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Witness: Kelly Murphy
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Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2016-0285
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Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

REBUTTAL TESTIMONY

OF

KELLY MURPHY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
December 2016**

KCP&L Exhibit No. 139
Date 2-28-17 Reporter KF
File No. ER-2016-0285

REBUTTAL TESTIMONY

OF

KELLY MURPHY

Case No. ER-2016-0285

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

2 A: My name is Kelly Murphy. My business address is 1200 Main Street, Kansas City,
3 Missouri, 64105.

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

5 A: I am employed by Kansas City Power & Light Company (“KCP&L” or the “Company”)
6 as Senior Director—Human Resources.

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

8 A: I lead and manage the design and administration of the Company’s compensation,
9 benefits, Human Resource (“HR”) Information Systems, payroll, employee and labor
10 relations, organizational development and HR Service Center. I also have oversight for
11 the employee and labor relations functions and organizational development.

12 **Q: Please describe your experience and employment history.**

13 A: I graduated from Bucknell University with a B.A. Degree in International Relations. I
14 have worked in a variety of HR positions since 1989. I began my career with KCP&L in
15 1999 and have served in a variety of roles in HR and have also spent two years in a Six
16 Sigma Black Belt role. Prior to joining KCP&L, I worked in HR in two international law
17 firms headquartered in New York, and for a short time for First Data Resources in
18 Omaha, Nebraska.

1 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
2 **Commission (“Commission” or “MPSC”)?**

3 A: Yes. I have testified before the MPSC previously in Docket No. ER-2012-0174/0175.

4 **Q: What is the purpose of your testimony?**

5 A: The purpose of my testimony is to rebut the Direct Testimony of staff witness Charles R.
6 Hyneman of the Office of Public Council concerning the Great Plains Energy
7 Incorporated (“Company”) and the Wolf Creek Nuclear Operating Corporation
8 (“WCNOC”) supplemental executive retirement plan (“SERP”) payments.

9 **SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP) EXPENSE**

10 **Q: Do you agree with OPC’s proposed treatment of the Company’s SERP expenses?**

11 A: No, I have four areas of concern regarding Mr. Hyneman’s SERP expense
12 recommendations:

- 13 1. Inaccurate description of what is included in the Company’s SERP;
- 14 2. Exclusion of lump sum payments;
- 15 3. Statement regarding lack of oversight and implied excessive compensation of
16 executives; and
- 17 4. Adjustment to WCNOC annuity payments.

18 **Q: Please describe the purpose of a SERP?**

19 A: As noted by Mr. Hyneman, a SERP is a nonqualified supplemental retirement plan that
20 provides additional retirement benefits to a select group of highly compensated
21 employees. SERPs are common in the industry and benefit customers by attracting and
22 retaining key executives to manage the company. Because the Internal Revenue Code
23 imposes maximum compensation limits under qualified pension plans, a SERP restores

1 qualified pension plan benefits to highly compensated employees. The limits are
2 \$265,000, \$265,000 and \$270,000 for 2015, 2016 and 2017, respectively.

3 **Q: Please describe the Company's SERP?**

4 **A:** The Company's SERP is unfunded and constitutes a promise by the Company to make
5 benefit payments in the future. Any right to receive a distribution is an unsecured claim
6 against the general assets of the Company. The Company funds the plan out of current
7 cash flows.

8 The Company's SERP is only offered to officers. Officers elect their form of payment
9 when they first become an officer and are eligible to participate in the plan. Forms of
10 payment include a lump sum or various annuity alternatives; the value of each will be the
11 actuarial equivalent of each of the others. These deferred benefits are not currently
12 taxable to the executive, but are taxed at the time of distribution as ordinary income.

13 Mr. Hyneman indicated that the Company's SERP was a "SERP Restoration Plus" plan
14 because "*SERP benefits are based on, in part, on certain types of executive compensation*
15 *such as earnings-based and equity-based compensations...executive bonuses, stock*
16 *compensation and other compensation that the Commission has not recognized.*" This is
17 not true. The Company's SERP includes the following:

	Included	
	SERP	Pension
Base Salary	Yes	Yes
Overtime	No	No
Annual Bonus (Annual Incentive Plan)	No	No
Discretionary Bonus - cash	No	No
Discretionary Bonus - Equity (when paid)	No	No
Equity Incentives (LTIP) - (when paid)	No	No
Deferred Comp	Yes	No
401k	Yes	Yes

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1 The only compensation included in the SERP that is excluded from the qualified pension
2 plan is deferred compensation, which is base salary earned that the executive elected to
3 defer.

4 **Q: Please explain your concern with OPC's proposed treatment of the Company's**
5 **lump-sum SERP expenses?**

6 A: In previous testimony, Mr. Hyneman has supported rate recovery of SERP expenses
7 based on a "pay-as-you-go" or cash basis. However, he excluded lump-sum SERP
8 payments and only included monthly recurring payments in his cost of service
9 recommendation. Lump sum payments are a component of SERP that are known and
10 measurable at the time of payment and thus should be considered "pay-as-you-go." The
11 difference between lump-sums and annuities is primarily timing of payment. The
12 obligation to pay is the same.

13 **Q: Does the Company have a preference?**

14 A: Yes, the Company prefers the lump sum alternative. The SERP is a liability on the
15 Company's books. If a lump sum is elected, the Company pays the executive the lump
16 sum at the time of separation, and no liability exists. Although the forms of payment are
17 actuarially equivalent, some forms of the annuity alternatives are based on the
18 individual's actual longevity which creates uncertainty. Also, additional processing and
19 record keeping costs are incurred with annuity payments. Thus, a lump sum alternative is
20 potentially less costly for customers than the annuity alternative.

21 **Q: What were the amounts of lump-sum SERP payments made during the test period?**

22 A: No lump-sum SERP payments were made during the test period. However, due to the
23 sporadic nature of executive separations, SERP lump sum payments can vary

1 significantly from year to year and recovery should be accomplished by including an
2 historical average.

3 **Q: Therefore, is there any justification for including only one of the alternatives in**
4 **normalized cost of service expense, such as Mr. Hyneman's recommendation to**
5 **include only annuity payments?**

6 A: No, both forms of payment must be included. It is appropriate for the Company to
7 include in its rates expenses that accurately reflect the Company's costs. Mr. Hyneman's
8 proposal of only including a minimal amount of an annuity payment would result in
9 under recovery.

10 **Q: Do you believe the Company's executive compensation is reasonable including the**
11 **SERP?**

12 A: Yes. The Company's executives receive market competitive compensation. Mr.
13 Hyneman makes statements in his testimony inferring that certain highly compensated
14 utility executives' compensation exceeds average utility management compensation by
15 more than a reasonable amount and only reasonable compensation should be included.
16 He also implies that there is no oversight and states that "management and the Board of
17 Directors are free to design the SERP in virtually any manner desired."

18 **Q: Do you have third-party support for your executive compensation practices?**

19 A: Yes. The Compensation and Development ("C&D") Committee of the Board of
20 Directors is comprised of independent Board members that set compensation for
21 executives. The C&D Committee uses an independent third-party compensation
22 consultant to provide benchmark data and best practice information.

1 Due to the passage of Dodd Frank Section 951 referred to as “say on pay”, the
 2 Company’s shareholders are required to cast non-binding votes on the executive
 3 compensation program. The C&D Committee and Board of Directors consider this
 4 information as they determine compensation policies and actions. In each of the past four
 5 years, the Company has received favorable say-on-pay results of 94%, 95%, 95% and
 6 96% for 2013, 2014, 2015 and 2016, respectively.

7 In addition, the independent, third-party proxy advisory firm, Institutional Shareholder
 8 Services (ISS), which evaluates companies’ proxy statements and makes voting
 9 recommendations to their investor clientele, rated the Company a 1 for Governance in
 10 each of four categories: board structure, shareholder rights, compensation, and audit and
 11 risk (1 out of 10 with 1 being the highest) and also recommended a “For” vote on the
 12 Company’s say-on-pay proposal in each of the last four years. In making its independent
 13 recommendations ISS compared the Company’s executive compensation practices to 23
 14 peer utility companies, including the following companies:

ISS AND COMPANY DISCLOSED PEER GROUPS

ISS- Selected Peers (9)	ALLETE, Inc.	Hawaiian Electric Industries, Inc.
	ITC Holdings Corp.	MDU Resources Group, Inc.
	NISource Inc.	NorthWestern Corporation
	Pepco Holdings, Inc.	UIL Holdings Corporation
	Vectren Corporation	Ameren Corporation
	Alliant Energy Corporation	Black Hills Corporation
	Avista Corporation	IDACORP, Inc.
	Cleco Corporation	Pinnacle West Capital Corporation
	OGE Energy Corp.	Portland General Electric Company
	PNM Resources, Inc.	TECO Energy, Inc.
	SCANA Corporation	Westar Energy, Inc.
	WEC Energy Group, Inc.	
	None disclosed.	
	Company- Disclosed Peers (0)	

1 **Q: Does the Company agree with the OPC's proposed adjustment to WCNOG SERP**
2 **payments?**

3 A: No, the Company does not agree. Mr. Hyneman is proposing to adjust the WCNOG
4 SERP annuity payments because he claims the payments are excessive.

5 **Q: Why does the Company disagree that WCNOG payments are excessive?**

6 A: Mr. Hyneman has based his claim that WCNOG SERP payments are excessive by
7 comparing the average WCNOG SERP annuity payment with the average KCP&L SERP
8 annuity payment. This is not an equivalent comparison, because the KCP&L amount
9 does not include lump-sum payments in the average. Since the majority of KCP&L
10 participants select the lump sum payment option, the exclusion of lump sum payments
11 does not represent an accurate average of KCP&L SERP payments and severely
12 understates the KCP&L average so to be comparable all KCP&L payments would need
13 to be included in the average.

14 **Q: Are WNCOC SERP payments based on executive compensation that has**
15 **traditionally been included in rates?**

16 A: Generally, yes they are. The table below shows the compensation included in WCNOG's
17 SERP payment calculation as well as the qualified pension plan for comparison:

	Included	
	SERP	Pension
Base Salary	Yes	Yes
Overtime	No	Yes
Annual Bonus (Annual Incentive Plan)	Yes	Yes
Discretionary Bonus-Cash (when paid)	Yes	Yes
Discretionary Bonus-Equity (when paid)	No	No
Equity Incentives (LTIP) (when paid)	No	No
Deferred Comp	No	No
401K	No	No

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1 **Q: What is your final recommendation?**

2 A: Based on this testimony, Company witness Ronald Klote's testimony and the third party
3 support for our executive compensation programs and practices that are based on
4 benchmarking data, I believe our executive compensation is reasonable. The SERP
5 payments (both lump sum and annuity) for both KCP&L and WCNOG should be
6 recovered in rates and the significant reductions in SERP annualized costs by OPC
7 should be rejected.

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

9 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power & Light)
Company's Request for Authority to Implement)
A General Rate Increase for Electric Service) Case No. ER-2016-0285

AFFIDAVIT OF KELLY R. MURPHY

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Kelly R. Murphy, being first duly sworn on her oath, states:

1. My name is Kelly R. Murphy. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Director—Human Resources.

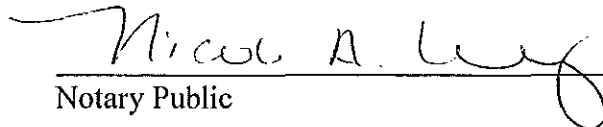
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of eight (8) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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



Kelly R. Murphy

Subscribed and sworn before me this 30th day of December, 2016.



Notary Public

My commission expires: Feb. 4, 2019

NICOLE A. WEHRY Notary Public - Notary Seal State of Missouri Commissioned for Jackson County My Commission Expires: February 04, 2019 Commission Number: 14391200
