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Kansas Corporation Commission
/S/ Patrice Petersen-Klein

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

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DIRECT TESTIMONY OF

C. KENNETH VOGL

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

**IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
TO MAKE CERTAIN CHANGES IN
ITS CHARGES FOR ELECTRIC SERVICE**

DOCKET NO. 12-KCPE-764 -RTS

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

A. My name is C. Kenneth Vogl. My business address is 101 South Hanley Road, Suite 900, St. Louis, Missouri 63105.

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

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

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

A. The purpose of my testimony is to provide evidence in support of the Company's requested pension funded status adjustment included in this case. This adjustment regards the "funded status" of each of the pension funds for KCP&L and the acquired portions of Aquila, Inc. ("Aquila") at the time Aquila was acquired by Great Plains Energy ("GPE"), the parent company of KCP&L. Generally speaking, "funded status" refers to the ratio of pension fund assets to the present value of the pension benefits earned. Because these funds were combined after the acquisition, resulting in a single management pension fund and a single bargaining unit pension fund, the different funded status levels of the original pension funds for each company must be considered and accounted for to ensure fair treatment of the customers of each jurisdiction represented whose rates contributed to the level of funding.

I will begin by giving some background on this issue as it relates to KCP&L and its affiliates. I will then provide some history on how pension costs are determined and also discuss how those costs are currently being allocated among KCP&L and KCP&L Greater Missouri Operations Company ("GMO"). GMO includes the territories formerly served by Aquila Networks-MPS ("MPS") and by Aquila Networks-L&P ("L&P"). Then I will address some key objectives that should be satisfied when using an allocation method and explain why an adjustment is needed to satisfy those key objectives. Finally, I will further explain the adjustment being proposed by KCP&L and summarize how the specific amount has been determined. I recommend the Commission accept the Company's pension funded status adjustment in this rate case.

Q. Before you begin your discussion of the pension funded status adjustment, please provide a brief description of your educational background and describe your professional training and experience.

A. I received a Bachelor of Science degree in mathematics from the University of Missouri, Columbia in 1988 and a Doctorate of Philosophy in mathematics from Washington University in 1994. I completed the examination requirements for designation as a Fellow of the Society of Actuaries and received such designation in August 2000. I completed both the examination and experience requirements for designation as an Enrolled Actuary under the Employee Retirement Income Security Act of 1974 ("ERISA") and received such designation in 1998. I was employed with Watson Wyatt Worldwide as a consulting actuary from 2007 to 2009. In January 2010, Watson Wyatt Worldwide and Towers Perrin merged to form Towers Watson, where I am currently employed. I was also employed with Towers Perrin in St. Louis from 1995 to 2007 and with William Mercer in St. Louis from 1994 to 1995. I have substantial technical and consulting experience relative to employee benefit plans – including the design, funding, accounting, and communication of pension and post-retirement welfare programs.

Q. Have you previously testified before the Kansas Corporation Commission ("KCC" or "Commission") or other utility regulatory agencies?

A. Yes. I submitted testimony on behalf of Kansas City Power & Light Company in Docket No. 10-KCPE-415-RTS ("415 Docket") and on behalf of Empire District Electric Company in Docket No. 05-EPDE-980-RTS. I have also submitted testimony for utilities in Missouri, Illinois, New Mexico and Minnesota.

I. BACKGROUND ON PENSION ADJUSTMENT FOR KCP&L

Q. Please describe the reason for your proposed adjustment as it relates to KCP&L.

A. In 2008, GPE, KCP&L's parent company, acquired Aquila, Inc.'s Missouri electric operations, now named KCP&L Greater Missouri Operations Company which includes both MPS and L&P territories. Prior to the acquisition, GPE had two pension funds, one for management employees and one for bargaining unit employees.[1] Aquila had a single pension fund but tracked the fund separately for the MPS and L&P jurisdictions. At the time of the acquisition, KCP&L's and MPS's pensions were underfunded and L&P's was overfunded. This meant that an adjustment would be necessary to ensure that L&P's customers would not lose the benefit of what they, as ratepayers in the L&P service territory, had funded prior to the merger. Following the merger, all employees were considered to be employees of KCP&L and the pension funds were combined. Ideally, each fund would have a similar funded status at the time of the merger to provide protection for the customers of each jurisdiction. However, because the L&P pensions were overfunded and the KCP&L and MPS pension funds were underfunded, the combining of pension funds into a single management pension fund and a single bargaining unit pension fund meant the L&P funds contributed more than their fair share. In other words, the overfunded L&P pension fund essentially helped "make up" the amounts that KCP&L's and MPS's pensions were underfunded as of the date of the merger. Therefore, without an adjustment, the L&P pension funds will end up subsidizing the KCP&L and MPS pension funds; *i.e.*, L&P customers will subsidize KCP&L and MPS customers.

Q. You have used the term "underfunded." If a company is in an underfunded position in respect to its pension assets does that necessarily mean that the company has not met its legal funding requirements?

A. No, not at all. A company can have fully met its legally required funding obligations and still be in an underfunded position. A large percentage of companies in this country are in that position at this time, primarily as a result of the 2008 market crash and low interest rates.

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[1] In addition to these pension funds, Wolf Creek Nuclear Operating Corporation ("WCNOC") also has a pension fund; however the WCNOC pension fund is not a subject of this adjustment.

Q. How does KCP&L propose to adjust the pension funds?

A. Each jurisdiction, KCP&L, MPS and L&P, has pension costs included in their rates. Under the individual pension-related Stipulations and Agreements approved by the Commission in Docket No. 07-GIMX-1041-GIV for KCP&L's Kansas jurisdiction and by the Missouri Public Service Commission in Missouri Case Nos. ER-2010-0355 (KCP&L Missouri) and ER-2010-0356 (GMO) for each jurisdiction in Missouri, each jurisdiction must fund the pension trusts in an amount equal to the pension costs used to determine its rates. KCP&L proposes that the pension cost levels included in customer rates going forward for each of the jurisdictions be adjusted such that KCP&L and MPS are temporarily required to contribute a greater share for a period of time – greater than just the amount based on their labor allocation factors. This adjustment would only be in effect until the shortfall is made up and the contributions from each jurisdiction are again proportional.

Q. Was a similar adjustment made in KCP&L's last rate case in the 415 Docket?

A. KCP&L proposed a similar adjustment in the 415 Docket. In that case an adjustment of $1.5 million (total Company) was made to increase KCP&L's total Company share of the total pension cost to account for this inequity.

Q. Did the Commission accept the adjustment?

A. No. The Commission rejected KCP&L's adjustment in reliance upon the testimony of Staff witness, Ms. Karen Hull. Ms. Hull gave two reasons for her rejection of the adjustment, both of which are incorrect. First, she indicated that no similar allocation was made to MPS when MPS's pension was also underfunded. As will be explained later in my testimony, a similar allocation was, in fact, made to MPS.

Second, Ms. Hull alleged that the increase in pension costs occurring since the time of the merger was a result, at least in part, of the merger of the two plans. This is fundamentally incorrect, as I explain below.

Q. If, as you claim, Ms. Hull's position in the 415 Docket was factually and conceptually incorrect on this issue, why do you believe the Commission accepted her recommendation to disallow this adjustment?

A. From reading the transcript of the hearing and the Commission's November 22, 2010 Order and its January 6, 2011 Order on Reconsideration, I believe that the outcome on this issue is the result of honest confusion. I believe it is appropriate for KCP&L to present this issue to the Commission again at this time to clarify the issue and to allow an opportunity to correct the situation which now exists whereby KCP&L customers are unfairly receiving the benefits earned – *pre-merger* – by L&P's customers.

II. OVERVIEW OF PENSION COSTS AND ALLOCATIONS

Q. Please provide a brief overview of how pension costs are determined.

A. Pension costs are typically calculated in accordance with the Statement of Financial Accounting Standards No. 87 ("FAS 87"). FAS 87 is an accounting standard issued by the Financial Accounting Standards Board ("FASB") in December 1985 relating to employers' accounting for pensions. Pension costs also include amounts calculated in accordance with the Statement of Financial Accounting Standards No. 88 ("FAS 88"), an accounting standard dealing with settlements and curtailments of defined pension plans. FAS 87 and FAS 88 have recently been superseded by FASB Accounting Standards Codification Topic 715 ("ASC 715"), but will still be referred to throughout this testimony as FAS 87 and FAS 88 for ease of understanding. FAS 87 requires employers to recognize the cost of their pension plan(s) on an accrual basis rather than a cash basis. In other words, pension cost is recognized over the period during which benefits are earned (or "accrued"), *i.e.*, during the working years of the employees who will receive the pension benefit upon retirement.

The FAS 87 pension cost is equal to the sum of the following components:

- Service cost – The value of the benefits earned, or accrued, during the current year based on the applicable benefit formula for each participant.
- Interest cost – The interest on the pension plan liability for the year. This amount increases pension cost.
- Expected return on assets – The expected return on assets for the year. This amount reduces pension cost. Note that the difference between the actual return on assets and the expected return on assets is a gain or loss that will be recognized in future pension cost.
- Amortizations – The change in liability due to plan changes, changes in actuarial assumptions used to value plan liabilities, and/or experienced gains or losses is subject to amortization. The amortization period is not to exceed the average future lifetime of plan participants.

In summary, the FAS 87 pension cost can be described as: (1) the value of benefits earned during the year (*i.e.*, service cost), plus (2) a charge or credit depending on the funded status of the plan (*i.e.*, interest cost less expected return on assets), plus (3) a charge or credit to recognize special asset and liability changes (*i.e.*, amortization).

Q. What are FAS 88 costs and how do they factor into the pension cost calculation?

A. FAS 88 requires immediate rather than delayed recognition of certain costs arising from settlements and curtailments of defined benefit plans (commonly referred to as pensions). FAS 88 provisions are triggered infrequently and can generally only be calculated at the end of a pension plan year. The remaining portion of my testimony focuses on the calculation of the recurring FAS 87 component of pension costs.

Q. Please provide a brief overview of how GPE pension costs are currently assigned to KCP&L.

A. The FAS 87 regulatory cost is calculated in aggregate for GPE and then allocated as follows:

1) Allocate the appropriate portion of the total cost to the joint partners.
2) Allocate the remaining portion to the various GPE entities based on labor allocation factors.
3) Add KCP&L's shares of the pension cost for the Wolf Creek Generating Station and the cost of the Supplemental Executive Retirement Plan ("SERP").

Many employees perform services for various GPE entities. Therefore, the labor allocation factor referenced in (2) above is used to assign pension costs to the entities.

III. KEY OBJECTIVES IN ALLOCATING PENSION COSTS

Q. What objectives should be considered when determining a reasonable approach for allocating pension costs?

A. I believe there are four key objectives for establishing a reasonable allocation method:

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

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

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

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

Q. Does the approach approved by the Commission in the 415 Docket meet these objectives?

A. The approach currently in place satisfies objectives (1) and (2).

Q. What about the third objective–that the method must allocate the pension benefits that have already been earned to the appropriate entity where they were accrued and funded by ratepayers?

A. The approach approved by the Commission in the 415 Docket and currently in place does not satisfy objective (3). If the GPE Plans prior to including the MPS and L&P and the GPE Plans in the aggregate after including MPS and L&P were in similar funded positions, the historical benefits that were earned and funded would also be appropriately allocated using the labor allocation factors calculated for periods after the merger without adjustment. This is not the situation with the Aquila acquisition. The only impact on cost that these past service benefits have is related to the funded status of each separate plan and because the funded status of each plan was not the same at the time of the acquisition, some adjustments are necessary in order for objective (3) to be met. These adjustments will be addressed later in my testimony.

Q. Does the current approach resulting from the 415 Docket satisfy the fourth objective–that the method must avoid one group of ratepayers subsidizing another?

A. The current approach does not fully satisfy objective (4). To illustrate that the current allocation approach results in subsidization between entities, costs have been projected for KCP&L and the other affiliates under two scenarios (cost projections shown below in Table 1). Both scenarios reflect consolidated pension costs excluding KCP&L's share of Wolf Creek pension costs. The two scenarios are:

A. Where the FAS 87 regulatory cost is calculated in total and allocated using the labor allocation factors as described above – essentially the scenario currently in place resulting from the 415 Docket; and

B. Where the FAS 87 regulatory cost is calculated separately as if KCP&L and the other affiliates maintained separate plans following the merger – which represents the scenario where each jurisdiction maintains the benefit of its pension funding prior to the merger.

Note that scenario (B) must rely on several assumptions because of the difficulties in separating the pension benefits earned and asset values between KCP&L and the other affiliates, and the passage of time since the merger. Nonetheless, it is still helpful in assessing the reasonableness of the current allocation approach.

TABLE 1

FAS 87 Regulatory Cost Projections
(in millions)

Scenario A

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

Scenario B

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

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

Looking at the Present Value column, this chart clearly illustrates that, absent the adjustment proposed by KCP&L, the following will occur:

- KCP&L will be assigned $13.4 million ***less*** cost than it should be allocated,
- MPS will be assigned $11.4 million ***less*** cost than it should be allocated, and
- L&P will be assigned $21.9 million ***more*** cost than it should be allocated.

Therefore, I believe the allocation approach currently in place will not fully meet objective (4) unless some adjustments are made. These adjustments will be addressed later in my testimony.

Q. Please explain further how combining plans with different levels of funded status could lead to one group subsidizing another.

A. As a simplified example, assume two nearly identical plans are merged, with the only difference being their funded status at the time of the merger. Assume the basic information for these plans is as follows:

TABLE 2

	Plan 1	Plan 2	Total
Labor Allocation	50%	50%	100%
Pension Benefit Obligation	(100)	(100)	(200)
Fair Value of Assets	50	100	150
Funded Status [(Loss)/Gain]	(50)	-	(50)
Annual Benefits Earned	5	5	10

Using the information provided earlier on determining the annual pension cost, the cost would be calculated as follows if done separately for the two plans as if they had not merged:[2]

[2] Note: the 6% being used for the interest rate and asset return assumption is for simplicity, as is the 10-year period being used to amortize the losses.

TABLE 3

	Plan 1	Plan 2	Total
Service Cost	5	5	10
Interest Cost at 6%	6	6	12
Expected Asset Return at 6%	(3)	(6)	(9)
Amortization of (Gain)/Loss - over period of 10 years	5	-	5
Total Pension Cost	13	5	18

Notice there are two components that cause the Plan 1 Total Pension Cost to be greater than the Plan 2 Total Pension Cost: Expected Asset Return (6% times the Fair Value of Assets) and Amortization of (Gain)/Loss (Funded Status divided by 10 years). Both of these components are directly related to the funded status of each plan in this example. If we now assume the plans are merged and simply take the total pension cost and allocate it to each plan based on labor allocation factors (similar to how the current GPE pension cost is allocated), we would get a much different result. See below:

TABLE 4

	Plan 1	Plan 2	Total
Cost if Calculated Directly	13	5	18
Cost if Allocated by Labor Allocation	9	9	18
Error in Cost Allocation	(4)	4	-

Note the merger of the plans would not result in any change to the total pension cost of 18, contrary to the position taken by Ms. Hull in the 415 Docket. This shows that if the combined plan is simply allocated on labor allocation factors with no adjustment, Plan 1 would benefit from the merger of the plans while Plan 2 would inappropriately receive additional cost. As mentioned above, the source of this inappropriate additional cost is due to the funded status of the plans at the time of the merger.

Q. How is this example relevant to GPE?

A. In the example in Table 4, Plan 1 is similar to both KCP&L and MPS, while Plan 2 is similar to L&P. While the merging of plans was more complex in the specific instance of GPE (*e.g.*, three regulated entities of varying sizes), the underlying premise still stands that the funded status of each plan prior to being combined will have an impact on whether or not the cost allocation approach being used is appropriate without further adjustment. Also note that, as was the case in the example, the merging of plans at GPE did not result in any change to the total pension cost (*i.e.*, the total pension cost would be the same if done in aggregate as it would be if done separately by plan and then added together).

Q. Are you saying that the act of merging the plans had no impact on the total GPE pension cost?

A. Correct. After acquiring the Aquila entities, the sum of the pension cost for the individual plans had they not been merged together would be exactly the same as the sum of the pension cost for the GPE plans after merging them together. In other words, the total pension cost for GPE does not depend on the number of pension plans it sponsors to deliver the pension benefits to employees. Ms. Hull's allegation that the increase in pension costs occurring since the time of the merger was partially a result of the merger of the two plans is simply incorrect. There have been many factors since the merger that have affected the pension cost (*e.g.*, investment performance, interest rates, demographic experience, benefit changes, etc.), but these are the same factors that affect nearly all pension plans on an annual basis.

Q. Please provide a summary of the funded status of the GPE plans/entities as of the date of the Aquila acquisition.

A. The table below shows the estimated funded status of the various plans/entities as of the July 14, 2008 acquisition date:

TABLE 5

(in millions)	KCPL			Former Aquila (GMO)					
	Mgmt Plan	Trusteed Plan	Total KCPL	MPS	L&P	Corporate	Other	Total GMO	Total GPE
Projected Benefit Obligation	$ 180.7	$ 227.1	$ 407.8	$ 55.6	$ 44.6	$ 52.5	$ 21.7	$ 174.4	$ 582.2
Fair Value of Assets	154.2	149.9	304.1	33.5	85.2	33.5	13.8	166.0	470.1
Funded Status	$ (26.5)	$ (77.2)	$ (103.7)	$ (22.1)	$ 40.6	$ (19.0)	$ (7.9)	$ (8.4)	$ (112.1)
Funded Percentage	85%	66%	75%	60%	191%	64%	64%	95%	81%

Note: Projected Benefit Obligation based on a 6.5% discount rate.

As you can see in the table, L&P was significantly better funded than either KCP&L or MPS at the time of the acquisition and KCP&L was better funded than MPS.

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

A. In order to satisfy all of the objectives outlined above, there will need to be some temporary adjustments within the regulated entities to appropriately allocate pension costs between KCP&L, MPS, and L&P. As shown above, these adjustments are necessary because the entities were historically funded at different levels.

IV. THE PROPOSED ADJUSTMENT

Q. Please describe this proposed adjustment.

A. In light of the difference in funded positions, I propose one cost allocation adjustment from L&P to KCP&L and another cost allocation adjustment from L&P to MPS. This allocation to MPS occurred as part of my proposed adjustment in the 415 Docket, as well. However, because the adjustment from L&P to MPS has no direct impact on KCP&L and Ms. Hull's *prefiled* testimony in the 415 Docket did not make this argument, I did not address it in my testimony in the 415 Docket. Ms. Hull then made this argument on the stand at hearing (after I had already testified) and the Commission's Order accepted it.[3] Therefore, I will fully explain the MPS aspect of this adjustment in my testimony now to ensure the full adjustment picture is presented.

Q. Does this adjustment continue indefinitely?

A. No. Over time, it is expected that all the plans that were merged will arrive at a similar funded position as if they had not been merged (*i.e.*, better funded plans would have less required contributions and worse funded plans would have more required contributions). Therefore, I am proposing these cost allocation adjustments take place for a fixed period of time as described below in my discussion regarding the amount of the proposed adjustment.

Q. What will cause the individual components of the consolidated plan to achieve a similar funded position?

A. As mentioned above, under agreements related to the funding of pensions in both the Kansas and Missouri jurisdictions, each entity must fund an amount equal to its share of pension costs used to determine pension amounts included in rates. The proposed adjustment will increase the required amount of funding for MPS and KCP&L while decreasing the amount of funding by L&P.

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

A. To determine the amount to adjust, I am proposing that the estimated present value of the FAS 87 regulatory expense that would be allocated to KCP&L, MPS, and L&P using the labor allocation factors be compared to the estimated present value of the FAS 87 regulatory expense assuming the KCP&L, MPS, and L&P pensions were separate plans. The difference between the two amounts (*i.e.*, the difference between scenarios (A) and (B) shown previously in Table 1) represents the amount of cost that would be inappropriately allocated to each entity if the labor allocation factors were used without the proposed adjustment. Note that a negative amount indicates the entity would be allocated less cost than appropriate while a positive amount indicates the entity would be allocated more cost than appropriate.

TABLE 6

Difference in FAS 87 Regulatory Cost Projections
(in millions)

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

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

The differences shown above confirm that a cost allocation adjustment from L&P to both KCP&L and MPS is justified. After considering several different combinations of both

[3] 415 Docket Hearing Transcript, Vol. 12, pp. 2849-50; November 22, 2010 Order in the 415 Docket, p. 58.

number of years and dollar magnitudes, I believe the following adjustments yield the most reasonable overall results:

1) Adjust the allocated amount based on the labor allocation factor by $1.5 million in pension cost from L&P to KCP&L for ten years; and
2) Adjust the allocated amount based on the labor allocation factor by $2.5 million in pension cost from L&P to MPS for five years.

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

TABLE 7

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

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

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

Comparing the cost projections above that reflect the proposed adjustments to the earlier amounts shown under scenario (B) in Table 1, the differences are minimal on a year-by-year basis and a present value basis. For convenience, these differences are shown below. Note that a negative amount indicates the entity would be allocated less cost than reflected in Scenario B while a positive amount indicates the entity would be allocated more cost than in Scenario B.

TABLE 8

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

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

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

The differences in present value from those shown in Scenario B are not significant. Therefore, I conclude the adjustments described above yield the most reasonable overall results.

Q. Why is there no adjustment proposed from KCP&L to MPS?

A. The analysis to determine the adjustment has been done in aggregate for all three regulated entities. Because KCP&L was better funded than MPS, there is also an adjustment from KCP&L to MPS, but this has been combined into the other adjustments for simplicity. In other words, instead of having an adjustment from L&P to KCP&L and another from KCP&L to MPS, it was simplified to be from L&P to MPS to minimize the number of adjustments needed.

Q. Is there any additional support for this adjustment?

A. Yes. The fact that KCP&L was better funded than MPS can also be illustrated by viewing the proposed adjustments relative to the size of each entity's obligation. The aggregate $15 million adjustment for KCP&L ($1.5 million over ten years) represents roughly 4% of the total KCP&L plan obligation at acquisition, while the aggregate $12.5 million adjustment for MPS ($2.5 million over five years) represents over 22% of the MPS plan obligation at acquisition. This difference suggests more costs being shifted to MPS relative to plan size, which would be appropriate given the MPS funded status being worse than KCP&L.

Q. Has the temporary adjustment described above been approved by another regulatory jurisdiction?

A. Yes. KCP&L included a similar adjustment in its most recently concluded Missouri rate cases, Case Nos. ER-2010-0355 (KCP&L Missouri) and ER-2010-0356 (GMO). The adjustments were not opposed by any party and were reflected in the respective final accounting schedules in those cases.

Q: How has this proposed adjustment to KCP&L's Kansas jurisdiction been incorporated in this rate case?

A: Company witness John P. Weisensee incorporates this adjustment in adjustment CS-65, included in Schedule JPW-4 attached to Mr. Weisensee's Direct Testimony in this case.

Q. Please summarize your testimony.

A. Due to the historical difference in funded status between KCP&L, MPS, and L&P at the time the funds were combined, it is necessary for a temporary adjustment in pension costs to be applied to the current costs being allocated to each entity using the labor allocation factor. Without this adjustment, Kansas would be utilizing funds contributed by L&P customers to reduce pension cost for KCP&L. Similarly, MPS would be utilizing funds provided by both L&P customers and KCP&L customers to reduce its pension cost. This would clearly be inappropriate as the amounts received from customers of each entity are intended to cover pension benefits that have been earned and are being earned by their employees, not employees from another entity. The adjustments proposed in this testimony provide a reasonable approach to minimize any group of ratepayers subsidizing another.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas City Power & Light Company to Make Certain Changes in Its Charges for Electric Service	))))	Docket No.: 12-KCPE- -RTS

AFFIDAVIT OF C. KENNETH VOGL

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

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

1. My name is C. Kenneth Vogl. I am employed by Towers Watson as a consulting actuary. I have been retained by Great Plains Energy Services Incorporated, an affiliate of Kansas City Power & Light Company, to serve as an expert witness to provide testimony on behalf of Kansas City Power & Light Company.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of twenty-one (21) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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

C Ken Vogl
C. Kenneth Vogl

Subscribed and sworn before me this 11th day of April, 2012.

Diana M. Niemeyer
Notary Public Diana M. Niemeyer

My commission expires: 4-25-13

DIANA M. NIEMEYER
Notary Public-Notary Seal
State of Missouri, Saint Louis City
Commission # 09701672
My Commission Expires Apr 25, 2013