

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

In the Matter of the Application of Kansas City)
Power & Light Company for Approval to Make)
Certain Changes in its Charges for Electric)
Service to Implement its Regulatory Plan)

Case No. ER-2007-0291

**NONUNANIMOUS STIPULATION AND
AGREEMENT REGARDING PENSIONS**

COMES NOW Kansas City Power & Light Company (“KCPL”) and the Staff of the Missouri Public Service Commission (“Staff”), and respectfully state to the Missouri Public Service Commission (“Commission”):

1. KCPL and the Staff (individually “Signatory” and collectively “Signatories”) have reached an agreement (“Agreement”) that resolves between them pension cost for KCPL as of September 30, 2007, and that the treatment of pension cost agreed-upon and approved by the Commission in KCPL’s last rate case, Case No. ER-2006-0314, should continue.

FAS 87 and FAS 88 pension cost

2. The Stipulation and Agreement approved by the Commission in its *Report and Order* in Case No. EO-2005-0329 that embodies KCPL’s Experimental Regulatory Plan (“Regulatory Plan”) includes an agreement between the signatory parties regarding the calculation of Financial Accounting Standard (“FAS”) 87 pension cost for financial reporting and ratemaking purposes during the period of the Regulatory Plan.

3. This Stipulation and Agreement is intended to accomplish the following:

- a. Clarify the pension provisions in KCPL’s Regulatory Plan with regard to
KCPL’s joint partners in the Iatan and LaCygne generating stations
- b. Establish the timing of recovery of OPEB costs recognized under FAS 88.
- c. Identify, for purposes of calculating the tracking mechanism provided for in

the method agreed to in the Regulatory Plan, the Regulatory Assets, including the Prepaid Pension Asset, and annual Pension Cost resulting from rates established in this rate case, Case No. ER-2007-0291. The tracking mechanism requires that all Regulatory Assets and /or Liabilities, including the Prepaid Pension Asset, and annual Pension Cost be identified as of the established true-up date for each KCPL rate case during the period covered of the Regulatory Plan.

- d. Set out the agreement of the Staff and KCPL regarding the treatment of pension costs which result under Financial Accounting Standard (FAS) 88 for financial reporting and ratemaking purposes during the period of the Regulatory Plan.

Treatment of Pension Cost for Joint Partners

4. KCPL, Aquila Inc. (Aquila) and The Empire District Electric Company (Empire) jointly own the Iatan 1 generating station. KCPL and Westar Energy (Westar) jointly own the LaCygne generating station. As the majority owner and operator of both generating stations, KCPL allocates the operating costs, including pension costs, to the other joint partners, Aquila, Empire and Westar.

5. KCPL and the Staff agree KCPL employee pension costs related to KCPL employees directly assigned to or who allocate part of their time to work for the Iatan and LaCygne generating stations will be calculated consistently with the methodology identified in the Regulatory Plan. Any regulatory asset, including the prepaid pension asset, and/or liability, generated under paragraphs 2, 3, 4, 5, 6 and 7 of the pension agreement embodied in the Stipulation and Agreement the Commission approved in its final *Report and Order* in Case No. EO-2005-0329 will be calculated separately for the amounts related to KCPL's joint partners.

KCPL employee pension costs for KCPL employees at the Iatan and LaCygne generating stations will be allocated among the joint owners of the stations in proportion to their ownership interests. None of the regulatory assets and/or liabilities, including the prepaid pension asset, or annual pension cost related to KCPL's joint partners will be reflected in rate base or cost of service in any KCPL rate case during the period covered by the Stipulation and Agreement in Case No. EO-2005-0329.

Treatment of Pension Cost for the Supplemental Executive Retirement Plan (SERP)

6. KCPL maintains a Supplemental Executive Retirement Plan (SERP) for key employees. The plan, administered by KCPL, does not utilize a trust fund. KCPL and the Staff agree that the SERP plan will not be included in the tracking mechanism for Regulatory Assets and/or Liabilities, including the Prepaid Pension Asset. SERP will be included in cost of service separately for rate making purposes

Annual OPEB Cost of Termination Fees - Case No. ER 2007-0291

7. FAS 88 provides for immediate recognition of termination fees arising from OPEB plans. The Signatories agree that FAS 88 OPEB costs will be recovered for ratemaking consistent with recovery of FAS 88 pension costs, using a five-year amortization period beginning with the effective date of rates established in the next case. FAS 88 OPEB termination fees incurred prior to the September 30, 2007, True Up period of \$239,604, excluding amounts capitalized, will be amortized over five years beginning with the rates effective in this case, ER-2007-0291. The annual amortization amount is \$47,921.

Annual Pension Cost and Regulatory Assets - Case No. ER 2007-0291

8. KCPL's Missouri jurisdictional rates established in this case, ER-2007-0291, are based on \$29,775,063 (total Company) for annual pension cost expense under FAS 87, after capitalized amounts and the portion of KCPL's annual pension cost which is allocated to

KCPL's joint partners in the Iatan and LaCygne generating stations, but before inclusion of allowable SERP pension costs.

9. KCPL's Prepaid Pension Asset balance included in rate base, exclusive of the joint partners' shares, is \$17,417,488 (total Company) at September 30, 2007.

10. KCPL's Regulatory Asset included in rate base for the cumulative difference between pension cost recognized in its prior rates and its actual pension costs under FAS 87 since January of 2005 is \$26,941,928 (total Company) at September 30, 2007, exclusive of any amount allocated to KCPL's joint partners.

11. KCPL's rates reflect the 5-year amortization of the \$26,941,928 Regulatory Asset identified in the prior paragraph. KCPL will amortize \$4,298,315 (total Company), after capitalization, annually beginning with the effective date of rates established in this case, ER-2007-0291.

FAS 88 Pension Cost treatment for Financial Reporting and Ratemaking Purposes

12. In Case No. ER-2006-0314, KCPL and the Staff reached an agreement to adopt deferred accounting treatment for FAS 88 pension costs consistent with the agreement for FAS 87 deferred accounting treatment. Unlike FAS 87, which allows for delayed recognition in net periodic pension cost of certain unrecognized amounts, FAS 88 requires immediate recognition of certain **costs** arising from settlements and curtailments of defined benefit plans. Without deferred accounting treatment approved by the Commission, KCPL would have been required to recognize a significant FAS 88 pension cost prior to year-end 2006 as a result of a significant number of pension settlements occurring during 2006. FAS 88 costs are legitimate pension costs which should be recovered in rates.

- a. Any FAS 88 costs deferred and subject to recovery in a future KCPL rate case should (a) include only the costs related to KCPL's Missouri jurisdictional

electric operations and (b) exclude all amounts assignable to Aquila, Empire and Westar Energy as joint owners of the Iatan and LaCygne generating stations;

- b. All of KCPL's FAS 88 pension costs related to KCPL's Missouri jurisdictional electric operations, exclusive of amounts allocated to joint owners, subsequent to September 30, 2007 will be deferred in a regulatory asset and amortized to cost-of-service over 5 years in KCPL's next rate case. This treatment will continue to apply in all KCPL rate cases during the period of KCPL's Regulatory Plan. KCPL's Regulatory Asset for FAS 88 pension costs is \$22,706,500 (total Company) at September 30, 2007, exclusive of any amount allocated to KCPL's joint partners. (See below for rate base treatment.)
- c. KCPL's rates reflect the 5-year amortization of the \$22,706,500 Regulatory Asset identified in the prior paragraph. KCPL will amortize \$3,508,210 (total Company), after capitalization, annually beginning with the effective date of rates established in this case, ER-2007-0291.
- d. KCPL will be required to fund all FAS 88 pension costs it collects in rates. Since KCPL will not be required to fund any FAS 88 cost prior to recovery in rates, no rate base treatment will be required for the regulatory asset representing deferred FAS 88 costs. KCPL will fund \$2,452,443 (Missouri jurisdictional capitalized and expensed) annually beginning with effective date of rates established in this case, ER 2007-0291 until the effective date for rates are established in KCPL's next rate case.

General Provisions

13. This Agreement is being entered into for the purpose of disposing of the issues that are specifically addressed in this Agreement. In presenting this Agreement, none of the Signatories to this Agreement shall be deemed to have approved, accepted, agreed, consented or acquiesced to any ratemaking principle or procedural principle, including, without limitation, any method of cost or revenue determination or cost allocation or revenue related methodology or any depreciation procedure, method or technique; and none of the Signatories shall be prejudiced or bound in any manner by the terms of this Agreement (whether this Agreement is approved or not) in this or any other proceeding, other than a proceeding limited to enforce the terms of this Agreement, except as otherwise expressly specified herein.

14. This Agreement has resulted from extensive negotiations and the terms hereof are interdependent. If the Commission does not approve this Agreement without modification, then the Agreement shall be void and no Signatory shall be bound by any of the agreements or provisions herein, except as specifically provided herein.

15. If the Commission does not unconditionally approve this Agreement without modification, and notwithstanding its provision that it shall become void, neither this 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 Signatory has for a decision in accordance with Section 536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the Signatories shall retain all procedural and due process rights as fully as though this Agreement had not been presented for approval, and any suggestions or memoranda, testimony or exhibits that have been offered or received in support of this Agreement shall 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.

16. If the Commission unconditionally accepts the specific terms of this Agreement without modification, the Signatories waive, with respect to the issues resolved herein: their respective rights (1) to call, examine and cross-examine witnesses pursuant to Section 536.070(2), RSMo 2000; (2) their respective rights to present oral argument and/or written briefs pursuant to Section 536.080.1, RSMo 2000; (3) their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2, RSMo 2000; (4) their respective rights to seek rehearing pursuant to Section 386.500, RSMo 2000 and (5) their respective rights to judicial review pursuant to Section 386.510, RSMo 2000. These waivers apply only to a Commission order respecting this Agreement issued in this above-captioned proceeding, and do not apply to any matters raised in any prior or subsequent Commission proceeding, or any matters not explicitly addressed by this Agreement. This Agreement contains the entire agreement of the Signatories concerning the issues addressed herein.

17. If the Commission has questions for the Signatories' witnesses or Signatories, the Signatories will make available, at any on-the-record session, their witnesses and attorneys on the issues resolved by this Agreement, so long as all parties have had adequate notice of that session. The Signatories agree to cooperate in presenting this Agreement to the Commission for approval, and will take no action, direct or indirect, in opposition to the request for approval of this Agreement.

WHEREFORE, the undersigned Signatories respectfully request the Commission to issue an order in this case approving the Agreement subject to the specific terms and conditions contained therein.

Respectfully submitted,

/s/ Nathan Williams

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COMPANY

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 13th day of November 2007.

/s/ Nathan Williams

Nathan Williams