Description of any and all joint marketing/promotional campaigns between KCPL and GPE and any of its affiliates.
- Narrative description of all products and services offered by GPE and its affiliates (including KCPL). KCPL is not required to provide narrative descriptions of its tariffed products and services.
- All information provided under this subsection shall be considered "highly confidential" or "proprietary" as those terms are used in 4 CSR 240-2.085, and shall be treated as highly confidential or proprietary information by the Staff and Public Counsel.

At the Commission's request, officers and employees of GPE or its affiliates will be made available for deposition or cross-examination concerning affiliated transactions affecting KCPL and diversification plans.

b. Contracts Required to be Filed with the SEC

All contracts, agreements or arrangements of any kind, including any amendments thereto, between KCPL and any affiliate, associate, holding, mutual service, or subsidiary company within the same holding company system, as these terms are defined in 15 U.S.C. § 79b, as subsequently amended, that are required to be filed with and/or approved by the Securities and Exchange Commission ("SEC") pursuant to PUHCA, as subsequently amended, shall be conditioned upon the following without modification or alteration: Neither KCPL nor any of its affiliates, will seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of the Commission which pertains to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost (including cost of capital) or allocation incurred or accrued by KCPL in, or as a result of, a contract, agreement, arrangement, or transaction with any affiliate, associate,

holding, mutual service or subsidiary company on the basis that such expense, charge, cost (including cost of capital) or allocation has itself been filed with or approved by the SEC or was incurred pursuant to a contract, arrangement, agreement or allocation method that was filed with or approved by the SEC.

c. Electric Contracts Required to be Filed with FERC

All wholesale electric energy or transmission service contracts, tariffs, agreements or arrangements of any kind, including any amendments thereto, between KCPL and any GPE subsidiary or affiliate, that are required to be filed with and/or approved by the Federal Energy Regulatory Commission ("FERC"), pursuant to the Federal Power Act, as subsequently amended, shall be conditioned upon the following without modification or alteration: Neither KCPL nor any of its affiliates will seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of the Commission which pertains to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost (including cost of capital) or allocation incurred or accrued by KCPL in, or as a result of, a wholesale electric energy or transmission service contract, agreement, arrangement or transaction on the basis that such expense, charge, cost (including cost of capital) or allocation has itself been filed with or approved by FERC, or was incurred pursuant to a contract, arrangement, agreement or allocation method that was filed with or approved by FERC.

d. No Pre-Approval of Affiliated Transactions

KCPL agrees to provide the Commission and Public Counsel with copies of all documents that must be filed with the SEC or FERC relating to affiliate transactions. KCPL and GPE further agree that the Commission may make its determination regarding the ratemaking treatment to be accorded these transactions in a subsequent ratemaking proceeding.

e. **Contingent Procedure Stipulation Regarding
Affiliate Contracts Required to be Filed With FERC**

KCPL agrees that in the exclusive event that any court with jurisdiction over KCPL, GPE or any of their affiliates or subsidiaries issues an opinion or order that invalidates a decision or order of the Commission pertaining to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost (including cost of capital) or allocation incurred or accrued by KCPL on the basis that such expense, charge, cost (including cost of capital) or allocation has itself been filed with or approved by FERC, then the Contingent Procedure Stipulation, attached hereto as Exhibit A, shall apply to FERC filings according to its terms, at the option of the Commission.

f. **Contingent Procedure Stipulation Regarding
Affiliate Contracts Required to be Filed with SEC**

KCPL agrees that in the exclusive event that any court with jurisdiction over KCPL, GPE or any of their affiliates or subsidiaries issues an opinion or order that invalidates a decision or order of the Commission pertaining to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost (including cost of capital) or allocation incurred or accrued by KCPL on the basis that such expense, charge, cost (including cost of capital) or allocation has itself been filed with or approved by SEC, then the Contingent Procedure Stipulation, attached hereto as Exhibit A, shall apply to SEC filings according to its terms, at the option of the Commission.

g. Stipulation Regarding the Creation of the Service Company

KCPL agrees that it will file an Application with the Commission, pursuant to 4 CSR 240-2.060(7), and obtain the Commission's approval, before KCPL sells, assigns, leases or transfers any assets from KCPL to its proposed ServCo. KCPL agrees to provide the Staff and Public Counsel with copies of all documents that must be filed with the SEC or FERC relating to creation of ServCo.

4 CSR 240-20.015, Affiliate Transactions, sets forth financial standards, evidentiary standards and record-keeping requirements applicable to any Commission regulated electrical corporation whenever such corporation participates in transactions with any affiliated entity (except with regard to HVAC services as defined in Section 386.754, RSMo 2000). Section (5) (Records of Affiliated Entities) of said Rule provides, *inter alia*, that:

(A) Each regulated electrical corporation shall ensure that its parent and any other affiliated entities maintain books and records that include, at a minimum, the following information regarding affiliate transactions:

5. Names and job descriptions of the employees from the regulated electrical corporation that transferred to a nonregulated affiliated entity;

In addition to the above-stated requirements, KCPL agrees to seek agreement with the Staff and Public Counsel concerning an appropriate notification procedure to be utilized regarding the transfer of functions to ServCo from KCPL.

KCPL further agrees that the Commission may make its determination regarding the ratemaking treatment to be accorded the creation of ServCo in a subsequent ratemaking proceeding. All contracts, agreements or arrangements of any kind, including any amendments thereto, between KCPL and ServCo, as these terms are defined in 15 U.S.C. § 79b, as

subsequently amended, that are required to be filed with and/or approved by the SEC pursuant to PUHCA, as subsequently amended, shall be conditioned upon the following without modification or alteration: Neither KCPL nor any of its affiliates, will seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of the Commission which pertains to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost (including cost of capital) or allocation incurred or accrued by KCPL in, or as a result of, a contract, agreement, arrangement, or transaction with ServCo on the basis that such expense, charge, cost (including cost of capital) or allocation has itself been filed with or approved by the SEC or was incurred pursuant to a contract, arrangement, agreement or allocation method that was filed with or approved by the SEC.

3. **Surveillance Condition**

KCPL agrees that, following the close of the transaction, KCPL will continue to provide the Commission with annual surveillance reports on a total company and Missouri jurisdictional basis similar to the annual surveillance reports currently provided by KCPL.

4. **Modification and Enhancement to KCPL's Cost Allocation Manual**

KCPL agrees to the various modifications and enhancements of its Cost Allocation Manual ("CAM"), as identified in Exhibit B to the Stipulation And Agreement, and agrees to submit to the Staff a modified and enhanced CAM within 120 days of the close of the transaction.

5. Financial Projections in Pro Forma Financial Statements

KCPL believes that the financial information and accompanying adjustments contained in Exhibit 2 of the Application, as amended, are reasonable projections of the actual and expected financial condition of KCPL and its affiliates, based upon the information available at the time of the filing of Exhibit 2. However, KCPL also acknowledges that the financial information contained in Exhibit 2 may change before the transaction closes, as a result of normal business operations. KCPL agrees to provide to the Staff and Public Counsel a copy of the actual journal entries that are made by KCPL within thirty (30) days of completion of the journal entries on the books and records of KCPL following the close of the transaction. In the event that the actual results at the close of the transaction deviate from the projections contained in Exhibit 2, as amended, by more than ten (10%) percent, KCPL agrees to provide the Staff and Public Counsel with an explanation for any deviation from the projections contained in Exhibit 2, as amended.

6. Financial Conditions

In order to resolve concerns raised by the parties regarding financing issues, GPE and KCPL agree to the following:

- a. GPE ("Holding Company") and its subsidiaries will not conduct any material business activities that are not part of the "electric industry or natural gas industry business" or are not reasonably related to business activities derived from changes in the electric industry or natural gas industry as a result of competition, without Commission approval. With regard to expansion of KCPL's current operations in the telecommunications and information businesses, activities will be limited to those considered reasonably related to current operations.
- b. GPE will not pledge KCPL's common stock as collateral or security for the debt of the Holding Company or a subsidiary without Commission approval.

- c. KCPL will not guarantee the notes, debentures, debt obligations or other securities of the Holding Company or any of its subsidiaries, or enter into any "make-well" agreements without prior Commission approval.
- d. GPE agrees to maintain consolidated common equity of no less than 30 percent of total consolidated capitalization. GPE and KCPL agree to maintain KCPL's common equity at no less than 35 percent. Total capitalization is defined as common equity, preferred stock, long-term debt and short-term debt in excess of CWIP. Common equity is defined as par value of common stock, plus additional paid-in capital, plus retained earnings, minus treasury stock.
- e. Reports:
- KCPL shall submit quarterly to the Financial Analysis Department of the Missouri Public Service Commission certain key financial ratios as defined by Standard and Poor's Credit Rating Service, as follows:
- (1) Pre-tax interest coverage;
 - (2) After-tax coverage of interest and preferred dividends;
 - (3) Funds flow interest coverage;
 - (4) Funds from operations to total debt;
 - (5) Total debt to total capital (including preferred); and
 - (6) Total common equity to total capital
- f. KCPL's total long-term borrowings including all instruments shall not exceed KCPL's regulated rate base.
- g. KCPL shall maintain separate debt. KCPL agrees to maintain its debt at investment grade. This condition should not be construed to mean the Staff recommends or will recommend in any future application to the Commission or Commission proceeding the approval of any preferred stock issuance below investment grade.
- h. GPE, KCPL and the Staff agree that the allowed return on common equity and other costs of capital will not increase as a result of the reorganization.
- i. GPE and KCPL guarantee that the customers of KCPL shall be held harmless if the reorganization creating GPE, with KCPL as a subsidiary, results in a higher revenue requirement for KCPL than if the reorganization had not occurred.
- j. GPE and KCPL shall provide the Staff and Public Counsel unrestricted access to all written information provided to common stock, bond, or bond rating analysts, which directly, or indirectly, pertains to KCPL or any affiliate that exercises influence or control over KCPL, or has affiliate transactions with KCPL. Such information includes, but is not limited to, reports provided to, and presentations made to, common stock analysts and bond rating analysts. For purposes of this condition,

"written" information includes, but is not limited to, any written and printed material, audio and videotapes, computer disks, and electronically stored information. Nothing in this condition shall be deemed to be a waiver of GPE's or KCPL's right to seek protection of the information.

- k. The Holding Company will provide the Staff and Public Counsel, upon request and with appropriate notice, all information needed to verify compliance with the conditions authorized in this proceeding and any other information relevant to the Commission's ratemaking, financing, safety, quality of service and other regulatory authority over KCPL.

7. Prospective Merger Conditions

GPE agrees that it will not, directly or indirectly, acquire or merge with a public utility or the affiliate of a public utility, where such affiliate has a controlling interest in a public utility unless GPE has requested prior approval for such a transaction from the Commission and the Commission has found that no detriment to the public would result from the transaction. In addition, GPE agrees that it will not allow itself to be acquired by a public utility or the affiliate of a public utility, where such affiliate has a controlling interest in a public utility, unless GPE has requested prior approval for such a transaction from the Commission and the Commission has found that no detriment to the public would result from the transaction.

8. Transaction Costs

KCPL agrees that it shall not seek to recover the amount of any transaction costs in rates associated with the transactions that are the subject of this proceeding in any Missouri proceeding, and agrees to account for transaction costs in a manner that will enable the Staff and Public Counsel to quantify and seek disallowances of such transaction costs, if necessary, from rates in any Missouri rate proceeding.

9. Combustion Turbines

Following the close of the transactions that are the subject of this proceeding, KCPL, GPE, and GPP expect that five (5) combustion turbine generation units will be leased and operated by GPP. KCPL currently has a memorandum of understanding dated January 10, 2001, with General Electric Company that gives KCPL the opportunity to enter into a contract to purchase or lease five (5) combustion turbine generation units.

KCPL presently anticipates that it will need an additional 231 megawatts of capacity in the next three years. KCPL, GPE, and GPP agree that, prior to the transfer of the rights contained in the memorandum of understanding, KCPL and GPP and/or any GPE affiliate to which the transfer of rights is made will initiate a proceeding before the Commission to address all issues related to the transfer of the rights contained in the memorandum of understanding. KCPL further agrees that, prior to the transfer of rights contained in the memorandum of understanding to any entity other than GPP and/or any GPE affiliate, it will provide timely notice to Staff and Public Counsel relating to the transfer of the rights contained in the memorandum of understanding. KCPL, Staff and Public Counsel reserve the right to assert their respective positions regarding this matter in this future proceeding.

KCPL might enter into a purchase supply agreement with GPP to acquire capacity and energy. Any purchase supply agreement that KCPL enters into with GPP or any GPE affiliate to acquire capacity and associated energy will be cost based. Any purchase supply agreement between KCPL and GPP and/or any GPE affiliate will be submitted by KCPL for review and approval by the Commission.

10. Membership In A Regional Transmission Organization (RTO) and Transfer of Control of Assets Related To Membership In An RTO

Commission approval shall be required for the sale, assignment, lease or other disposition, including but not limited to a transfer of control, of transmission facilities by KCPL to an affiliated or unaffiliated regional transmission organization, independent system operator, or similar entity that is subject to the jurisdiction of FERC. In the event that KCPL seeks to withdraw from its participation in an affiliated or unaffiliated regional transmission organization, independent system operator, or similar entity that is subject to the jurisdiction of FERC, KCPL shall file a notice of withdrawal with the Commission. Such withdrawal shall become effective when the Commission and other applicable regulatory bodies approve or authorize such withdrawal.

11. The Commission's Rights

Nothing in this Stipulation And Agreement is intended to impinge or restrict, in any manner, the exercise by the Commission of any statutory right, including the right of access to information, or any statutory obligation.

12. Staff Requirement

The Staff shall file suggestions or a memorandum in support of this Stipulation And Agreement and other parties shall have the right to file responsive suggestions or a memorandum.

13. Staff's Rights

If requested by the Commission, the Staff shall have the right to submit to the Commission an additional memorandum addressing the matters requested by the Commission. Each party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission within five (5) days of receipt of the Staff's memorandum, a responsive memorandum which shall also be served on all parties. All memoranda submitted by

the parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules, shall be maintained on a confidential basis by all parties, and shall not become a part of the record of this proceeding or bind or prejudice the party submitting such memorandum in any future proceeding or in this proceeding whether or not the Commission approves this Stipulation And Agreement. The contents of any memorandum provided by any party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation And Agreement, whether or not the Commission approves and adopts this Stipulation And Agreement.

The Staff also shall have the right to provide, at any agenda meeting at which this Stipulation And Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the other parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosures, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any Protective Order issued in this case.

14. No Acquiescence

None of the signatories to this Stipulation And Agreement shall be deemed to have approved or acquiesced in any question of Commission authority, accounting authority order principle, cost of capital methodology, capital structure, decommissioning methodology, ratemaking principle, valuation methodology, cost of service methodology or determination, depreciation principle or method, rate design methodology, cost allocation, cost recovery, or prudence, that may underlie this Stipulation And Agreement, or for which provision is made in this Stipulation And Agreement.

15. Negotiated Settlement

This Stipulation And Agreement represents a negotiated settlement. Except as specified herein, the signatories to this Stipulation And Agreement shall not be prejudiced, bound by, or in any way affected by the terms of this Stipulation And Agreement: (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Stipulation And Agreement in the instant proceeding, or in any way condition its approval of same.

16. Provisions Are Interdependent and Effect Of Failure To Receive Commission's Total, Unconditional Approval

The provisions of this Stipulation And Agreement have resulted from negotiations among the signatories and are interdependent. In the event that the Commission does not approve and adopt the terms of this Stipulation And Agreement in total, it shall be void and no party hereto shall be bound, prejudiced, or in any way affected by any of the agreements or provisions hereof.

If the Commission does not unconditionally approve this Stipulation And Agreement without modification, and notwithstanding its provision that it shall become void thereon, neither this Stipulation And Agreement, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any party has to a hearing on the issues presented by the Stipulation And Agreement, for cross-examination, or for a decision in accordance with Section 536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the parties shall retain all procedural and due process rights as fully as though this Stipulation And Agreement had not been presented for approval, and any testimony or exhibits that have been offered or received in support of this Stipulation And Agreement shall thereupon become privileged as reflecting the substantive content of settlement discussions and

shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

17. Waiver Of Rights Upon Commission Acceptance

In the event the Commission accepts the specific terms of the Stipulation And Agreement, the signatory parties waive their respective rights to cross-examine witnesses; their respective rights to present oral argument and written briefs pursuant to Section 536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo 2000; and their respective rights to judicial review pursuant to Section 386.510 RSMo 2000. This waiver applies only to a Commission Report And Order respecting this Stipulation And Agreement issued in this proceeding, and does not apply to any matters raised in any subsequent Commission proceeding, or any matters not explicitly addressed by this Stipulation And Agreement.

WHEREFORE the Staff, the Office of the Public Counsel and Kansas City Power & Light Company, Great Plains Energy, Incorporated, and Great Plains Power, Incorporated hereby request that the Commission approve the instant Stipulation And Agreement.

Respectfully submitted:

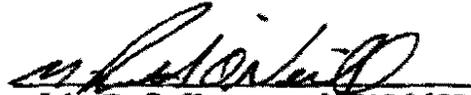

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing Entry of Appearance has been hand-delivered or mailed, First Class, postage prepaid, this 9th day of July, 2001, to:

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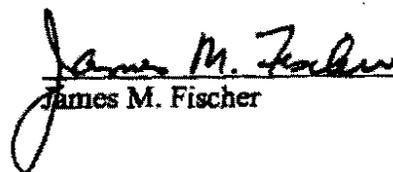
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James M. Fischer

CONTINGENT PROCEDURE STIPULATION

1.0 APPLICABILITY

- 1.1 Principles stated in this Contingent Procedure Stipulation ("Procedure Stipulation") shall govern the situations described in Sections II (e) and (f) of the Stipulation And Agreement.
- 1.2 Changes to this Procedure Stipulation may be proposed from time-to-time by Kansas City Power & Light Company ("KCPL") or Great Plains Energy, Incorporated ("GPE"), the Commission Staff or the Office of the Public Counsel ("OPC" or "Public Counsel"), subject to the approval of the Commission; provided, however, that KCPL, the Commission Staff and the OPC shall meet and discuss any such proposed changes prior to the submission of such changes to the Commission by KCPL or GPE, the Commission Staff or the OPC.

2.0 DEFINITIONS

When used in this Procedure Stipulation, the following terms shall have the respective meanings set forth below:

- 2.1 "Affiliate" means an entity that is GPE, a subsidiary of KCPL, a subsidiary of GPE (other than KCPL), or other subsidiary within the Holding Company organization.
- 2.2 "Affiliate Contract" means an Affiliate Operating Contract, an Affiliate Sales Contract, an Affiliate Surety Contract, a Section 205 Contract, a Service Agreement, or an amendment to any such contract.
- 2.3 "Affiliate Operating Contract" means a contract, other than a Section 205 Contract, between KCPL and one or more of its Affiliates providing for the operation of any part of KCPL's generating, transmission and/or distribution facilities by such Affiliate(s).
- 2.4 "Affiliate Sales Contract" means a contract, other than an Affiliate Operating Contract or a Section 205 Contract, between KCPL and one or more of its Affiliates involving the purchase of Assets, Goods or Services.
- 2.5 "Affiliate Surety Contract" means a contract between KCPL and one or more of its Affiliates involving the assumption by KCPL of any liability as a guarantor, endorser, surety, or otherwise in respect of any security or contract of an Affiliate.

- 2.6 "Assets" means any land, plant, equipment, franchises, licenses, or other right to use assets.
- 2.7 "Commission" means the Missouri Public Service Commission or any successor governmental agency.
- 2.8 "Commission Staff" or "Staff" means the Staff of the Missouri Public Service Commission.
- 2.9 "Entity" means a corporation or a natural person.
- 2.10 "FERC" means the Federal Energy Regulatory Commission, or any successor governmental commission.
- 2.11 "Goods" means any goods, inventory, materials, supplies, appliances, or similar property (except electric energy and capacity).
- 2.12 "Non-Utility Affiliate" means an Affiliate which is neither a public utility nor a Utility Service Company.
- 2.13 "OPC" or "Public Counsel" means the Office of the Public Counsel.
- 2.14 "Review Period" means a period of ninety (90) consecutive calendar days commencing on the first day immediately following the date that KCPL or GPE submits an Affiliate Contract to the Commission for the Commission Staff's review. Any part of the Review Period for a particular Affiliate Contract may be waived by agreement of KCPL, the Commission Staff and the OPC.
- 2.15 "SEC" means the United States Securities and Exchange Commission, or any successor governmental agency.
- 2.16 "Section 205 Contract" means an interconnection, interexchange, pooling, operating, transmission, power sale or ancillary power services contract or similar contract entered into between KCPL and an Affiliate and subject to regulation by the FERC pursuant to § 205 of the Federal Power Act, 15 U.S.C. § 824d, or any successor statute.
- 2.17 "Service Agreement" means the agreement entered into between KCPL, GPE, and an affiliated or subsidiary service company, under which services are provided by such services company to KCPL and GPE.
- 2.18 "Services" means the performance of activities having value to one party, such as managerial, financial, accounting, legal, engineering, construction, purchasing, marketing, auditing, statistical, advertising, publicity, tax, research, and other similar services.

- 2.19 "Subsidiary" means any corporation 10 percent (10%) or more of whose voting capital stock is controlled by another Entity; Subsidiaries of GPE are those corporations in which GPE owns directly or indirectly (or in combination with GPE's other Affiliates) 10 percent (10%) or more of such corporation's voting capital stock.
- 2.20 "KCPL's Holding Company" means GPE or its successor in interest.
- 2.21 "Utility Affiliate" means an Affiliate of KCPL which is also a public utility.
- 2.22 "Utility Service Company" means an Affiliate whose primary business purpose is to provide administrative and general or operating services to KCPL and Utility Affiliate(s).
- 3.0 AFFILIATE CONTRACTS REQUIRED TO BE FILED WITH THE SEC

The following will apply to Affiliate Contracts that are required to be filed with the SEC.

- 3.1 Prior to filing any such Affiliate Contract with the SEC or the Commission, KCPL will submit to the Commission Staff, the OPC, and the appropriate parties requesting a copy, a copy of the Affiliate Contract which it proposes to file with the SEC and the Commission.
- 3.1.1 If the Commission Staff clears the contract for filing, or does not object to it, and no objections from affected parties are submitted to KCPL (with a copy to the Commission Staff) during the Review Period for such contract, KCPL may file such contract with the SEC and the Commission. The contract will become effective upon the receipt of all necessary regulatory authorizations and will continue in effect until it is terminated pursuant to its terms or is amended or superseded, subject to the receipt of all necessary regulatory authorizations.
- 3.1.2 If, during the expiration of the Review Period for such contract, the Commission Staff recommends that the Commission reject, disapprove or establish a proceeding to review such contract, or if an objection(s) is submitted to KCPL (with a copy to the Commission Staff) by an affected party (or parties), KCPL may file the contract with the Commission, but shall not file the contract with the SEC until at least thirty (30) days after the date that it is filed with the Commission; provided, that both such filings shall disclose the Commission Staff's recommendation or the objection(s) regarding the contract; provided, further, that if the Commission, within twenty (20) days after the contract is filed, institutes a proceeding to review such contract, KCPL shall not file the contract with the SEC unless and until KCPL receives a Commission Order which resolves issues raised with regard to the contract and which does not reject or disapprove the contract. The contract will become effective upon the receipt of all necessary

regulatory authorizations and will continue in effect until it is terminated pursuant to its terms or is amended or superseded, subject to the receipt of all necessary authorizations.

3.2 After the Affiliate Contract has been filed with the Commission, the Commission may in accordance with Missouri law, reject or disapprove the contract, and upon such rejection or disapproval:

3.2.1 If such contract has not yet been accepted or approved by the SEC, KCPL will, as soon as possible, file to seek to withdraw its filing requesting SEC acceptance or approval of such contract, or

3.2.2 If such contract has been accepted or approved by the SEC and none of the other contracting parties are Utility Affiliates subject to any other state utility regulatory commission's jurisdiction, KCPL will:

a. terminate such contract according to its terms; or

b. at its sole option, take such steps as are necessary to cause such contract to be amended in order to remedy the Commission's adverse findings with respect to such contract; KCPL will refile such amended contract with both the Commission and the SEC; such amendment will become effective only upon the receipt of all necessary regulatory authorizations, and the previous contract (to the extent already in effect) will remain in effect until such authorizations are received; if the SEC does not finally accept or approve such amendment within one (1) year from the date of KCPL's filing of such amendment with the SEC, KCPL will, upon request of the Commission, terminate the contract according to its terms.

3.2.3 If such contract has been accepted or approved by the SEC, and one or more of the other contracting parties are Utility Affiliates subject to another state utility regulatory commission's jurisdiction, KCPL will make a good faith effort to terminate, amend or modify such contract in a manner which remedies the Commission's adverse findings with respect to such contract. KCPL will request to meet with representatives from the affected state commissions and make a good faith attempt to resolve any differences in their respective interests regarding the subject contract. If agreement can be reached to terminate, amend, or modify the contract in a manner satisfactory to the contracting parties and the representatives of each state commission, KCPL shall file such amended contract with the Commission and the SEC under the procedures set forth in this Section 3. If no agreement can be reached satisfactory to each contracting party and to each affected state commission, after good faith negotiations, KCPL has no further obligations under this Procedure Stipulation. Nothing herein affects, modifies or

alters in any way the rights and duties of the Commission under applicable state and federal law.

4.0 AFFILIATE CONTRACTS REQUIRED TO BE FILED WITH THE FERC

The following will apply to Affiliate Contracts that are required to be filed with the FERC.

4.1 Prior to filing any Affiliate Contract with the FERC or the Commission, KCPL will submit to the Commission Staff, the OPC and appropriate parties requesting a copy, a copy of the Affiliate Contract which it proposes to file with the FERC and the Commission.

4.1.1 If the Commission Staff clears the contract for filing, or does not object thereto, and no objections from affected parties are submitted to KCPL, (with a copy to the Commission Staff) during the Review Period for such contract, KCPL may file such contract with the FERC and the Commission. The contract will become effective upon the receipt of all necessary regulatory authorizations and will continue in effect until it is terminated pursuant to its terms or is amended or superseded, subject to the receipt of all necessary regulatory authorizations.

4.1.2 If, during or upon the expiration of the Review Period for such contract, the Commission Staff recommends that the Commission reject, disapprove or establish a proceeding to review such contract, or if any objection(s) is submitted to KCPL (with a copy to the Commission Staff) by an affected party (or parties), KCPL may file the contract with the Commission, but shall not file the contract with the FERC until at least thirty (30) days after the date that it is filed with the Commission; provided, that if the Commission, within twenty (20) days after the contract is filed, institutes a proceeding to review such contract, KCPL shall not file the contract with the FERC unless and until KCPL receives a Commission Order which resolves issues raised with regard to the contract and which does not reject or disapprove the contract. The contract will become effective upon the receipt of all necessary regulatory authorizations and will continue in effect until it is terminated pursuant to its terms or is amended or superseded, subject to the receipt of all necessary regulatory authorizations.

4.2 After the Affiliate Contract has been filed with the Commission, the Commission may in accordance with Missouri law, reject or disapprove the contract, and upon such rejection or disapproval:

4.2.1 If such contract has not yet been accepted or approved by the FERC, KCPL will, as soon as possible, file to seek to withdraw its filing requesting the FERC acceptance or approval of such contract; or

4.2.2 If such contract has been accepted or approved by the FERC and none of the other contracting parties are Utility Affiliates subject to any other state utility regulatory commission's jurisdiction, KCPL will:

- a. terminate such contract according to its terms; or
- b. at its sole option, take such steps as are necessary to cause such contract to be amended in order to remedy the Commission's adverse findings with respect to such contract; KCPL will refile such amended contract with the Commission and the FERC; such amendment will become effective only upon the receipt of all necessary regulatory authorizations, and the previous contract (to the extent already in effect) will continue in effect until such authorizations are received; if the FERC does not finally accept or approve such amendment within one (1) year from the date of KCPL's filing of such amendment with the FERC, KCPL will, upon request of the Commission, terminate the contract according to its terms.

4.2.3 If such contract has been accepted or approved by the FERC and one or more of the other contracting parties are Utility Affiliates subject to another state utility regulatory commission's jurisdiction, KCPL will make a good faith effort to terminate, amend or modify such contract in a manner which remedies the Commission's adverse findings with respect to such contract. KCPL will request to meet with representatives from the affected state commissions and make a good faith attempt to resolve any differences in their respective interests regarding the subject contract. If agreement can be reached to terminate, amend, or modify the contract in a manner satisfactory to the contracting parties and the representatives of each state commission, KCPL shall file such amended contract with the Commission and the FERC under the procedure set forth in this Section 4. If no agreement can be reached satisfactory to each contracting party and each affected state commission, after good faith negotiations, KCPL has no further obligations under this Procedure Stipulation. Nothing herein affects, modifies or alters in any way the rights and duties of the Commission under applicable state and federal law.

**CAM MODIFICATIONS
STIPULATION AND AGREEMENT
KANSAS CITY POWER & LIGHT COMPANY
CASE NO. EM-2001-464**

1. **KCPL's Cost Allocation Manual ("CAM") will be modified to identify and describe all KCPL functions that will provide support to nonregulated affiliated business units, including the Holding Company.**
The information provided will include:
 - A. **A listing of each function.**
 - B. **The positions and numbers of employees providing each function.**
 - C. **The procedures to be used to measure and assign costs to nonregulated business units for each function provided by KCPL.**

2. **The CAM will be modified to include:**
 - A. **A description of all services and goods that will be provided to KCPL from each affiliate of KCPL.**
 - B. **A description of all services and goods that will be provided to affiliated companies from KCPL.**
 - C. **The dollar amount of each service and good charged to each affiliate by KCPL, and the total cost related to each service and good listed.**
 - D. **The dollar amount of each service and good bought from each affiliate from KCPL, and the total cost related to each service and good listed.**
 - E. **A detailed discussion of the basis for determining the charges from the regulated utility, affiliated companies and the Holding Company, including:**
 - a. **If costs are allocated, a description of the cost allocation process employed for each service and good.**
 - b. **How direct, indirect and common activities are assigned for each service and good.**
 - c. **How market value for each service and good is determined.**
 - d. **A description of the criteria employed to determine whether volume discounts or other pricing considerations are to be provided to KCPL or affiliates.**

3. **The CAM will be modified to include a Code of Conduct to ensure adherence to the policies and procedures incorporated within the CAM.**
 - A. **Training will be provided and information disseminated regarding the current policies and procedures and any future modification to them.**
 - B. **KCPL will enforce penalties, up to and including possible termination, for noncompliance with its policies and procedures.**
 - C. **A designated person will be responsible for enforcement of the policies and procedures.**

- D. KCPL will conduct regularly scheduled internal and/or external audits to examine compliance with its policies and procedures.
 - E. At least once a year, KCPL will consider whether modifications to the Code of Conduct are necessary to support appropriate compliance with the Company's policies and procedures. If modifications to the Code of Conduct are made by KCPL, they will be provided as part of the overall CAM filing.
4. KCPL will file as part of the CAM the following organization charts:
- A. Total family of companies within the Holding Company.
 - B. KCPL alone.
 - C. Affiliates doing business with KCPL.
5. The CAM will be modified to include a listing of all deregulated activities that will be provided within the regulated company (KCPL) to nonaffiliated third party customers following formation of the Holding Company. The information to be provided in this area shall include:
- A. The amount of revenues and expenses for each deregulated activity for the last calendar year.
 - B. Listings of all KCPL cost centers/functions that will directly assign, indirectly assign, or allocate costs to each deregulated activity listed.

All of the above information (Items 1 through 5) shall be provided by KCPL to the Commission on an annual basis through the CAM filing process.

6. All CAM modifications agreed to as part of the Stipulation And Agreement resolving this case shall be filed with the Commission within 120 days of the effective date of the approval of the Stipulation And Agreement by the Commission.

Note: Any direct activities related to the study or formation of the Holding Company, or study or formation of new corporate entities after the Holding Company is implemented, will not be subject to allocation to regulated operations.

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
July 31, 2001**

CASE NO: EM-2001-464

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Enclosed find certified copy of a ORDER in the above-numbered case(s).

Sincerely,



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

Inc., filed its application on March 21. The City of Independence, Missouri, filed its application on March 23. Jackson County, Missouri, filed its application on March 26. The Empire District Electric Company filed its application on March 28. KCPL filed its response on March 29, and the Missouri Energy Group filed its application on March 30.

KCPL, in its response filed on March 29, expressed no objection to the applications filed by the Missouri Joint Municipal Electric Utility Commission, Independence, Kansas City, Jackson County, Empire, and UtiliCorp. KCPL never responded to Missouri Energy Group's application. All of the applications to intervene met the requirements of Commission Rule 4 CSR 240-2.075 and were granted on April 23. Also on that date, the Commission set a prehearing conference for May 1 and directed the parties to submit a proposed procedural schedule by May 8.

The prehearing conference was held as scheduled. At the prehearing conference, the parties advised the presiding officer that they had that day filed a Stipulation and Agreement resolving all of the issues in the case. The Stipulation and Agreement was, however, not unanimous. It was executed only by KCPL, Staff and the Office of the Public Counsel. The parties requested that the requirement that a proposed procedural schedule be filed by May 8 be suspended pending resolution of the Stipulation and Agreement. The Staff of the Commission also promised to file suggestions in support of the Stipulation and Agreement. Also on May 1, the Commission issued its order directing Staff to file either suggestions in support of the Stipulation and Agreement or a proposed procedural schedule by May 11.

On May 7, intervenors the City of Kansas City and Jackson County advised the Commission that they neither supported nor opposed the Stipulation and Agreement and

did not request a hearing. Also on May 7, Intervenor UtiliCorp advised the Commission that it neither supported nor opposed the Stipulation and Agreement and waived its right to a hearing. UtiliCorp stated that this waiver was conditioned upon certain considerations, including: that the Stipulation and Agreement is a compromise settlement between the signatories thereof; that it does not bind any non-signatory; that UtiliCorp does not concur nor acquiesce in the Stipulation and Agreement; that no general regulatory policy or precedent is thereby established by the Commission for application to any other regulated entity; and that UtiliCorp reserves the right to take a different or adverse position in any other case. Intervenor Empire District filed an identical waiver on May 7. The remaining parties filed nothing.

On May 11, Staff filed its response to the Commission's Order Directing Filing of May 1. This response took the form of suggestions in support of the Stipulation and Agreement.

On June 21, 2001, the Commission discussed this case at its regularly-scheduled Agenda meeting and determined to convene an on-the-record presentation to permit clarification of certain concerns. The Commission issued its Order and Notice on June 25, set the on-the-record presentation for July 5, and advised the parties that

[a]mong the topics that will be addressed are (1) the purpose and effect of the conditional waivers of the right to a hearing filed by two intervenors, and (2) whether it is in the public interest to permit Kansas City Power & Light Company (KCPL) to meet a portion of its future generation requirements via a purchase power agreement with Great Plains Power (GPP), an unregulated, competitive affiliate.¹

¹ GPP is presently a subsidiary and not an affiliate, but will become a affiliate if the restructuring proposed by KCPL is approved.

The Commission convened the on-the-record presentation as scheduled on July 5, 2001. All of the parties appeared except for the Missouri Joint Municipal Electric Utility Commission, which was excused. The Commissioners directed extensive questioning to KCPL.

On July 6, 2001, Great Plains Power, Inc. (GPP), entered its appearance in this case. On July 9, 2001, KCPL filed its First Amended Stipulation and Agreement. The First Amended Stipulation and Agreement differs from the original Stipulation and Agreement in only two respects: it adds GPP as a signatory and Section 9, relating to Combustion Turbines, has been largely rewritten. Like the original Stipulation and Agreement, the First Amended Stipulation and Agreement is not unanimous. It was executed only by KCPL, GPE, GPP, Staff, and the Office of the Public Counsel.

Also on July 9, Staff filed its Suggestions in Support of the First Amended Stipulation and Agreement. On July 10, 2001, KCPL filed its Motion for Expedited Treatment of the Approval of the First Amended Stipulation and Agreement. Therein, counsel for KCPL advises the Commission that he has been authorized by all parties except UtiliCorp and Empire District Electric Company to state on their behalf "that they will not request any hearings in this matter." KCPL prays that the Commission will act on its application no later than July 12, 2001, so that the proposed transaction may close on August 8, 2001, and public trading in the stocks of GPE may commence on August 9, 2001. Finally, on July 10, Intervenor Empire District Electric Company and UtiliCorp United, Inc., filed their pleadings stating that they have no objection to either the Motion for Expedited Treatment of the Approval of the First Amended Stipulation and Agreement or

the First Amended Stipulation and Agreement. Both intervenors advised the Commission that they did not seek a hearing in this matter.²

On July 12, 2001, the Commission again considered this matter at its regularly scheduled Agenda session. The Commission again determined to set an on-the-record presentation, which it did by Order and Notice issued on July 17. KCPL also moved for a second on-the-record presentation on July 13.

The second on-the-record presentation took place as scheduled on July 27, 2001.

Findings of Fact:

KCPL is a vertically integrated public utility which generates, transmits and sells electrical energy at retail in the state of Missouri to some 230,000 residential customers and some 30,100 commercial customers. KCPL is regulated by this Commission, as well as by agencies of the state of Kansas and of the United States.

KCPL seeks approval from the Commission to restructure itself as a holding company with a single tier of operating companies. At the conclusion of the proposed reorganization, KCPL will be one of those operating companies. KCPL will still be a vertically integrated public utility. The reorganization will have no effect on the tax revenues of any Missouri political subdivision.

KCPL owns two subsidiaries, KLT, Inc. (KLT), and GPP. KLT invests in competitive, high-growth businesses, including telecommunications, gas production and

²At the hearing on July 5, counsel for intervenors Empire and UtiliCorp repeatedly assured the Commission on behalf of his clients that they had no objection to the Stipulation and Agreement.

development and energy services. GPP is a competitive, wholesale generator. KLT and GPP are not regulated by this Commission. GPP is, however, subject to regulation by the Federal Energy Regulatory Commission (FERC).

Specifically, KCPL proposes to form a new subsidiary, Great Plains Energy (GPE), which will in turn form a subsidiary, NewCo. KCPL will then merge into NewCo, with KCPL surviving. Each share of KCPL's preferred and common stock will convert into a share of GPE's preferred or common stock. KCPL will then pass ownership of its two other subsidiaries to GPE by dividend. The result will be a publicly traded holding company, GPE, with three wholly owned subsidiaries: KCPL, KTL and GPP. KCPL will not transfer any of its generating assets in the course of the proposed reorganization and its services to its Missouri customers will be unaffected. In addition to approval by this Commission, KCPL seeks approval from the Kansas Corporations Commission, FERC, the Nuclear Regulatory Commission (NRC), and the Federal Communications Commission (FCC). Additionally, KCPL will file a registration with the Securities and Exchange Commission (SEC).

Upon completion of the proposed restructuring and registration with the SEC, GPE will become subject to the Public Utility Holding Company Act (PUHCA). The First Amended Stipulation and Agreement contains contractual provisions that reflect many of the protections contained in PUHCA. Thus, should PUHCA be repealed, these protections will still be imposed on GPE, GPP and KCPL by the First Amended Stipulation and Agreement. PUHCA favors the use of service companies by affiliated corporations and KCPL anticipates that a service company subsidiary will eventually be formed by GPE. The

allocation of costs between KCPL and its affiliates will be governed by a Cost Allocation Manual (CAM).

Both of the Stipulations and Agreements filed in this case contain the same conditions imposed in Cases Nos. EM-97-515 and EM-96-149, which involved Missouri utilities which became subsidiaries of registered holding companies. These conditions are intended to protect the Missouri customers of such utilities. The conditions relate to such matters as access to books and records, affiliate transactions, and the creation of a service company. The Stipulations and Agreements also contain provisions relating to surveillance reports, the CAM, transaction costs, and combustion turbines, among others.

In January of 2001, KCPL entered into a binding memorandum of understanding with General Electric Company under which KCPL may lease or purchase up to five combustion turbine generation units. Each of these units has a generating capacity of 77 MW. These turbines will not be completed until 2003. If the proposed reorganization is approved, KCPL anticipates seeking Commission approval to transfer its rights under the memorandum of understanding to GPP. KCPL anticipates that it will need an additional 231 MW of generation capacity in the next three years, that is, the generating capacity of three of the five combustion turbines. KCPL currently purchases less than five percent of its energy needs on the open market.

If the proposed reorganization is approved, KCPL may enter into a cost-based purchase supply agreement with GPP to acquire this additional capacity. Such a cost-based purchase supply agreement would provide power at a cost to ratepayers identical to costs under traditional cost-of-service based rates. The cost of power generated by a combustion turbine owned by GPP would be essentially identical to the cost

of power generated by a combustion turbine owned directly by KCPL. KCPL, GPE and GPP further stipulated, at the on-the-record presentation on July 5, 2001, that they will not form a marketing subsidiary. KCPL also stated that its principal purpose in seeking to reorganize is to position itself for an anticipated deregulated environment in the future.

At the second on-the-record presentation, GPP stated that it is also exploring the possibility of building a 500 MW to 900 MW coal-fired, base-load generating plant near Weston Bend on the Missouri River. If built, this plant would generate power for sale on the open market. KCPL does not presently anticipate any need to use the output of this plant to meet the needs of its customers. This project is presently in a very early stage and the proposed plant may never be built at all.

Staff supports the First Amended Stipulation and Agreement and recommends that the Commission approve it. Staff states, in particular, that it contains additional and more specific protections relating to financial matters than the Stipulations and Agreements approved in Cases Nos. EM-97-515 and EM-96-149. Staff states its position that the proposed restructuring is not detrimental to the public interest. The Office of the Public Counsel is a signatory of the Stipulation and Agreement and also supports it. At both hearings, the Office of the Public Counsel stated that the Stipulation and Agreement contains adequate safeguards for ratepayers.

Conclusions of Law:

Based on the facts found herein, the Commission makes the following conclusions of law.

Jurisdiction

KCPL is an "electrical corporation" and a "public utility" within the intendments of Section 386.020, (15) and (42), RSMo 2000, and is thus subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, RSMo 2000.

No party has requested a hearing in this case. The requirement for a hearing is met when the opportunity for hearing has been provided and no proper party has requested the opportunity to present evidence.³ Since no one has requested a hearing, the Commission may determine this case based on the pleadings.

The Non-unanimous Stipulation and Agreement

Pursuant to Commission rule, a non-unanimous stipulation and agreement may be deemed unanimous if no party requests a hearing within seven days of its filing.⁴ A failure to timely request a hearing constitutes full waiver of the right to a hearing.⁵ With respect to the First Amended Stipulation and Agreement at issue here, all of the parties have either signed it or affirmatively acted to notify the Commission that they would not request a hearing. Therefore, the Commission will deem the First Amended Stipulation and Agreement filed in this matter to be unanimous.

Mergers, Transfers and Stock Ownership

KCPL seeks authority to reorganize as described above under Section 393.190, RSMo 2000. That statute provides that a Missouri electric corporation may not transfer or

³ State ex rel. Rex Deffenderfer Enterprises, Inc. v. Public Service Commission, 776 S.W.2d 494, 496 (Mo. App., W.D. 1989).

⁴ Commission Rule 4 CSR 240-2.115, 1 and 3.

⁵ Commission Rule 4 CSR 240-2.115.3.

encumber any part of its system without Commission approval.⁶ Likewise, it may not merge with another corporation without permission from the Commission.⁷ A regulated utility cannot lawfully acquire another regulated utility without Commission approval.⁸ Commission approval is also necessary for any corporation other than a utility to own more than ten percent of the total capital stock of a public utility.⁹

The Missouri Supreme Court, in *State ex rel. City of St. Louis v. Public Service Commission*, stated that, in considering such cases, the Commission must be mindful that the right to transfer or encumber property is an important incident of the ownership thereof and that a property owner should be allowed to do such things unless it would be detrimental to the public.¹⁰ The same standard is applied to proposed mergers and reorganizations. The Missouri Court of Appeals has stated that "[t]he obvious purpose of [Section 393.190] is to ensure the continuation of adequate service to the public served by the utility."¹¹ This is the standard by which public detriment is to be measured in such cases. The Commission notes that it is unwilling to deny private, investor-owned companies an important incident of the ownership of property unless there is compelling evidence on the record showing that a public detriment is likely to occur.¹²

⁶ Section 393.190.1, RSMo 2000.

⁷ *Id.*

⁸ Section 393.190.2, RSMo 2000.

⁹ *Id.*

¹⁰ *State ex rel. City of St. Louis v. Public Service Commission*, 335 Mo. 448, 459, 73 S.W.2d 393, 400 (Mo. banc 1934).

¹¹ *State ex rel. Fee Fee Trunk Sewer, Inc. v. Litz*, 596 S.W.2d 466, 468 (Mo. App., E.D. 1980).

¹² *In the Matter of the Joint Application of Missouri Gas Company et al.*, 3 Mo.P.S.C.3d 216, 221 (1994).

The Commission reads *State ex rel. City of St. Louis v. Public Service Commission* to require a direct and present public detriment.¹³ For example, where the sale of all or part of a utility's system was at issue, the Commission considered such factors as the applicant's experience in the utility industry; the applicant's history of service difficulties; the applicant's general financial health and ability to absorb the proposed transaction; and the applicant's ability to operate the asset safely and efficiently.¹⁴ In the present case, there is no evidence of a direct and present public detriment in the record and the parties believe that none is posed by the proposed reorganization. If the reorganization is approved, KCPL will still be a vertically-integrated public utility subject to regulation by this Commission; it will still serve the same customers with the same system pursuant to its existing tariffs.

Based on its consideration of the record before it, the Commission concludes that the proposed reorganization is not detrimental to the public interest and should be approved. Specifically, this includes approval for KCPL to merge with NewCo, approval for GPE to own more than ten percent of KCPL, and approval, to the extent that approval is needed, for KCPL to transfer ownership of KTL and GPP to GPE.

Issuance of Stocks and Bonds

KCPL also seeks authority under Section 393.200, RSMo 2000. That section provides that a public utility may not issue stocks, bonds, or other evidence of indebtedness without prior Commission approval.¹⁵ Commission approval is conditioned on a finding that

¹³ *Supra*, 335 Mo. at 459, 73 S.W.2d at 400.

¹⁴ See *In the Matter of the Joint Application of Missouri Gas Energy et al.*, Case No. GM-94-252 (Report and Order, issued October 12, 1994) 3 Mo.P.S.C.3d 216, 220.

¹⁵ Section 393.200.1, RSMo 2000.

the money thereby acquired is reasonably required for the purposes set out in the Commission's order.¹⁶ Permissible purposes include property acquisition, construction and maintenance, improvements, and the retirement of obligations.¹⁷

Based on its consideration of the record before it, the Commission concludes that the stock transactions proposed by KCPL are reasonably necessary for the purpose of the proposed reorganization and should be approved.

Dividends

KCPL also seeks authority under Section 392.210, RSMo 2000. That statute provides in pertinent part that an electrical corporation may not declare a dividend without Commission authority.¹⁸ Based on the record before it, the Commission determines that KCPL's proposal to transfer KTL and GPP to GPE via a dividend is reasonable and that the same will not have a detrimental effect on the public. Therefore, the Commission should approve the proposed dividend.

Reorganization

KCPL also seeks authority under Section 393.250, RSMo 2000. That statute provides that the reorganization of an electrical corporation is subject to Commission "supervision and control" and may not be had without authorization from the Commission.¹⁹

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ Section 393.210, RSMo 2000.

¹⁹ Section 393.250.1, RSMo 2000.

It also empowers the Commission to set the capitalization amount of the reorganized entity.²⁰

Based on its consideration of the record before it, the Commission concludes that the proposed reorganization is reasonable and is not a detriment to the public interest. Therefore, it should be approved.

IT IS THEREFORE ORDERED:

1. That the Motion for Expedited Treatment of the Approval of the First Amended Stipulation and Agreement, filed by Kansas City Power & Light Company on July 10, 2001, is granted.

2. That the application filed by Kansas City Power & Light Company on February 26, 2001, is approved.

3. That the First Amended Stipulation and Agreement, filed on July 9, 2001, is deemed to be unanimous. Further, the Commission finds the First Amended Stipulation and Agreement to be reasonable and approves the same. Kansas City Power & Light Company, Great Plains Energy, Inc., and Great Plains Power, Inc., are directed to comply with its provisions.

4. That Kansas City Power & Light Company is authorized to reorganize as described in its application referred to in Ordered Paragraph 2, above, subject to the conditions contained in the First Amended Stipulation and Agreement referred to in Ordered Paragraph 3, above. Kansas City Power & Light Company is authorized to take all necessary and lawful actions to effect and consummate the reorganization herein approved.

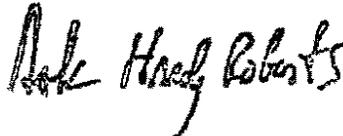
²⁰ Section 393.250, 2 and 3, RSMo 2000.

5. That nothing in this order shall be considered a finding by the Commission of the value for ratemaking purposes of the properties, transactions and expenditures herein involved. The Commission reserves the right to consider any ratemaking treatment to be afforded the properties, transactions and expenditures herein involved in a later proceeding.

6. That this order shall be effective on August 10, 2001.

7. That this case may be closed on August 11, 2001.

BY THE COMMISSION



**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

(SEAL)

Simmons, Ch., Murray, and Lumpe,
CC., concur.

Gaw, C., dissents, with dissenting
opinion to follow.

Thompson, Deputy Chief Regulatory Law Judge

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

**I have compared the preceding copy with the original on file in this office and
I do hereby certify the same to be a true copy therefrom and the whole thereof.**

**WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 31st day of July 2001.**



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

FILED²
JUL 24 2001

THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Missouri Public
Service Commission

In the Matter of the Application of Kansas City)
Power & Light Company for an Order Authorizing)
Its Plan to Reorganize Itself Into a Holding)
Company Structure.)

Case No. EM-2001-464

Statement of Chris B. Giles

Kansas City Power & Light Company respectfully submits the following comments in response to the July 17 Order and Notice issued in this proceeding. We intend to further address the Commission's apparent questions and concerns related to the First Amended Stipulation and Agreement, particularly matters raised by a July 12th article in the Kansas City Star entitled "Power Plant Near Weston Envisioned." (Attachment 1). KCPL requested the opportunity to discuss and clarify some misinformation, misunderstandings and misperceptions that arose from that Kansas City Star article, and for that reason, KCPL filed its Motion for an On-The-Record presentation at the earliest possible time.

The Kansas City Star article discussed the latest version of an idea for a coal-fired power plant near Weston, Missouri. This coal-fired project near Weston, Missouri has been discussed since the early 1990's by KCPL's unregulated subsidiary, KLT, Inc., and other utilities. At that time, the project was known as "Iatan II." This project is being considered today, under a different name and a slightly revised concept, by Great Plains Power, KCPL's competitive generation company, Babcock & Wilcox and Burns & McDonnell.

Pursuant to the Commission's July 17 Order and Notice, the Company will specifically address each of the questions and other matters raised by Judge Thompson's

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Order. The Company will address those matters in the same order as they are posed in the Notice.

Weston Bend I

The first question in the Order and Notice was "Whether or not Kansas City Power & Light Company, or one of its affiliates or subsidiaries, is planning to construct a generating plant at Weston Bend in Missouri?"

The short answer is that KCPL is NOT planning to construct such a plant but that GPP MIGHT construct such a plant if wholesale market conditions will support this new generation resource.

The competitive, wholesale marketplace, not Great Plains Power, will ultimately determine whether Weston Bend I is ever built. Depending upon the interest in the marketplace, Great Plains Power hopes to build a coal-fired power plant near Weston, Mo. in the range of 500 to 900 Megawatts. Of course, if there is not enough interest in the marketplace to support this project, it will not be constructed at all.

The Weston Bend I project is in its very earliest stages of development. The Board of Directors has not approved the project, and very little money has been spent on the project to date. A partnership with Babcock & Wilcox and Burns and McDonnell has been formed to explore the feasibility of this project. However, the only other work that has been done relates to environmental permitting and a few negotiations with the county officials that would be affected by the construction. The Company has also been discussing the concept with potential purchasers of the capacity. If the Weston Bend I unit is actually constructed, it will serve the competitive, wholesale generation market.

Great Plains Power will only build this plant if, and only if, it can get enough contractual commitments for the capacity.

KCPL will continue to plan for the needs of its retail customers. KCPL's obligation to meet customer demand with the lowest cost power has not changed. KCPL's planning process to evaluate whether to build combustion turbines (CTs), combined cycle units (CCs) or base load coal plants, or whether to enter into purchased power contracts, has not changed as a result of this restructuring. KCPL will continue to evaluate and balance the large capital costs of base load coal units, and the smaller capital costs – but higher fuel costs – of CTs and CCs, with the demand of its customers. KCPL is a heavily summer peaking system and the company has an abundance of base load units. KCPL has identified a need for three CTs in 2003. A decision has not been made whether two of the five, or any of the five, CTs mentioned in the Stipulation will be transferred to GPP. In any event, as three of the CTs were originally identified as a need for KCPL, the company will file with the Commission prior to transferring any of those three CTs. The load growth beyond 2003 is expected to be met in a least cost manner with additional CTs, CCs and purchases throughout this decade, regardless of whether Weston Bend is ever constructed. If fuel prices, load shape (demand pattern) changes, economic, statutory or other changes in conditions make it more economical for KCPL to build rather than buy, whether base load or other generation, KCPL always will have that option and should never be precluded from that option.

Today, Great Plains Power believes the marketplace may now be ready for the construction of a coal-fired, base-load plant that would serve the competitive wholesale

market in this region. At least, we intend to find out if the market will support the construction of the unit.

How Long Have the Plans Existed?

The Commission also asked in its Order and Notice: "How long have these plans existed?"

As already discussed, nearly identical plans have existed for the concept of a coal-fired power plant near Weston since 1993. More recently, news releases discussing a possible coal-fired power plant near Weston were issued this year on February 6, April 25, May 2, June 25, and July 11. (Attachment 2). Bernie Beaudoin, the Chairman of the Board, CEO and President, also delivered a report at the last KCPL Shareholders' Meeting on May 1, 2001, that discussed the possibility of an unregulated, coal-fired plant near Weston. (Attachment 3).

In addition, KCPL's Annual Report of the Year 2000, discussed the creation of a "New Unregulated Generation Subsidiary" that "will focus on fossil fuel-fired electric generation in the central part of the U.S." (p. 23 of 2000 Annual Report). As a result of the release of this information, the fact that an unregulated, coal-fired power plant near Weston, Missouri is being contemplated has been widely known among investors and industry representatives for quite some time.

KCPL does not need this plant to meet its retail customers' need for power anytime in the near future. If and when KCPL needs additional coal fired base load capacity, it will either purchase from the market, purchase from its affiliate GPP, or build a regulated generation plant. No matter what decision KCPL ultimately makes regarding these options, the Commission has authority to review the prudence of such decisions in

a rate case. KCPL must have all options available to it to meet its least cost obligation to serve. If KCPL purchases power from its affiliate, the contract would be subject to Commission approval. Building Weston Bend does not mean that KCPL won't build generation -- it means KCPL won't build generation that it doesn't need.

The electric generation industry has changed dramatically since the Energy Policy Act (EPA) and Open Access transmission created by FERC Order 888. Prior to EPA and Order 888, utilities planned generation additions to meet the growing demand of their customers with the assurance that any shortage or excess of demand and supply could be met in the wholesale market at cost plus ten percent. Those days are long gone. Today, utilities are more dependent on the deregulated wholesale market to buy and sell power. Marketers, regulated utilities with regulated generation dedicated to retail customers, and unregulated generators compete in the wholesale market to balance supply and demand. Weston Bend will compete in the wholesale market as an unregulated generator with no obligation to its affiliate's (KCPL) retail customers. This is good for customers of KCPL and good for shareholders of KCPL or GPE. There are no costs for customers of building a plant not needed. In addition, the financial conditions agreed to in the Stipulation and Agreement assure that KCPL customers will be held harmless from risk associated with GPP. GPE shareholders will have an opportunity for increased value through the sale of power in the wholesale market through its subsidiary GPP.

In order to ensure that KCPL's customers will have safe and adequate service, the Company will continue to do its own capacity planning, with its own personnel. KCPL will continually assess its customers' needs and respond accordingly to ensure that the Company has the capacity and energy needed to meet KCPL's obligation to serve its

customers. The Company's capacity needs may be met by constructing its own capacity, or as we discussed at the last On-the-Record proceeding, by purchasing capacity from other entities, if that capacity and energy is the least cost alternative available. In any event, these decisions will be made based upon the economics of each transaction, and what is in the best interests of KCPL's customers.

As previously discussed, the decision of Great Plains Power to pursue Weston Bend I does not mean that KCPL has decided never to build its own generation in the future. If building new generation as part of the regulated utility makes more economic sense than purchasing power on the wholesale market, then KCPL will build it as part of the regulated company. However, if the economics favor purchasing power, then that is what KCPL intends to do. Again, what is clear is that KCPL has decided it won't build generation that it doesn't need for its own customers.

Of course, the Commission, the Commission Staff, the Public Counsel and other intervenors will also review and evaluate the prudence of KCPL's capacity planning and purchasing decisions in future rate cases. KCPL's rates will be established in those rate cases, after a determination by the Commission regarding those capacity planning and purchasing decisions.

On June 25, 2001, ten days before the July 5th On-the-Record Conference in this case, Great Plains Power issued a news release which announced that Great Plains Power has entered into a memorandum of understanding with Babcock & Wilcox to pursue the development of up to 5 coal-fired power plants in the range of 500 to 900 megawatts each. This news release stated: "The Company's initial focus for construction will be at Weston Bend I, a site near Weston, Missouri."

The Company's June 25th announcement was reported the next day by Reuters, the Dow Jones News Services, the Business Wire, and other financial news services. The Great Plains announcement was generally available in the financial press on June 26, 2001. (Attachment 4).

A subsequent news release was issued by Great Plains Power on July 11, 2001, which happened to be the day before the scheduled vote on the First Amended Stipulation and Agreement. This news release announced that Great Plains Power "has selected Burns & McDonnell to assist in the development and design of Weston Bend I, a coal-fired power plant located near Weston, Missouri, with an expected output of 500 to 900 megawatts."

This July 11 news release was apparently the basis for the Kansas City Star article on July 12, an article which portrayed the Weston Bend I project as a more definite project than it actually is at this stage of its early development. As previously discussed, this project is still very much in its infancy.

Most importantly, the July 12 article also erroneously linked this proceeding to the Weston Bend project by stating: "Great Plains is waiting for approval to operate as a deregulated entity. The Missouri Public Service Commission could vote as early as today on this issue. If it gives its approval, Great Plains would not have to seek the commission's OK to build the new plant." These statements are wrong.

KCPL unregulated subsidiaries KLT, Inc. or GPP can build unregulated generation today. Today, Great Plains Power (GPP) is an unregulated subsidiary of KCPL. If the Commission approves the First Amended Stipulation and Agreement in this proceeding, Great Plains will continue to be an unregulated subsidiary operating in

the competitive, wholesale marketplace. However, instead of Kansas City Power & Light Company being its parent, the Holding Company, Great Plains Energy, Incorporated (GPE) will be the direct parent of Great Plains Power, Incorporated. This is clearly shown in the corporate diagrams in the Application and on page 2 of the First Amended Stipulation and Agreement.

KCPL and other Missouri utilities have engaged in competitive unregulated businesses for years, including constructing and owning generation not regulated by the Missouri Public Service Commission. In fact, KLT, Inc. owned unregulated generation in the mid-nineties, but not in this region.

KCPL has had significant competitive business interests since the mid-nineties. These interests currently focus on Independent Power Producer (IPP) development, telecommunications (Digital Teleport, Inc.), coal bed methane exploration and development (KLT, Inc. GAS), electricity marketing (Strategic Energy, Limited-Pittsburgh).

In the regulatory context, determinations must be made in a rate case setting that the generating plant is in service, and that sufficient customer need for the plant is demonstrated. Weston Bend is not needed for KCPL's retail customers, and it will only be built as an unregulated generating unit. The formation of the Holding Company, GPE, and its subsidiaries, KCPL, GPP, and KLT, Inc., insulates the utility, KCPL, from the unregulated business activities of KLT, Inc. and GPP, and provides an opportunity for increased shareholder value. In addition, costs are more easily identified, which permits greater assurance that no subsidization occurs between regulated and unregulated business activities. If sufficient contracts can be secured and Weston Bend is constructed,

it more likely will be perceived by the investment community as an unregulated enterprise under GPE, than building an unregulated generating plant under GPP or KLT, Inc. as a subsidiary of KCPL. If the holding company is not approved, GPP will continue to pursue generation opportunities as a subsidiary of KCPL, although it is not the best alternative for customers, shareholders, or regulators.

The electric utility industry is in a state of transition. Portions of it function in a competitive environment and portions in a regulated model. In Case No. EM-2000-753, KCPL filed an application in May of 2000 to restructure and transfer its existing generation assets to an unregulated subsidiary.

KCPL's application in Case No. EM-2000-753 raised more difficult issues because it affected regulated assets that would no longer be regulated by the state Commissions, if the Application were approved. We withdrew that case.

Most states that have enacted statutes that enable competition for retail customers have deregulated existing generation. Of course, the federal government already has deregulated a large part of the wholesale generation market. No matter what one's views are regarding retail competition, one thing is clear – wholesale competition is here. In certain circumstances, electric utilities must continue to procure power in an unregulated, inefficient wholesale market. KCPL continues to believe that separation of generation assets facilitates a more efficient and structurally sound competitive wholesale market.

In January 2001, a "Genco" bill was introduced in the Missouri legislature that would have allowed utilities to transfer existing regulated assets to an unregulated affiliate. It was KCPL's hope that some policy direction to the state and to the Commission may have come from this bill. Instead, in KCPL's opinion, during the course

of the legislative process the bill was modified to such an extent that minimal policy direction was provided to the state or to the Commission, and essentially did little more than what is in place today. KCPL could not support such legislation. KCPL believes that, in the long-term, competition is good public policy. Substantial issues must be dealt with during the transition to competition, and KCPL will continue to actively participate in available forums to address these important issues (e.g., Missouri Energy Policy Task Force). KCPL will likely continue to support legislation that deregulates existing generation for wholesale sales. Approval of the Holding Company structure has nothing to do with these long-term issues or existing generation.

Under KCPL's Application in this proceeding and the First Amended Stipulation and Agreement, no existing generation assets are affected and the Commission's authority over all of KCPL's existing generation assets is preserved. It is simply a request by KCPL to be allowed to restructure itself into a Holding Company.

Clearly, such a holding company structure is not a new and novel concept. There are approximately 30 registered utility holding companies and many utility holding companies that are not registered. This Commission has already approved this holding company structure for Ameren/UE, and in fact many of the jurisdictional provisions of the First Amended Stipulation and Agreement were modeled after the settlement documents in the Ameren/CIPS proceeding. As previously stated, a Holding Company structure can preserve the Commission's authority with the conditions agreed to in the First Amended Stipulation and Agreement, and such a structure can clearly separate regulated and unregulated businesses to the benefit of KCPL's customers and shareholders. In this proceeding, KCPL is simply requesting that it be allowed to

restructure itself in a manner that preserves the Commission's authority and is responsible to its customers and shareholders when it enters the unregulated wholesale generation market.

Why Wasn't Weston Bend Mentioned?

The Order and Notice also asked the parties to explain why was this Weston Bend project not mentioned at the on-the-record presentation held on July 5, 2001.

For Kansas City Power & Light Company, the honest answer is it never crossed our minds that this subject was relevant or important to this proceeding. And unfortunately, no one asked any questions that lead to a discussion of the topic. In our preparations for that On-the-Record conference on the morning of July 5, our regulatory team did not discuss this matter at all, and we certainly did not conspire to keep it from the Commission or the rest of the world.

KCPL sincerely apologizes for its failure to keep the Missouri regulators fully apprised of the possibility that there may be new coal-fired power plants being built in Missouri.

Duty of Candor to the Tribunal

The final question in the Order and Notice will be addressed by KCPL's legal counsel at the On-the-Record conference.

We hope that this document has clarified issues raised in the July 17, 2001, Order and Notice. We look forward to answering any and all questions that the Commission may have regarding this subject or the First Amended Stipulation and Agreement itself.

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

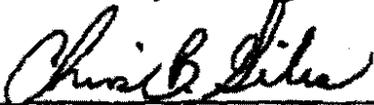
In the Matter of the Application of Kansas City)
Power & Light Company for an Order Authorizing) Case No. EM-2001-464
Its Plan to Reorganize Itself Into a Holding)
Company Structure.)

AFFIDAVIT OF CHRIS B. GILES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Chris B. Giles, of lawful age and being first duly sworn, deposes and states:

1. My name is Chris B. Giles. My business address is 1201 Walnut, Kansas City, Missouri. I am Senior Director-Regulatory & Risk Management for Kansas City Power & Light Company.
2. Attached hereto and made a part hereof for all purposes is my Statement consisting of pages 1 through 11.
3. I hereby swear and affirm that my statements contained in the attached document are true and correct to the best of my knowledge and belief.

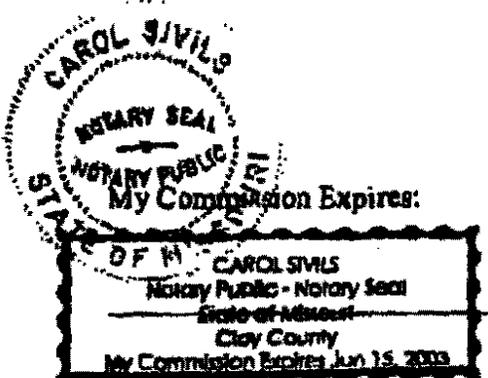


CHRIS B. GILES

Subscribed and sworn to before me this 24th day of July, 2001.



Notary Public



CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered or mailed, First Class, postage prepaid, this 24th day of July 2001, to:

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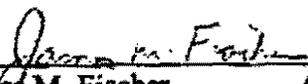
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Schedule CRH-SUR-4

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IN ITS ENTIRETY