

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

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DIRECT TESTIMONY OF

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KELLY R. MURPHY

by
State Corporation Commission
of Kansas

**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-761-RTS

- 1 **Q: Please state your name and business address.**
- 2 A: My name is Kelly R. 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 Director - Human Resources.
- 7 **Q: What are your responsibilities?**
- 8 A: I have primary responsibility for the design and administration of the Company's
9 compensation, benefits, Human Resource ("HR") Information Systems, payroll,
10 organizational development, and HR Service Center.

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

2 A: The purpose of my testimony is to support the Company's request for recovery of the
3 costs associated with the Organizational Realignment and Voluntary Separation
4 ("ORVS") Program implemented by KCP&L during 2011. As a result of the ORVS
5 Program, which I will describe more fully later in my testimony, the Company downsized
6 by 140 people on a voluntary basis. To accomplish this, the Company incurred one-time
7 costs of \$9.2 million during the test year (\$4.2 million Kansas jurisdictional), but savings
8 will be \$13.3 million per year (\$6.1 million Kansas jurisdictional) in payroll and
9 employee-related benefit costs. In my testimony, I will (1) describe the ORVS Program
10 in more detail; and (2) provide support for the rate case adjustment to defer the associated
11 costs for recovery over a five-year period. The adjustment for deferral and recovery of
12 these costs is presented in the Direct Testimony of Company witness Mr. John P.
13 Weisensee in adjustment CS-55 on Schedule JPW-4. The reduction in employee
14 headcount is included in the Company's payroll annualization, adjustment CS-50, and
15 various other benefit and payroll tax expense adjustments shown in Mr. Weisensee's
16 Schedule JPW-4.

17 **Q: Before you present your discussion of the ORVS Program, please describe your**
18 **education, experience and employment history.**

19 A: I graduated from Bucknell University with a B.A. Degree in International Relations. I
20 have worked in a variety of HR positions since 1989. I began my career with KCP&L in
21 1999 and have served in a variety of roles in HR and have also spent two years in a Six
22 Sigma Black Belt role. Prior to joining KCP&L, I worked in HR in two international law

1 firms headquartered in New York, and for a short time for First Data Resources in
2 Omaha, Nebraska.

3 **Q: Have you previously testified in a proceeding before the Kansas Corporation**
4 **Commission (“Commission” or “KCC”) or before any other utility regulatory**
5 **agency?**

6 A: No. I have not testified before the KCC or any other regulatory agency prior to this time,
7 although I did recently provide pre-filed testimony to the Missouri Public Service
8 Commission in File Nos. ER-2012-0174 and ER-2012-0175.

9 **Q: Please continue now by describing the ORVS Program.**

10 A: In March 2011, KCP&L announced the ORVS Program to enhance organizational
11 efficiency and to assist in the management of overall labor costs.

12 **Q: Why was the ORVS Program implemented?**

13 A: Consistent with its continuing efforts to implement process improvements, improve
14 overall efficiency, and reduce costs, the Company determined that an organizational
15 realignment was desirable. After a thorough review of all departments, 150 non-union
16 positions were identified for elimination. Although the positions were being eliminated,
17 the Company planned to utilize a voluntary separation program to achieve the desired
18 headcount reduction. Employees whose positions were eliminated would be eligible to
19 apply for jobs being vacated by those departing under the voluntary separation
20 component of the ORVS Program.

21 **Q: Will ORVS result in only a temporary reduction of costs?**

22 A: No. The positions that were eliminated were anticipated to be ongoing reductions, and
23 the realigned management organizational structure was determined to be the most

1 appropriate structure to meet the Company's continuing operational needs. The
2 Company and its customers will benefit over future years through the enhanced
3 efficiencies and lower overall full-time employee headcount. Additionally, the savings to
4 customers from ORVS will pay for the program costs over a very short time period.

5 **Q: How was the voluntary separation program designed to work?**

6 A: Under the voluntary separation program, any non-union employee could voluntarily elect
7 to separate and receive a severance payment equal to two weeks of salary for every year
8 of employment, with a minimum severance payment equal to fourteen weeks of salary.
9 Employees electing the program were also eligible for career transition services.

10 **Q: How many employees participated in the program?**

11 A: There were 140 employees that made voluntary separation elections and the majority of
12 those employees separated from the Company on April 30, 2011.

13 **Q: What were the program costs?**

14 A: Great Plains Energy recorded \$12.7 million (\$9.2 million total KCP&L; \$4.2 million
15 Kansas jurisdictional) for the twelve months ending December 31, 2011 related to this
16 voluntary separation program, excluding joint partner shares, which reflects severance
17 and related payroll taxes to employees who elected to voluntarily separate. A small
18 amount of expense related to career transition services also was recorded.

19 **Q: What are the expected benefits to customers?**

20 A: As identified above, 140 employees elected to participate in the program. These
21 employees had a combined annual salary of \$12.5 million (\$8.3 million total KCP&L;
22 \$3.8 million Kansas jurisdictional). This reduction in employees was reflected in the
23 Company's payroll annualization, supported by Mr. Weisensee in adjustment CS-50 on

1 Schedule JPW-4. This reduction in the number of employees also resulted in associated
2 reductions in the cost of employee-related benefits that would otherwise have occurred,
3 bringing the total annual savings to approximately \$20 million (\$13.3 million total
4 KCP&L; \$6.1 million Kansas jurisdictional), including amounts capitalized.

5 **Q: How is the Company proposing to treat the ORVS Program costs for ratemaking?**

6 A: The Company is proposing to defer these costs to a regulatory asset and amortize the
7 deferred costs over five years. The annual amortization expense is included in
8 Mr. Weisensee's Schedule JPW-4, adjustment CS-55. The Company is not requesting
9 rate base treatment.

10 **Q: Why did KCP&L choose a five-year amortization period?**

11 A: The Company believes that this program will provide benefits over a multi-year period.
12 Consequently, the Company does not believe that inclusion of the Program costs in a
13 single year is appropriate. Because the Program will pay for itself over a relatively short
14 time frame, a five-year amortization period was selected.

15 **Q: Were there any other rate impacts from implementing the ORVS Program?**

16 A: Yes. Under the ratemaking method used for pensions, there was a \$17.0 million pension
17 settlement charge (\$11.4 million total KCP&L; \$5.3 million Kansas jurisdictional),
18 excluding joint partner shares, that resulted from non-union pension distributions in 2011,
19 primarily due to the voluntary separation program. KCP&L deferred its share of the
20 charge as a regulatory asset. It expects to recover its deferred asset over future periods
21 pursuant to the Stipulation and Agreement in Docket No. 07-GIMX-1041-GIV, approved
22 by the Commission on August 18, 2011. Mr. Weisensee discusses the proposed

1 ratemaking treatment of these pension costs in his direct testimony, including adjustment
2 CS-65 on his Schedule JPW-4.

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

4 A: Yes, it does.

