

Notice of *Ex Parte* Contact

TO: Data Center
All Parties to Case No. ER-2007-0291

FROM: Ronald D. Pridgin
Senior Regulatory Law Judge

DATE: January 23, 2008



On January 22, 2008, I received the attached e-mails from Charles Hyneman, an employee of the Commission, discussing and quoting from the Report and Order in the above-mentioned case. The Commission is bound by the same *ex parte* rule as a court of law; that is, to avoid off-the-record discussions going to the merits of the contested case.

The e-mail appeared to be inadvertently sent to me, and intended instead to only be sent to Staff auditors, as Mr. Hyneman stated in a second e-mail, which is also included with this notice. Nevertheless, I am submitting the e-mails into the official case file.

Attachment

cc: Commissioners
Executive Director
Secretary/Chief Regulatory Law Judge
General Counsel

From: Hyneman, Chuck
Sent: Tuesday, January 22, 2008 11:46 AM
To: All (KC) PSC; All (JC) PSC; All (STL) PSC
Subject: Commission Policy on Severance

In case some of you didn't see it, the Staff got pretty good Commission language on severance costs in KCPL's last Report and Order ER-2007-0291.

ER-2007-0291 Report and Order:

9. Employee Severance Cost: Should the severance costs of KCPL employees terminated for reasons other than KCPL's talent assessment program be included in cost of service for setting KCPL's rates?
a If so, is it appropriate to include a three-year average of those costs?

Discussion

KCPL states that it incurs routine and recurring severance costs due to changing job requirements, corporate reorganizations, and downsizing.¹⁹¹ Severance payments are a helpful and legitimate business tool to ensure that the Company has the human capital capable of delivering outstanding, reliable service at reasonable prices. These costs should be included in rates since such costs are necessary in order to hire and retain the appropriate employees within the organization to implement the Company's strategic goals and continue to achieve Tier I levels for cost, reliability and customer service. KCPL is requesting that a three-year average of severance payment amounts be included in the revenue requirement as representative of its ongoing level of severance costs.¹⁹² Staff argues that KCPL incurred these severance costs to protect shareholders and they did not have the effect of decreasing payroll; therefore, these costs should not be included in cost of service.¹⁹³ Staff reminds the Commission that KCPL made this same proposal in its 2006 rate case, Case No. ER-2006-0314, the Commission rejected it, and that KCPL has not provided anything new to persuade the Commission to change a position it took less than 12 months ago.

Findings of Fact

As it found in KCPL's last rate case, the Commission again finds that these severance costs largely protect shareholders against litigation, and they did not have the effect of decreasing payroll; therefore, these costs should not be included in cost of service. KCPL did not seek to eliminate those positions and, indeed, the pay for those positions was still being recovered from ratepayers in rates. In fact, KCPL is increasing payroll, not decreasing it.

From: Hyneman, Chuck
Sent: Tuesday, January 22, 2008 12:02 PM
To: All (JC) PSC
Subject: Sorry - this message was just supposed to go to JC Utility Services Auditing. Sorry for the inconvenience.