

Exhibit No.:  
Issue: Severance Costs  
Witness: Lora C. Cheatum  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Kansas City Power & Light Company  
Case No.: ER-2007-0291  
Date Testimony Prepared: August 30, 2007

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2007-0291**

**REBUTTAL TESTIMONY**

**OF**

**LORA C. CHEATUM**

**ON BEHALF OF**

**KANSAS CITY POWER & LIGHT COMPANY**

**Kansas City, Missouri**  
**August 2007**

Exhibit No. 2  
Case No(s). ER-2007-0291  
Date 10/1/07 Rptr MLV

**REBUTTAL TESTIMONY**

**OF**

**LORA C. CHEATUM**

**CASE No.: ER-2007-0291**

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

2    A:    My name is Lora C. Cheatum. My business address is 1201 Walnut, Kansas City,  
3           Missouri 64106.

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

5    A:    I am employed by Kansas City Power & Light Company ("KCPL" or the  
6           "Company") as Vice-President, Administrative Services.

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

8    A:    My general responsibilities include Human Resources, Purchasing and Facilities for  
9           KCPL.

10   **Q:    Please describe your education, experience and employment history.**

11   A:    I have an undergraduate degree from Washburn University in Topeka and an MBA  
12           from the University of Kansas. I have held numerous Human Resources positions  
13           with both PepsiCo and Wal-Mart since 1986. I joined Kansas City Power & Light on  
14           September 11, 2001 as the Director of Human Resources for the Delivery Division  
15           and was promoted to Vice President of Administrative Services in March of 2005.

16   **Q:    Have you previously testified in a proceeding at the Missouri Public Service**  
17           **Commission ("MPSC" or "Commission") or before any other utility regulatory**  
18           **agency?**

19   A:    Yes, I testified before the MPSC in Case No. ER-2006-0314.

1   **Q:   What is the purpose of your Rebuttal Testimony?**

2   A:   The purpose of my testimony is to rebut the Direct Testimony of Staff witness  
3       Charles R. Hyneman regarding severance costs.

4   **Q:   What are the severance cost issues?**

5   A:   KCPL has incurred two distinct sets of severance costs. The first set is severance  
6       payments, outplacement service costs, and payroll taxes of 119 Company employees  
7       who left the Company as a result of the Talent Assessment Program.

8   **Q    What is the second distinct set of severance costs?**

9   A    KCPL has incurred other severance costs in the past and is seeking to recover a 3-  
10       year average of these past severance costs, in the amount of \$520,022 (total  
11       Company).

12   **Q:   Please provide the background for the first set of costs related to the Talent  
13       Assessment Program.**

14   A:   In August 2004, the Company announced its Strategic Intent, which included, among  
15       other things, significant physical plant construction, environmental upgrades to  
16       existing plants, wind generation, and an initiative to strengthen the Company's human  
17       capital. In late 2004 and early 2005, in connection with its effort to strengthen human  
18       capital, the Company undertook a comprehensive Talent Assessment Program, which  
19       evaluated management employees (*i.e.*, employees who are not subject to a collective  
20       bargaining agreement).

21   **Q:   What was the purpose of the Talent Assessment Program?**

22   A:   The purpose of the Talent Assessment Program was to determine if employees had  
23       the skills, ability, and desire to assist the Company in reaching its strategic objectives.

1 In the Fall of 2005, management employees were identified under the Talent  
2 Assessment process as "Role Models," "Well Placed," or "Not Keeping Pace."

3 **Q: What happened to those employees identified as "Not Keeping Pace?"**

4 A: Employees identified as "Not Keeping Pace" were given options. They could  
5 (i) attempt to improve any shortcomings identified during the Talent Assessment  
6 Program (i.e., "close the gaps."), or (ii) between the time they were identified as "Not  
7 Keeping Pace" and March 31, 2006, voluntarily separate their employment with the  
8 Company. Employees who "closed the gaps" could either continue their employment  
9 with the Company or voluntarily separate their employment. Numerous employees  
10 "closed the gaps" and were retained by the Company. Employees who did not "close  
11 the gaps" either voluntarily separated their employment, or were involuntarily  
12 separated, effective on, or before, March 31, 2006. All employees identified as "Not  
13 Keeping Pace" were given the opportunity to receive severance.

14 **Q: What costs did the company incur as a result of this program?**

15 A: As a result of this program the following costs were incurred (amounts are total  
16 company, not Missouri jurisdictional):

17	Severance, excluding amounts billed to joint partners	\$8,038,555
18	Outplacement	658,179
19	Payroll taxes	<u>650,287</u>
20	Total costs	\$9,347,021

21 **Q: What ratemaking treatment is the Company proposing in regard to the Talent**  
22 **Assessment Program costs included in the table above?**

1 A: The Company proposes that these costs be deferred in a regulatory asset and  
2 amortized into rates over a five-year period, or \$1,869,404 annually (total Company).

3 Q: **What ratemaking treatment did Mr. Hyneman propose for these costs in his**  
4 **direct testimony in this rate case?**

5 A: Mr. Hyneman proposes that the Company's claim for recovery of these costs be  
6 denied.

7 Q: **On what basis does Mr. Hyneman base his proposal?**

8 A: Mr. Hyneman appears to have four concerns:

9 (1) "There is no evidence that KCPL was not providing safe and adequate  
10 service with the employee base that existed prior to the talent assessment  
11 severance program;"

12 (2) "There is no evidence that the costs of this talent assessment program has  
13 yet or will ever provide any benefit to KCPL's customers;"

14 (3) "KCPL's management is responsible for the hiring of employees and  
15 training of employees. If the employees who were terminated under this  
16 program did not meet KCPL's management's performance expectations, then  
17 KCPL's management should bear the primary responsibility for this result;"  
18 and

19 (4) Severance costs of the talent assessment program were removed from  
20 KCPL's 2006 earnings in the determination of KCPL's management's  
21 incentive compensation."

22 Q: **Please address each of these concerns.**

1 A: Regarding the first point, while KCPL agrees that safe and adequate service was  
2 being provided prior to the Talent Assessment Program, we do not believe this is a  
3 reasonable measure to evaluate the proper recovery of severance costs. The more  
4 relevant measure is expressed by Mr. Hyneman in his second point concerning  
5 benefits to the customer.

6 **Q: Please address Mr. Hyneman's second concern.**

7 A: KCPL's customers benefit from having the right employees conducting our business.  
8 Customer Satisfaction levels have significantly improved since KCPL implemented  
9 the Talent Assessment Program, as evidenced by the 2007 JD Powers Customer  
10 Satisfaction Index Results. In 2007, KCPL achieved Tier 1 status in overall  
11 residential customer satisfaction in comparison with other Midwest utilities. KCPL's  
12 overall Customer Satisfaction Index rose from 679 in 2006 to 697 in 2007. The Talent  
13 Assessment Program allowed KCPL to ensure that we had the right people with the  
14 right skills in the right roles. Employees who are knowledgeable, skilled, and  
15 engaged are innovative and efficient, streamline processes, and take costs out of the  
16 business. This allows KCPL to be more cost-effective in the long run and keep  
17 customer's rates as low as possible.

18 **Q: Please address Mr. Hyneman's third concern.**

19 A: We agree that KPCL's management is responsible for the hiring of employees and  
20 training of employees. However, it was not the case that employees who were  
21 terminated under the Talent Assessment Program did not meet KCPL's performance  
22 expectations. In fact, the majority of them were meeting current performance  
23 expectations. Employees were identified as "not keeping pace" under the Talent

1       Assessment Program due to concerns about their ability to meet rising performance  
2       expectations *in the future*. KCPL wanted to ensure that employees understood what  
3       those new expectations would be for them personally. The Company shared with  
4       each individual what was necessary for him/her to meet future performance  
5       expectations. Those employees then had an option to demonstrate that they could and  
6       would meet future expectations or accept a voluntary separation and leave. Clearly,  
7       this is demonstrative of KCPL management taking responsibility for ensuring the  
8       Company has human capital capable of continuing to provide reliable energy at a  
9       reasonable cost.

10    **Q:   Please address Mr. Hyneman's fourth concern.**

11    A:   The fact that severance costs of the Talent Assessment Program were removed from  
12       KCPL's 2006 earnings per share calculation in the determination of KCPL's  
13       incentive compensation does not imply that these costs should not be recoverable.  
14       KCPL's incentive compensation plan covers ALL employees of the company. KCPL  
15       routinely excludes non-recurring costs from its incentive calculation so that incentives  
16       are based on KCPL's ongoing cost of operation.

17    **Q:   Has Mr. Hyneman stated or implied that these costs were not incurred for a**  
18       **valid business reason?**

19    A:   No, he does not appear to have any concerns in this regard.

20    **Q:   Were these costs incurred for a valid business reason?**

21    A:   Yes, they were. As I previously noted, the Company was preparing to begin several  
22       major projects as part of its Comprehensive Energy Plan (such as building generation  
23       facilities, significant environmental upgrades, wind generation, etc.). The Company

1 knew that in order to successfully execute these projects and be prepared to meet the  
2 needs of its customers and the communities in which it operates, it needed to have the  
3 right people with the right skills in the right positions. Employees who did not feel  
4 that they could or did not wish to meet new expectations for the future would not be  
5 able to assist us in building an organizationally excellent, cost-effective, customer-  
6 focused utility.

7 **Q: Why should these costs be recovered from ratepayers over a five-year period?**

8 A: The Company recognizes that this was a special program designed to ensure that we  
9 had skilled, productive, customer-focused employees in place that could help KCPL  
10 to execute these most important projects necessary to continue to provide efficient  
11 and reliable service to our customers. Because the program costs do not recur  
12 annually and because the benefits will extend for several years, the Company selected  
13 a five-year amortization period.

14 **Q: Please summarize the Company's position regarding the Talent Assessment**  
15 **Program severance, outplacement, and payroll tax costs.**

16 A: The Company proposes that these costs be deferred in a regulatory asset and  
17 amortized into rates over a five-year period, or \$1,869,404 annually (total Company).  
18 These costs were necessary to ensure the appropriate human capital for the Company  
19 to achieve the goals of the Comprehensive Energy Plan and Strategic Intent. Our  
20 goal was and continues to be to ensure we have employees with the knowledge, skills,  
21 ability, and desire to run an operationally excellent, cost-effective, customer-focused,  
22 reliable utility.



1   **Q:   Please address the issues around the second set of severance costs. Does KCPL**  
2       **routinely incur severance costs?**

3   A:   Yes, it does. The Company incurs some amount of severance cost each year. There  
4       are many reasons severance cost is incurred, including changing job requirements,  
5       corporate reorganization and downsizing. As the Company continues to position  
6       employees within the organization to implement its strategic intent and achieve Tier 1  
7       levels for cost, reliability, customer service, etc., severance costs will continue to be  
8       incurred. Company management takes seriously our responsibility to ensure we have  
9       the human capital capable of delivering outstanding, reliable service at an economical  
10      price. Severance is an ongoing cost to accomplish this.

11   **Q:   What ratemaking treatment is the Company proposing in regard to the other**  
12      **severance costs?**

13   A:   The Company recommends a three-year average be included in cost of service.  
14       KCPL's recommended three-year average severance amount to be included is  
15       \$520,022 (total Company) and is representative of an ongoing level of severance  
16       costs.

17   **Q:   What ratemaking treatment did Mr. Hyneman propose for these costs in his**  
18      **Direct Testimony in this rate case?**

19   A:   Mr. Hyneman proposes that the Company's claim for recovery of these costs be  
20       denied.

21   **Q:   On what basis does Mr. Hyneman base his proposal?**

22   A:   Mr. Hyneman appears to have four concerns:

- 1 (1) "severance costs are not recurring costs of the type that should borne by  
2 regulated customers;  
3 (2) "nor are they expenditures that will result in any payroll savings costs;  
4 (3) "that only KCPL shareholders, and not its customers, receive the benefits  
5 of these costs"; and  
6 (4) that KCPL double or triple recovers the cost of the severance by  
7 recovering the payroll costs for this employee until rates are changed.

8 **Q: Please address each of these concerns.**

9 A: Regarding the first point, and as discussed above, severance costs are recurring and  
10 routine. These costs should be borne by regulated customers because such costs are  
11 necessary in order to hire and retain the appropriate employees within the  
12 organization to implement the Company's Strategic Intent and achieve Tier 1 levels  
13 for cost, reliability, customer service, etc.

14 **Q: Please address the second concern.**

15 A: In some cases the severing of an employee does result in payroll cost savings, if the  
16 position is not filled or multiple positions are re-aligned. However, in most cases Mr.  
17 Hyneman is correct in stating that payroll costs are not eliminated. However, this  
18 should not translate into a disallowance because such costs are also necessary in order  
19 to hire and retain the appropriate employees within the organization to implement the  
20 Company's Strategic Intent and achieve Tier 1 levels for cost, reliability, customer  
21 service, etc. Additionally, as the Commission ruled in KCPL's last rate case, the  
22 payroll annualization only reflected actual employees expected to be currently

1 employed and on the payroll at the True Up date and did not include any job  
2 vacancies.

3 **Q: Please address the third concern.**

4 A: Severance is a customary tool that many companies, including KCPL, use to assist in  
5 managing availability of the right talent within the organization. These payments  
6 help us to retain the right people to provide excellent service to our customers.

7 **Q: Please address Mr. Hyneman's fourth concern.**

8 A: Mr. Hyneman's premise is that the terminated employee's position is not filled and  
9 that ratepayers continue to pay for the terminated employee long after he/she leaves  
10 the Company, until rates are reset. However, as Mr. Hyneman assumes in his second  
11 concern, in most cases the terminated employee is replaced by another employee, in  
12 which case ratepayers continue to pay for one employee until the next rate case when  
13 the new employee, and not the terminated employee, is included in the payroll  
14 annualization. The fact that, in this scenario, ratepayers are technically paying for the  
15 terminated employee and not the new employee in the period between termination  
16 and re-setting of rates is a moot point provided the pay scales of the two are similar.  
17 If rates were set based on full complements (*i.e.*, currently filled as well as unfilled  
18 positions), I would agree with his position. However, the Staff has taken the position  
19 and the Commission agreed in the last KCPL rate case to exclude unfilled positions,  
20 even if offers were extended to personnel and they had accepted the offer, but were  
21 not currently on the Company's premises and its payroll as an employee.

22 **Q: Please summarize the Company's position regarding the other severance costs.**

1 A: These costs are a recurring, necessary cost of business that allow the Company to hire  
2 and retain employees to implement the Company's Strategic Intent and achieve Tier 1  
3 levels for cost, reliability, customer service, etc. As such, the costs should be borne  
4 by ratepayers and Mr. Hyneman's proposed adjustment should be rejected.

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

6 A: Yes, it does.

In the Matter of the Application of Kansas City )  
Power & Light Company to Modify Its Tariff to ) Case No. ER-2007-0291  
Continue the Implementation of Its Regulatory Plan )

**STATE OF MISSOURI            )**  
   **) ss**  
**COUNTY OF JACKSON          )**

1. My name is Lora C. Cheatum. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice-President, Administrative Services.

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.

Lora C. Cheatum

Subscribed and sworn before me this 30<sup>th</sup> day of August 2007.

**Notary Public**

My commission expires: Feb. 4 2011

