

*Exhibit No.:*

*Issues: Incentive Compensation,  
Supplemental Executive Retirement  
Plan (SERP), Other Executive  
Bonuses, Maintenance Expense,  
Regulatory Expense, and Accumulated  
Deferred Income Taxes-Rate Base*

*Witness: V. William Harris*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Direct Testimony*

*Case No: ER-2006-0314*

*Date Testimony Prepared: August 8, 2006*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**V. WILLIAM HARRIS, CPA, CIA**

**KANSAS CITY POWER AND LIGHT**

**CASE NO. ER-2006-0314**

**Jefferson City, Missouri  
August 2006**

**\*\*Denotes Highly Confidential Information\*\***

**NP**

**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 Begin the Implementation of Its Regulatory Plan. )

Case No. ER-2006-0314

**AFFIDAVIT OF V. WILLIAM HARRIS**

STATE OF MISSOURI     )  
                                  )  
COUNTY OF COLE     )     ss.

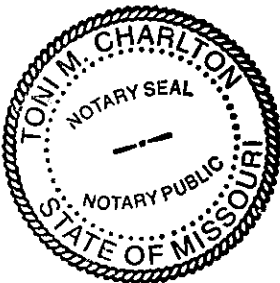
V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 23 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
V. William Harris

Subscribed and sworn to before me this 4<sup>th</sup> day of August 2006.



TONI M. CHARLTON  
Notary Public - State of Missouri  
My Commission Expires December 28, 2008  
Cole County  
Commission #04474301



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**V. WILLIAM HARRIS, CPA, CIA**

**KANSAS CITY POWER and LIGHT**

**CASE NO. ER-2006-0314**

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**DIRECT TESTIMONY**  
**OF**  
**V. WILLIAM HARRIS, CPA, CIA**  
**KANSAS CITY POWER AND LIGHT**  
**CASE NO. ER-2006-0314**

Q. Please state your name and business address.

A. V. William Harris, Fletcher Daniels State Office Building, Room G8,  
615 East 13<sup>th</sup> Street, Kansas City, Missouri 64106.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Auditor with the Missouri Public Service  
Commission (Commission or PSC).

Q. Please describe your educational background.

A. I graduated from Missouri Western State College at St. Joseph, Missouri in  
1990, with a Bachelor of Science degree in Business Administration, with a major in  
Accounting. I successfully completed the Uniform Certified Public Accountant (CPA)  
examination in 1991, and subsequently received the CPA certificate. I am currently licensed  
as a CPA in the state of Missouri. I also successfully completed the Uniform Certified  
Internal Auditor (CIA) examination in 1995, and am currently certified as a CIA by the  
Institute of Internal Auditors in Altamonte Springs, Florida.

Q. Please describe your employment history.

A. From 1991 until I assumed my current position as a Utility Regulatory Auditor  
with the Commission in 1994, I was employed as a Regulatory Auditor with the  
Federal Energy Regulatory Commission in Washington, DC. Prior to that, I was an

1 Internal Auditor and Training Supervisor with Volume Shoe Corporation  
2 (d/b/a Payless ShoeSource).

3 Q. What are your responsibilities with the Commission?

4 A. I am responsible for directing, or assisting, in the audits and examinations of  
5 the books and records of regulated utility companies operating within the state of Missouri.

6 Q. Have you previously filed testimony before this Commission?

7 A. Yes. I have attached a list of the cases in which I have filed testimony before  
8 this Commission as Schedule VWH-1 of my direct testimony.

9 Q. With reference to Case No. ER-2006-0314, have you examined and studied the  
10 books and records of Kansas City Power and Light (KCPL or Company)?

11 A. Yes, in conjunction with other members of Commission Staff (Staff).

12 Q. What is the purpose of your direct testimony in this proceeding?

13 A. The purpose of my direct testimony in this proceeding is to present Staff's  
14 recommendations concerning incentive compensation, supplemental executive retirement  
15 plan, other executive bonuses, maintenance expense, regulatory expense, and accumulated  
16 deferred income taxes as an offset to rate base.

17 Q. What knowledge, skill, experience, training, or education do you have in these  
18 matters?

19 A. I have acquired general knowledge of these topics through my experience and  
20 analyses in prior rate, complaint and merger cases before this Commission. I also acquired  
21 knowledge of these topics through the review of the Staff's work papers and testimony in  
22 prior rate, complaint and merger cases. I have reviewed prior Commission decisions  
23 regarding these areas. I also reviewed the Company's testimony, work papers and responses

1 to the Staff's Data Requests (DR) addressing these topics. I have attended numerous rate  
2 schools and training symposiums sponsored by this Commission, other state commissions and  
3 the National Association of Regulatory Utility Commissioners (NARUC). I earned a  
4 Bachelor of Science degree in Business Administration; with an emphasis on accounting  
5 (coursework included auditing and advanced auditing classes). I successfully completed the  
6 Certified Public Accountants Exam (which included sections on accounting practice,  
7 accounting theory, and auditing) and the Certified Internal Auditors Exam. Finally, I am  
8 currently licensed in the State of Missouri to practice these professions.

9 Q. What adjustments are you sponsoring in this case?

10 A. I am sponsoring the following Income Statement adjustments to the Staff's  
11 Accounting Schedules:

12 Incentive Compensation: S-8.2, S-39.3, S-48.2, S-55.2, S-65.2,  
13 S-69.2, S- 72.5 and S-72.6

14 Supplemental Executive Retirement Plan (SERP): S-78.5

15 Other Executive Bonuses: S-72.7

16 Maintenance Expense: S-14.2, S-14.3, S-15.2, S-15.3, S-16.2,  
17 S-16.3, S-16.4, S-17.2, S-17.3, S-17.4,  
18 S-17.5, S-24.2, S-25.2, S-26.2, S-27.2,  
19 S-28.2, S-33.2, S-34.2, S-34.3, S-46.2,  
20 S-47.2, S-57.2, S-58.2, S-59.2, S-60.2,  
21 S-61.2, S-62.2, S-63.2 and S-64.2

22 Regulatory Expense: S-79.2 and S-79.3

23 **EXECUTIVE SUMMARY**

24 Q. Please summarize your direct testimony in this proceeding.

1           A.     My testimony primarily addresses the areas of incentive compensation,  
2 supplemental executive retirement plan, other executive bonuses, maintenance expense,  
3 regulatory expense, and the accumulated deferred income tax balance as an offset to rate base.

4           I adjusted the test year short term incentive compensation to eliminate compensation  
5 based on financial goals tied to earnings per share (EPS). It is Staff's position that  
6 maximizing EPS and/or return on equity (ROE) benefits shareholders. Therefore, the  
7 incentive compensation paid to achieve an EPS goal should be assigned to the shareholders. I  
8 eliminated long-term incentive compensation to executive management (restricted stock and  
9 performance shares) in total because it is based solely on achieving financial goals that chiefly  
10 benefit shareholders and does not result in a cash payment by KCPL.

11           I replaced the 2005 Financial Accounting Standard (FAS) 87 test year level of  
12 supplemental executive retirement plan (SERP) costs to represent a normalized level of SERP  
13 benefit payments based upon a 3-year historical analysis of actual annual payments.  
14 (I discuss the normalization process at length later in my direct testimony.) KCPL does not  
15 fund its SERP plan. Accrual accounting under Financial Accounting Standard (FAS) 87 for  
16 pension cost is not recommended for ratemaking purposes unless a company commits to  
17 funding the amounts collected in rates.

18           I also disallowed two discretionary executive bonuses because the criteria supporting  
19 the bonus awards were not related to providing electric service to KCPL's ratepayers.

20           I adjusted the 2005 test year level of maintenance expense to represent a normalized  
21 level of maintenance based upon an historical analysis of actual costs with additional  
22 consideration for maintenance levels for the newer generating units.

1 I adjusted regulatory expense to reflect known and measurable changes in the annual  
2 PSC assessment and actual on-going rate case expense for this case. I will continue to adjust  
3 rate case expense as new charges become known and measurable and amortize the total over a  
4 three-year period.

5 The accumulated deferred income tax balance was determined as of June 30, 2006, for  
6 rate base recognition. The applicable deferred income tax balances were treated as an off-set  
7 to rate base as shown on Accounting Schedule 2-1, sponsored by Staff witness  
8 Phillip K. Williams.

## 9 **INCENTIVE COMPENSATION**

### 10 **Overview**

11 Q. What incentive compensation plans are available to KCPL employees?

12 A. KCPL and its parent company, Great Plains Energy (GPE), provide separate  
13 annual (short-term) incentive compensation plans for their executives and their non-union  
14 management employees. Incentive compensation from GPE is charged to KCPL on an  
15 allocated basis. The Company also offers an incentive compensation plan, called the  
16 Rewards Plan, to its bargaining unit (union) employees that is not part of the negotiated  
17 compensation and benefits plan KCPL has with its union employees. Within its non-union  
18 management incentive plan, KCPL has a separate plan for management positions in its  
19 Power Sales and Services (PS&S) department. This plan is called the Power Marketing  
20 Group (PMG) incentive plan. The PS&S department engages in transactions in the  
21 interchange market.



1 In addition to the short-term incentive plans, GPE and KCPL executives are also  
2 eligible to participate in a long-term incentive plan which awards company stock to senior  
3 executives and officers.

4 I have attached all of the above plans as schedules to my direct testimony as follows:

5 Schedule VWH-2 – GPE/KCPL Executive Annual Incentive Plan

6 Schedule VWH-3 – GPE (KCPL) ValueLink Plan (non-union  
7 management)

8 Schedule VWH-4 – GPE (KCPL) Rewards Plan (non-negotiated plan  
9 for bargaining unit employees)

10 Schedule VWH-5 – Power Marketing Group (PMG) Incentive Plan

11 Schedule VWH-6 – GPE (KCPL) Long-Term Incentive Plan

12 **ANNUAL (SHORT-TERM) INCENTIVE PLANS**

13 Q. What criteria did GPE/KCPL use in awarding annual incentive compensation  
14 to employees?

15 A. All of KCPL's short-term incentive plans operate under a two-step process.  
16 The funding of the entire award under each plan is determined by GPE corporate EPS. After  
17 the funding level has been determined, the incentive compensation pool funds are distributed  
18 to employees based upon financial, operational and personal goals. EPS is the primary goal  
19 for all of the GPE and KCPL incentive compensation plans.

20 The annual GPE corporate EPS goal is set and approved by the  
21 Compensation and Development Committee of the Board of Directors. The GPE corporate  
22 EPS goal is subject to an established threshold, target and maximum level. Each plan pays  
23 out 100% at the target level. Fifty percent of the incentive fund pool is payable at the  
24 threshold level and 150% is payable at the maximum level. The GPE corporate EPS pay-out

1 levels for the period January 1, 2005, through December 31, 2005, were established at EPS of:  
2 threshold-\$2.05, target - \$2.16 and maximum - \$2.25. All of the aforementioned short-term  
3 plans for the 2005 test year were funded and paid out at the maximum 150% level. The  
4 corresponding \$2.25 EPS resulted in an equivalent 14.2% Return on Equity (ROE) for GPE  
5 (response to Data Request 404).

6 Q. How did KCPL's EPS and equivalent ROE compare to the threshold?

7 A. KCPL's EPS of \$1.96 (equivalent ROE of 12.4%) was below the threshold  
8 (response to Data Request 405). Had KCPL's EPS been used as the benchmark, no KCPL  
9 employee would have received incentive compensation for 2005.

10 Q. How does KCPL's 2005 ROE compare to other utilities in the state?

11 A. The 12.4% ROE earned in 2005 by KCPL is well above any ROE allowed by  
12 the Missouri Commission in recent years. The primary goal underlying all of KCPL's  
13 incentive compensation plans is maximizing EPS, and as a result ROE.

14 Q. After funding the incentive plans at the 150% maximum, how was incentive  
15 compensation distributed to GPE and KCPL employees?

16 A. After determining the total amount of incentive compensation to be paid out,  
17 GPE/KCPL determined the distribution through a series of corporate, divisional, and  
18 individual goals/scorecards. There would have been no payment for any GPE/KCPL,  
19 divisional or individual goals if the GPE EPS threshold (corresponding ROE of 12.9%) had  
20 not been met.

21 Q. Did every employee meet or exceed his/her corporate, divisional, and  
22 individual goals/scorecards?

23 A. No.

1 Q. How did GPE/KCPL treat incentive awards it funded but did not pay to  
2 individuals whose personal performance fell short of goal/scorecard standards?

3 A. Those awards were added back into the allowed funding level and redistributed  
4 to employees who achieved the stated goals. This treatment resulted in distributing a full  
5 150% payout even though all goals were not achieved at the maximum 150% level.

6 Q. What were the scorecard goals of each plan and how was each goal weighted?

7 A. The GPE/KCPL executive plan goals were generally based on financial  
8 performance (EPS), customer service, internal productivity, and learning & innovation. The  
9 GPE/KCPL executive plan was weighted 80% GPE/KCPL scorecard and 20% individual  
10 performance. The 80% GPE/KCPL scorecard includes a 40% weighting for the EPS goal.  
11 This results in a payout for EPS of 32% (80% times 40%). The other goals included in the  
12 GPE/KCPL scorecard (customer service, internal and learning) represent 48% of the total  
13 payout (80% times 60%). Individual performance (20%) scorecard goals were not strictly  
14 defined and were determined solely at the discretion of management. The total payout under  
15 the executive incentive plan can be summarized as follows:

16	EPS goal	32%
17	Customer, Internal and Learning goals	48%
18	<u>Individual goals</u>	<u>20%</u>
19	Total Executive Payout	100%

20 The GPE/KCPL non-union management plan (ValueLink) was weighted  
21 40% GPE/KCPL scorecard which was 40% EPS driven (see above), 40% Divisional  
22 scorecard and 20% Individual performance. Divisional goals were roughly based on the same  
23 performance standards as the executive plan goals (financial, customer, internal and learning)

1 except that financial goals were not EPS driven. For example, the financial goal for KCPL's  
2 Accounting Division related to actual cost compared to budget. The Staff's recommended  
3 disallowance adjustment does not include financial goals that relate to controlling operations  
4 and maintenance costs. Individual goals were not strictly defined and were determined solely  
5 at the discretion of Division senior management. The Power Marketing Group Incentive Plan  
6 was weighted using generation results, PMG profit results and individual performance.  
7 Weighting was at 20% generation-60% PMG profit or 40% generation-  
8 40% PMG profit-(depending on participant's position) and 20% individual. The PMG group  
9 is responsible for conducting interchange sales transactions. The Staff's recommended  
10 disallowance for EPS related goals did not consider the net profit goal under the PMG  
11 incentive plan. As I discuss later, ratepayers benefit from the profit earned from interchange  
12 sales transactions and, therefore, ratepayers should be responsible for reasonably designed and  
13 developed employee incentive compensation paid to maximize profits from KCPL  
14 interchange sales transactions.

15 The GPE/KCPL non-negotiated plan for bargaining unit employees (Rewards Plan)  
16 was weighted 50% GPE/KCPL scorecard (which in turn is 40% EPS driven) and  
17 50% Divisional scorecard. Divisional goals are the same as those in the ValueLink  
18 management plan. The Rewards plan had no component for individual performance.

19 Q. What are "scorecard" goals?

20 A. Scorecard goals represent a mechanism that the Company uses to measure  
21 performance of the individual departments and divisions to identify if objectives of the  
22 Company's operation are being met. It is a device that was developed by the Company with

1 the assistance of an outside compensation consultant to measure the rewards paid out in the  
2 incentive compensation plans.

3 Q. Is the Staff proposing to eliminate incentive compensation payouts that were  
4 tied to GPE/KCPL financial goals?

5 A. Yes, for the financial goals which were EPS driven. Staff is proposing to  
6 eliminate 32% of the GPE executive plan award allocated to KCPL (40% EPS goal times  
7 80% scorecard), 32% of the KCPL executive plan award, 16% of the ValueLink award  
8 (40% EPS – 40% scorecard) and 20% of the Rewards plan (40% EPS – 50% scorecard).

9 Q. Do ratepayers benefit from maximizing EPS and ROE?

10 A. No. Shareholders benefit from incentive compensation tied to maximizing  
11 EPS/ROE and other return on capital measurements.

12 Q. Did Staff eliminate incentive compensation paid under the  
13 Power Marketing Group plan related to the net profit goal?

14 A. No. The Power Marketing Group has responsibility for interchange sales  
15 transactions. A regulated utility is expected to engage in sales to other utilities whenever it  
16 has capacity available after meeting its native load requirements. Since ratepayers are  
17 responsible for paying all reasonably incurred costs for owning and operating the electric  
18 system such as the return on investment, fuel costs, operations & maintenance costs, and  
19 depreciation related to generation and transmission facilities, the profit earned from engaging  
20 in interchange sales should be used to mitigate the generation related costs to ratepayers.  
21 Ratepayers benefit from the net profit generated by the Power Marketing Group department.  
22 Incentive compensation related to a net profit goal that is tied to interchange sales is fairly  
23 assigned to ratepayers.

1           Q.     Is Staff proposing to disallow KCPL recovery of any other incentive  
2 compensation in this case?

3           A.     Yes. Except for the Rewards plan that is provided to KCPL's bargaining unit  
4 employees, approximately 20% of the incentive compensation paid under the 2005 incentive  
5 plans represents discretionary payments.

6           Q.     Why is Staff opposed to recovery in rates of discretionary employee incentive  
7 compensation payments?

8           A.     KCPL should only be allowed recovery in rates of employee incentive  
9 compensation if ratepayers benefit from the achievement of the goals supporting the incentive  
10 compensation awards. KCPL did not provide the Staff with any defined goals supporting the  
11 discretionary incentive compensation awards (responses to Data Requests 220.2, 376,  
12 and 406). Without defined goals, the Staff has no basis for concluding KCPL's ratepayers  
13 benefit from this discretionary employee incentive compensation paid by KCPL and GPE in  
14 2005.

15          Q.     Has the Commission expressed its view on the appropriate rate treatment of  
16 employee incentive compensation plans?

17          A.     Yes. In its Report and Order issued in Case Nos. EC-87-114 and EC-87-115,  
18 in the 1987 Union Electric Company complaint case, the Commission expressed its view  
19 relating to incentive plans that do not have clearly defined and measurable goals:

20                   At a minimum, an acceptable management performance plan should  
21 contain goals that improve existing performance, and the benefits of the  
22 plan should be ascertainable and reasonably related to the incentive  
23 plan. The Company's management incentive plan meets neither of  
24 these minimum standards. Accordingly, the Commission determines  
25 that the Company's adjustment should be rejected. *29 Mo.P.S.C. (N.S.)*  
26 *313, 325 (December 21, 1987).*

1 In its Report and Order issued in Case Nos. GR-96-285, et al., in the 1996  
2 Missouri Gas Energy (MGE) rate case, the Commission stated its opinion relating to incentive  
3 plans developed using financial measures:

4 The Commission finds that the costs of MGE's incentive compensation  
5 program should not be included in MGE's revenue requirement  
6 because the incentive compensation program is driven at least  
7 primarily, if not solely, by the goal of shareholder wealth  
8 maximization, and it is not significantly driven by the interests of  
9 ratepayers. 5 *Mo.P.S.C.3d* 437, 458 (January 22, 1997).

10 The Commission reiterated its position in its Report and Order in  
11 Case No. GR-2004-0209, Missouri Gas Energy's 2004 rate case:

12 The Commission agrees with Staff and Public Counsel that the  
13 financial incentive portions of the incentive compensation plan should  
14 not be recovered in rates. Those financial incentives seek to reward the  
15 company's employees for making their best efforts to improve the  
16 company's bottom line. Improvements to the company's bottom line  
17 chiefly benefit the company's shareholders, not its ratepayers. Indeed  
18 some actions that might benefit a company's bottom line, such as a  
19 large rate increase, or the elimination of customer service personnel,  
20 might have an adverse effect on ratepayers. If the company wants to  
21 have an incentive compensation plan that rewards its employees for  
22 achieving financial goals that chiefly benefits shareholders, it is  
23 welcome to do so. However, the shareholders that benefit from that  
24 plan should pay the costs of that plan. The portion of the incentive  
25 compensation plan relating to the company's financial goals will be  
26 excluded from the company's cost of service revenue requirement. 12  
27 *Mo.P.S.C.3d* 581, 606-07 (Sept. 21, 2004).

28 **LONG-TERM INCENTIVE PLAN (LTIP)**

29 Q. What types of compensation do GPE/KCPL award in the Long-Term Incentive  
30 Plan (LTIP)?

31 A. The LTIP includes three types of equity compensation: restricted stock,  
32 performance shares, and stock options.

1 Q. Why are restricted stock, performance shares, and stock options referred to as  
2 equity compensation?

3 A. All three forms of compensation result in the issuance of company stock as  
4 payment. Unlike other forms of compensation, KCPL does not require cash to award equity  
5 compensation.

6 Q. Why does Staff propose to disallow the LTIP awards?

7 A. The Staff opposes cost-of-service recovery for these LTIP awards for three  
8 primary reasons:

9 (1) The awards were based on total shareholder returns, EPS, and other  
10 financially-driven goals.

11 (2) The awards were either made with restricted stock, performance shares, or  
12 stock option grants and thus, are equity-based compensation. Equity based  
13 compensation does not result in cash outlay to the Company and should not be  
14 treated as such for rate recovery.

15 (3) KCPL's requested recovery of equity compensation includes two different  
16 long-term incentive awards. Both awards are based on results for 2005 and  
17 2006. KCPL is asking that its ratepayers pay double for KCPL's financial  
18 results for 2005 and 2006.

19 Q. Can you elaborate on why the equity-based nature of the awards is so  
20 important?

21 A. As stated in the Company's response to Data Request 222.1,  
22 "Equity compensation has no cash effect to KCPL as all awards are in the form of  
23 GPE stock."



1           When a stock option, performance share or restricted stock grant is granted, no cash is  
2 exchanged. The stock-related grant gives the grantee an option (right) to purchase stock at a  
3 future date at the exercise price. No cash is paid out at the time of the grant/option or at the  
4 time the grant/option is exercised to acquire company stock. Moreover, when the grant/option  
5 is exercised, the grant/option-holder pays cash to the Company and the Company issues stock.  
6 The Company does not pay out cash to the grant/option holder at either point. All other costs  
7 included in the cost-of-service (payroll, employee benefits, fuel, maintenance, taxes, etc.)  
8 require a cash outlay by the Company.

9           Furthermore, the tax impacts to the Company resulting from paying cash  
10 compensation to an employee and granting a stock option or stock grant are also substantially  
11 different. When the Company pays cash compensation to an employee, the Company gets a  
12 tax deduction on its tax return. When the Company grants a stock option or stock grant, there  
13 is no associated tax deduction.

14           Q.    Is there any other basis for excluding employee long-term incentive  
15 compensation from rate recovery?

16           A.    The LTIP includes a “change in control” provision. If another company  
17 acquires 20% or more of GPE’s stock, then all the outstanding stock options, performance  
18 shares and restricted stock vest immediately. A change in control provision is intended to  
19 protect shareholder interests by making it more costly to the acquiring company. Incentive  
20 plans which include change in control provisions are intended to protect shareholder interests  
21 and provide a “golden parachute” to executive management. Ratepayers do not benefit from a  
22 change in control provision.

1 Q. Are the EPS goals under the LTIP related to both regulated and unregulated  
2 operations of GPE?

3 A. Yes. GPE's EPS consists of KCPL's regulated earnings and the earnings of  
4 GPE's unregulated subsidiary – Strategic Energy. Strategic Energy manages electricity  
5 procurement for commercial, institutional, and government customers in states that offer retail  
6 electricity choice. For more information on Strategic Energy please refer to the direct  
7 testimony of Staff witness Graham A. Vesely.

8 Q. Has the Commission previously addressed the appropriate rate treatment of  
9 long-term incentive plans which are based in part on earnings from unregulated operations?

10 A. Yes. In its Report and Order issued in Case No. TC-89-14, et al.,  
11 Southwestern Bell Telephone Company (SWB), the Commission stated:

12 In the Commission's opinion the results of the parent corporation,  
13 unregulated subsidiaries, and non-Missouri portions of SWB, are only  
14 remotely related to the quality of service or the performance of SWB in  
15 the State of Missouri. Achieving the goals of SBC [the parent  
16 company] and unregulated subsidiaries is too remote to be a justifiable  
17 cost of service for Missouri ratepayers. Accordingly, the Staff's  
18 proposed disallowances in the senior management's long-term and  
19 short term incentive plans...should be adopted. *29 Mo.P.S.C. (N.S.)*  
20 *607, 627 (June 20, 1989).*

21 The Commission reiterated its position in its Report and Order in Southwestern Bell's  
22 1993 complaint case, Case No. TC-93-224, et al.:

23 The structure of the plan provides an implicit incentive for participants  
24 to try to increase SBC's stock price. This in turn could encourage  
25 senior managers to spend a greater percentage of time on non-regulated  
26 companies and discourage time and effort spent on Missouri  
27 operations...The likelihood of SBC managers emphasizing whatever  
28 they perceive will cause the market to react favorably to SBC stock,  
29 including giving priority to unregulated subsidiaries, further convinces  
30 the Commission that Missouri ratepayers should not fund the long-term  
31 incentives. *2 Mo.P.S.C.3d 479, 531-32 (Dec. 17, 1993).*

1 Q. Should the Commission decide in this case to allow recovery of KCPL/GPE  
2 long-term incentive plan compensation in rates, does the amount of long-term incentive plan  
3 compensation KCPL paid in 2005 represent an appropriate amount for recovery in rates?

4 A. No. The 2005 level was an increase of 173% over the 2004 level  
5 (Data Request 316) and an increase of 148% over the 2003 level (Data Request 389).

6 Q. Please describe Adjustment S-72.6.

7 A. This adjustment removes \$1,668,100 (Data Request 261.1) of long-term  
8 incentive compensation charged to Account 920 – Administrative and General Salaries, in  
9 2005.

10 **SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

11 Q. What are the GPE and KCPL Supplemental Executive Retirement Plans  
12 (SERP)?

13 A. A SERP is a promise by a company to pay a future retirement benefit to its  
14 executives, over and above any qualified retirement plans that the company may sponsor.  
15 The principal objective of the GPE and KCPL SERPs, as stated in each plan, was to “ensure  
16 the payment of a competitive level of retirement income in order to attract, retain, and  
17 motivate selected executives, and to restore benefits which cannot be paid under the  
18 Company’s Qualified Pension Plan due to restrictions on benefits, contributions,  
19 compensation, or the like imposed under that plan.”

20 Q. How does KCPL account for the SERP for financial reporting purposes?

21 A. KCPL uses the accrual method, FAS 87, to account for SERP cost on its  
22 financial records.

1 Q. Haven't the Staff and KCPL agreed to use FAS 87 for determining pension  
2 cost for ratemaking purposes?

3 A. Yes. The parties to Case No. EO-2005-0329, KCPL's Regulatory Plan docket,  
4 agreed to use FAS 87 for ratemaking purposes with a requirement that KCPL fund FAS 87  
5 costs collected in rates.

6 Q. Does KCPL fund its SERP pension plan?

7 A. No. The funding requirements under the Employee Retirement Income  
8 Security Act (ERISA) do not apply to a SERP plan. KCPL has indicated it does not fund the  
9 SERP plan under a separate trust (Data Request 226).

10 Q. What ratemaking treatment is the Staff recommending for KCPL's SERP plan?

11 A. Because KCPL does not separately fund its SERP plan, Staff is recommending  
12 that KCPL's cost of the SERP plan be included in rates based upon its annual cash payouts to  
13 retirees.

14 Q. Please describe Adjustment No. S-78.5.

15 A. This adjustment reflects a 3-year average (2003-2005) of GPE allocated  
16 payments and KCPL actual payments for SERP benefits.

17 Q. Is the Staff's adjustment subject to change?

18 A. Yes. KCPL's response to Data Request 481 is still pending at this time. Staff  
19 expects KCPL's response to include GPE allocated payments and KCPL actual payments for  
20 SERP benefits for 2001 and 2002. Once the response is received, Staff will likely revise its  
21 adjustment to reflect a 5-year average for SERP benefit payments.

22 **OTHER EXECUTIVE BONUSES**

23 Q. Please describe Adjustment S-72.7.

1           A.     This adjustment removes two discretionary bonuses (Highly Confidential  
2 Data Request 368) paid to executives based on criteria unrelated to providing electric service  
3 to KCPL's ratepayers.

4           Q.     Please describe these discretionary bonuses.

5           A.     A former GPE employee was given a \*\* \$\_\_\_\_\_\*\* bonus for  
6 \*\* \_\_\_\_\_ \*\*. Another GPE  
7 employee was a given a \*\* \_\_\_\_\_\*\*bonus for \*\* \_\_\_\_\_  
8 \_\_\_\_\_\*\*.

9           Q.     Why is Staff removing these discretionary bonuses from cost-of-service?

10          A.     Staff is disallowing stock options, long-term incentive awards, and severance  
11 payments in this case. KLT Gas was a non-regulated subsidiary and costs related to its  
12 dissolution should not be born by Missouri ratepayers.

13           **MAINTENANCE EXPENSE**

14          Q.     Please explain adjustments S-14.2, S-15.2, S-16.2, S-17.2, S-24.2, S-25.2,  
15 S-26.2, S-27.2, S-28.2, S-33.2, S-34.2, S-46.2, S-47.2, S-57.2, S-58.2, S-59.2, S-60.2, S-61.2,  
16 S-62.2, S-63.2 and S-64.2.

17          A.     These adjustments normalize non-payroll maintenance expense for production  
18 (FERC Uniform System of Accounts 510-514, 528-532 and 551-554), transmission  
19 (Accounts 568-573) and distribution (Accounts 590-598) plant, respectively, during the test  
20 year.

21          Q.     What are normalization adjustments?

22          A.     Normalization adjustments reflect the removal of events or items within the  
23 test year that are non-recurring, or exhibit significant annual volatility and/or occur on an

1 infrequent basis. Normalization adjustments need to be made to the test year to achieve the  
2 appropriate investment/revenue/expense relationship based upon normal operations.

3 Q. What is the investment/revenue/expense relationship?

4 A. This relationship is critical to the determination of the overall revenue  
5 requirement. It is essential to keep the investment to serve customers on the same basis as the  
6 revenues and expenses. As an example, the amounts of expense for maintenance are  
7 normalized to ensure that an appropriate amount of costs is included in the rate structure so  
8 the Company does not over-collect or under-collect expenses. The expenses are annualized  
9 and normalized along with revenues so that the levels of sales in a given period have the  
10 proper level of costs associated with those revenues. The Company must have the proper  
11 level of plant investment to serve the customers that are providing the revenues for the electric  
12 service. All the material cost elements of utility operations are examined in a rate case and  
13 amounts are determined keeping the timing consistent with test year and known and  
14 measurable concepts.

15 Q. How did the Staff determine normalized maintenance expense for the test year  
16 ended December 31, 2005?

17 A. After removing Company payroll and fuel costs for production, transmission,  
18 and distribution maintenance, Staff examined the actual historical costs incurred to maintain  
19 the electrical system. Staff determined that a 6-year average of actual costs (2000 through  
20 2005) should be used to reflect non-payroll, non-fuel production, transmission, and  
21 distribution costs in the case. The adjustments restate the test year 2005 results to reflect the  
22 average costs described above.

1           Q.     Why were payroll and fuel costs not included in the analysis used to determine  
2 the amounts that should be reflected in the average for maintenance expense?

3           A.     Payroll is annualized separately in the ratemaking process. Therefore, any  
4 payroll costs recorded in the maintenance accounts must be removed to avoid double counting  
5 of such payroll costs. Staff witness Kimberly K. Bolin, is sponsoring the Staff's payroll  
6 adjustments. Fuel and fuel related costs were not included as part of Staff's analysis for  
7 production costs because these costs are also examined and adjusted separately. Staff witness  
8 Charles R. Hyneman is sponsoring the fuel adjustments in this case. Only actual maintenance  
9 costs were examined to determine the proper level of these non-payroll costs.

10          Q.     Is Staff recommending any additional maintenance adjustments?

11          A.     Yes. Staff is also recommending maintenance adjustments S-14.3, S-15.3,  
12 S-16.3, S-16.4, S-17.3, S-17.4, S-17.5 and S-34.3.

13          Q.     Please describe Adjustments S-14.3, S-15.3, S-16.3 and S-17.3.

14          A.     These adjustments remove the Grand Avenue plant maintenance expense from  
15 the normalization because this unit is no longer owned by KCPL. In 2005, KCPL removed  
16 the steam turbine generators at the Grand Avenue Generating Station that is now owned by  
17 Trigen Kansas City Energy (Trigen). Trigen purchased the district steam system from KCPL,  
18 who previously owned and operated Grand Avenue. Since the generating equipment is no  
19 longer in existence and capable of providing utility service, the costs should be removed.

20          Q.     Please describe Adjustment S-16.4.

21          A.     This adjustment reflects maintenance expense related to the Hawthorn 5 Unit  
22 based on a 3-year average from 2003-2005. After a boiler explosion in February 1999 the  
23 unit was being rebuilt during the remaining portion of 1999 and all of 2000, returning back

1 in-service in June 2001. As a result, 2000-2002 maintenance expense was significantly lower  
2 than in previous or subsequent years.

3 Q. Please describe Adjustments S-17.4 and S-17.5.

4 A. Adjustment S-17.4 normalizes Hawthorn Unit 5 turbine overhaul not reflected  
5 in Staff's 6-year average calculation. Adjustment S-17.5 normalizes LaCygne Unit 2 turbine  
6 overhaul not reflected in Staff's 6-year average calculation.

7 Q. How were these turbine overhaul maintenance adjustments calculated?

8 A. The frequency for a major turbine overhaul for these base-load coal units is six  
9 years. The expected cost of the Hawthorn Unit 5 turbine overhaul was divided by six years to  
10 determine the annual cost to be recovered in rates. The actual cost of the LaCygne Unit 2  
11 turbine overhaul (completed in the known and measurable period ending June 30, 2006) was  
12 also divided by six years to determine the annual cost to be recovered in rates.

13 Q. Please describe Adjustment S-34.3.

14 A. Adjustment S-34.3 reflects maintenance expense related to five newly-owned  
15 combustion turbines (CTs) that had been previously leased. These units are  
16 West Gardner 1 through 4 and Osawatomie 1.

17 Q. How did you assign an annualized cost to these previously leased CTs?

18 A. I compared them to KCPL's other CTs. The five previously leased CTs  
19 became operational in 2003 with accredited capacities of 77 megawatts (MW) each. The  
20 majority of KCPL's other CTs have larger capacities (111 to 136 MW) and are of an older  
21 vintage (1972 through 1997) except for Hawthorn Unit Nos. 7 and 8 (each being 2000 vintage  
22 and 77 MW capacity). I assigned an annualized cost to these 5 new CTs based on a 6-year  
23 historical average of Hawthorn Unit Nos. 7 and 8.



**REGULATORY EXPENSE**

Q. Please explain Adjustment S-79.2.

A. This adjustment annualizes the PSC assessment expense based on the known and measurable July 1, 2006, Commission assessment.

Q. Please describe Adjustment S-79.3.

A. This adjustment normalizes rate case expense over a three-year period.

Q. How was the rate case expense adjusted?

A. The total amount of actual rate case expense incurred, as of June 30, 2006, per Data Request 357, is being allowed at this time. Any additional cost that is a reasonably incurred rate case expense will be considered for inclusion later in the case. Some rate case costs such as, consulting fees, employee travel expenditures, and legal representation, are directly associated with the length of the case through the prehearing and hearing process. The Staff will work with KCPL to establish an ongoing normalized level of rate case expense for inclusion in rates.

**ACCUMULATED DEFERRED INCOME TAXES AS AN OFFSET TO RATE BASE**

Q. Are there any specific items that you are sponsoring on Accounting Schedule 2, Rate Base?

A. Yes, I am sponsoring the line item, accumulated deferred income taxes, that appears on Accounting Schedule 2, Rate Base, as a subtraction from net plant.

Q. Please explain the subtraction of accumulated deferred income taxes from net plant.

A. The balance of accumulated deferred income taxes included on Accounting Schedule 2 is composed of the accumulated deferred income tax balances as of

1 June 30, 2006. The deferred income taxes result from the timing differences relating to tax  
2 deductions taken in the determination of taxable income and when certain costs are reflected  
3 as expenses on the financial books of the company. The accumulated deferred income tax  
4 balance represents a source of cash to KCPL. Using the accumulated balance of deferred  
5 income taxes as an offset to rate base allows ratepayers the same rate of return on these funds  
6 as KCPL earns on its plant investment.

7 Q. Does this conclude your direct testimony?

8 A. Yes, it does.

## **V. William Harris**

### **Schedule of Testimony Filings**

<b>Case No.</b>	<b>Type</b>	<b>Company</b>
ER-95-279	Direct	Empire District Electric Company
GR-96-285	Direct, Rebuttal, Surrebuttal	Missouri Gas Energy (Southern Union Co.)
GR-97-272	Direct	Associated Natural Gas Company
EC-98-573	Direct, Rebuttal, Surrebuttal	St. Joseph Light and Power Company
HR-99-245	Direct, Rebuttal, Surrebuttal	St. Joseph Light and Power Company
GR-99-246	Direct, Rebuttal, Surrebuttal	St. Joseph Light and Power Company
ER-99-247	Direct, Rebuttal, Surrebuttal	St. Joseph Light and Power Company
EM-2000-292	Rebuttal	UtiliCorp United Inc., St. Joseph Light & Power
EM-2000-36	Rebuttal	UtiliCorp United Inc., Empire District Electric
EO-2000-845	Rebuttal	St. Joseph Light and Power Company
TT-2001-115	Rebuttal	Green Hills Telephone Corporation
TC-2001-401	Direct	Green Hills Telephone Corporation
ER-2001-299	Direct, Rebuttal, Surrebuttal	Empire District Electric Company
ER-2001-672	Direct, Rebuttal, Surrebuttal	UtiliCorp United Inc., dba Missouri Public Service
ER-2002-424	Direct	Empire District Electric Company

<b>Case No.</b>	<b>Type</b>	<b>Company</b>
ER-2004-0034 & HR-2004-0024 (Consolidated)	Direct	Aquila, Inc. d/b/a Aquila Networks- MPS (Electric), Aquila Networks-L&P (Electric & Steam)
GR-2004-0072	Direct, Rebuttal, Surrebuttal	Aquila, Inc. d/b/a Aquila Networks- MPS and Aquila Networks-L&P
ER-2005-0436	Direct	Aquila, Inc. d/b/a Aquila Networks- MPS and Aquila Networks-L&P
HR-2005-0450	Direct	Aquila, Inc. d/b/a Aquila Networks- MPS and Aquila Networks-L&P
HA-2006-0294	Rebuttal	Trigen-Kansas City Energy Corporation

Case Nos. GR-96-285, EM-2000-292, EM-2000-369, EO-2000-845, ER-2001-299 and HA-2006-0294 were litigated. All others were stipulated.

**Great Plains Energy Incorporated  
Kansas City Power & Light Company  
Annual Incentive Plan 2005**

**Amended March 7, 2005**

**Objective**

The Great Plains Energy/Kansas City Power & Light Company (KCP&L) executive Annual Incentive Plan (Plan) is designed to reward value creation by providing competitive incentives for the achievement of annual financial performance goals. By providing market-competitive target awards, the Plan supports the attraction and retention of senior executive talent critical to achieving Great Plains Energy's strategic business objectives.

Eligible participants include executives and other key employees of Great Plains Energy and KCP&L, as approved by the Compensation and Development Committee (Committee) of the Board of Directors.

**Target Awards**

Target award levels are approved by the Committee and set as a percentage of the executive's base salary. The percentages vary based on organizational responsibilities and market-compilation bonus levels based on industry data. The annual target award percentages of base salary are set forth on Appendix I attached hereto.

**EPS Performance Goal**

The size of the entire award under the Plan will be determined by corporate Earnings Per Shares (EPS). The annual corporate EPS goal is set and approved by the Committee. The annual corporate EPS goal for the current annual incentive plan year is set forth in Appendix II attached hereto.

The corporate EPS goal is subject to an established threshold, target and maximum levels. The Plan will pay out at 100% at target. Fifty percent of the incentive is payable at the threshold level of performance and 150% of the incentive is payable at the maximum level of performance. If performance falls below target but is above threshold, the amount of the award payable will be below the target award level. Similarly, performance above target will result in an award higher than target level.

**Individual Incentive Awards**

Individual incentive awards reflect a mix of Great Plains Energy and business unit/department performance along with individual discretionary factors; the current actual mix for each executive will be determined based upon his/her role and contribution to the organization in accordance with the chart set forth on Appendix III attached hereto. Individual awards will not be paid for executives if the corporate EPS performance falls below the threshold level for the year.

**Exceptions**

The EPS targets established for the plan period are fixed for the duration period and will only be changed upon the approval of the Committee. Each year, the Committee will approve the annual targets.

**APPENDIX I**

**Great Plains Energy Incorporated  
Kansas City Power & Light Company  
Annual Incentive Plan 2005**

**Proposed Target Incentive Award Levels  
(expressed as a percent of base salary)**

<u>Executive</u>	<u>Annual Target Award Opportunity</u>
<u>GPE</u>	
Chesser	60%
Downey	45%
Bassham	40%
Cline	30%
Curry	35%
Deggendorf	30%
English	30%
Kobayashi	30%
Latz	40%
Wright	30%
DeStefano	30%
<u>KCPL</u>	
Cheatum	30%
Crawford	30%
Easley	40%
Giles	30%
Herdegen	35%
Marshall	40%
Moore	30%
Riggins	30%
Rollison	30%
Spring	30%

**Great Plains Energy Incorporated  
Kansas City Power & Light Company  
Annual Incentive Plan 2005**

**EPS Target**

Following is the proposed corporate target for the period January 1, 2005 through December 31, 2005:

**Earnings Per Share**

	<u><b>GPE Reported Earnings</b></u>
Threshold - 50%	\$2.05
Target - 100%	\$2.16*
Max - 150%	\$2.25

At meeting will reconcile 2004 reported ongoing earnings of \$2.46 to the \$2.16 target for 2005.

\*\$2.16 excluded one-time severance payment of corporate top grading efforts.

**APPENDIX III****Annual Incentive Plan 2005****Weighting of Performance Goals**

	<b><u>Corporate Balanced Scorecard</u></b>	<b><u>KCPL Balanced Scorecard</u></b>	<b><u>Individual</u></b>
<b>Chairman &amp; CEO</b>	80%	0%	20%
<b>President &amp; COO</b>	40%	40%	20%
<b>Corporate Executives</b>	80%	0%	20%
<b>Operations Executives</b>	20%	60%	20%



**GREAT PLAINS ENERGY, INC.**  

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**2005 ValueLink Plan Document**

**Effective January 1, 2005**

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## **I. ELIGIBILITY**

All management employees below the Officer level who are scheduled to work a minimum of 24 hours per week are eligible to participate in the ValueLink program if they are employed by GPES, KCP&L or Worry Free (the "Company") continuously during the plan year.

Management employees hired during the plan year or employees transferred from the bargaining unit to management during the plan year are eligible to participate in the ValueLink program on a pro-rated basis.

Employees who are hired into a management position from November 1, 2005 to December 31, 2005 are not eligible to participate in the Plan.

## **II. KEY DEFINITIONS**

"Plan" or "the Plan" refers to the ValueLink Incentive Program

"Plan year" refers to the ValueLink plan year of January 1, 2005 to December 31, 2005.

"Employee" refers to an exempt or non-exempt management (non-bargaining unit) employee of the Company who is scheduled to work a minimum of 24 hours per week. Employees who are scheduled to work fewer than 24 hours per week are not eligible to participate in the ValueLink program.

"Company" refers to GPES, KCP&L or Worry Free, or all of these entities exclusively.

### III. PLAN FUNDING

The size of the ValueLink bonus pool amount for exempt and non-exempt employees will be determined based on corporate performance against the following goals:

GPE Earnings Per Share	Funding Level
2.05	50.0%
2.06	54.6%
2.07	59.1%
2.08	63.7%
2.09	68.2%
2.10	72.8%
2.11	77.3%
2.12	81.9%
2.13	86.4%
2.14	91.0%
2.15	95.5%

GPE Earnings Per Share	Funding Level
2.16	100.0%
2.17	105.6%
2.18	111.1%
2.19	116.7%
2.20	122.2%
2.21	127.8%
2.22	133.4%
2.23	138.9%
2.24	144.5%
2.25	150.0%

The plan will fund beginning at the threshold level of achievement at 50% of target (i.e. when GPE EPS = \$2.05). Funding of the plan above threshold will be based on a sliding scale of achievement and will not exceed maximum, or 150% of target (GPE EPS = \$2.25).

The monies funded in the plan, but not paid out for KCP&L or division performance, will be retained by GPE.

**There is no payment for any KCP&L, Division or individual performance goals if the corporate EPS threshold is not met.**

#### IV. PLAN STRUCTURE

There are three components that, when added together, constitute each employee's total bonus amount. The three components and their corresponding weights are as follows:

- 40% based on KCP&L Scorecard
- 40% based on Division Scorecard
- 20% based on Individual Performance

After adding all three of these bonus components, the total bonus amount each employee receives, as a percentage of salary will be within the following ranges for those employees in Salary Bands two (2) through eight (8). Similar payout ranges will apply for Salary Bands seven (7) through twelve (12).

Performance Rating	Low	Middle	High
Distinguished	6.25%	7.25%	8.25%
Successful +	6.0%	6.6%	7.5%
Successful	4.8%	6.0%	6.5%
Successful -	4.8%	5.4%	6.0%
Needs Improvement	0	4.8%	4.8%
Unacceptable	0	0	0

## V. AWARD CALCULATION –KCP&L PERFORMANCE (40% of Bonus)

For the KCP&L performance component of the ValueLink program, senior management has identified five key goals. Results for KCP&L performance will be based on a sliding scale of achievement against these stated goals from threshold (50%) to maximum (150%). The maximum goal levels in the scorecard allow the "make up" of underperformance on one goal with over performance on another goal. The maximum level of goal achievement for the KCPL scorecard goals is 100%. Payment above 100% will be based on achievement of corporate EPS goals.

The 2005 KCP&L goals are as follows:

Scorecard Perspective	Goal	Weight	Threshold 50%	Target 100%
Financial	KCP&L Earnings per Share	40%	\$1.86	\$1.91
Customer	JD Powers Customer Satisfaction Index (Residential)	15%	Score of 96	Score of 97-101
Customer	SAIDI (KCPL System-wide)	15%	91.5 minutes	65.8 minutes
Internal	Net Generation (Coal MWh)	15%	15.45 million MWh	15.85 million MWh
Learning & Innovation	Safety – OSHA Incidence Rate	15%	4.4	3.4

## **VI. AWARD CALCULATION – DIVISION SCORECARD (40% of Bonus)**

For 2005, division goals for management employees in KCP&L will be set by the division / department heads for the various KCPL divisions or departments and approved by the President, KCP&L.

For 2005, the SVP, Administration, the CFO, the VP, Public Affairs and the division / department heads for the various GPES divisions or departments will set division goals for the GPES business units and departments.

Division senior management will name four (4) to five (5) key goals (six for Generation) that come directly from the division balanced scorecard. There must be at least one goal representing each of the four major driver areas of the scorecard: Financial, Customer, Internal and Learning & Innovation.

Division results will be based on a sliding scale of achievement against these stated goals from threshold (50%) to target (100%) or divisional goals may be set so that they are achieved (100%) or not achieved (0%). Goals are weighted at the discretion of Division senior management. The Supply and Delivery organizations will include maximum levels at 150% to allow the "make up" of underperformance on one goal with over performance on another goal.

**Example:** Information Technology ("IT") has four (4) goals, with the customer goal weighted at 40% and the remaining three goals at 20% each. If they achieve all of their goals with the exception of one of the goals weighted at 20%, then the division achievement for IT is 80%.

## VII. AWARD CALCULATION – INDIVIDUAL PERFORMANCE (20% of Bonus)

Twenty percent of each employee's bonus will be calculated based on the employee's performance during the plan year, at the discretion of division senior management.

- Employees who are rated 'Unacceptable' for the period ending 12/31/05 are not eligible to receive a bonus (\$0).
- Employees who are rated 'Needs Improvement' for the period ending 12/31/05 are only eligible to receive the bonus components for KCP&L performance and division scorecard results. These employees will not receive the portion of their bonus tied to individual performance.
- Employees who are rated 'Successful -' for the period ending 12/31/05 are eligible to receive a bonus for both division and individual results. Employees who are rated 'Successful -' may receive a bonus that is less or equal to their target bonus amounts, based on their individual performance.
- Employees who are rated 'Successful' for the period ending 12/31/05 are eligible to receive a bonus for both division and individual results. Employees who are rated 'Successful' may receive a bonus that is **more or less** than their target bonus amounts, based on their individual performance.
- Employees who are rated either 'Successful +' or 'Distinguished', for the period ending 12/31/05, will not receive less than their target bonus. These employees may receive more than their target bonus amounts, based on the discretion of the division senior management.

The corporate compensation department will provide a set of guidelines in the form of a ValueLink matrix, outlining the suggested award ranges for the individual component based on the employees overall performance rating.



## VIII. AWARD CALCULATION – FIXED SALARY BAND PERCENTAGES

To calculate two of the three bonus components, KCP&L performance and Division Scorecard, the performance results will be applied to the percentage of salary shown below, depending on salary band. The percentages listed here only apply to the KCP&L and Division components.

Salary Band	Fixed Percentage of Salary for KCP&L and Division Bonus Components
2	6%
3	6%
4	6%
5	6%
6	6%
7	6%
8	6%
9	8%
10	10%
11	15%
12	18%

## IX. AWARD CALCULATION

Incentive award calculations for the plan year are based on an index number for each management employee's salary band and zone as of December 31, 2005.

The index numbers to be used in computing the bonus pool for the 2005 plan year are as follows:

Salary Band/ Zone	Index Number
2	\$30,500
3	\$37,500
4N	\$42,500
4E	\$42,500
5N	\$46,000
5A	\$49,500
5B	\$54,500
6N	\$56,000
6A	\$56,000
6B	\$63,500

Salary Band/ Zone	Index Number
7A	\$67,500
7B	\$76,500
8A	\$70,500
8B	\$77,500
9A	\$83,500
9B	\$90,500
10A	\$98,500
10B	\$105,500
11	\$117,500
12	\$135,500

For non-exempt employees, the ValueLink incentive award is considered part of the regular rate at which the non-exempt participant is employed and is considered in computing the regular hourly rate of pay and overtime compensation.

Part time employees have a work schedule of less than 40 hours, but greater than or equal to 24 hours per week. The ValueLink bonus pool will be funded for part time exempt employees based on the number of hours they are scheduled to work per week and the ValueLink Index number for their positions as of December 31, 2005

For example, if a part time employee works 24 hours per week, the amount of monies put into the bonus pool at target will be determined based on a computed ValueLink bonus amount, which will then be prorated by 60% (24/40).

The ValueLink bonus pool amount for part time non-exempt employees will be funded based on the number of hours they are scheduled to work and their regular hourly rate of pay.

## IX. AWARD CALCULATION (continued)

Exempt and non-exempt employees who retire, die or go onto long-term disability during the plan year will receive a bonus based on the number of months they were actively at work and the ValueLink Index number for the position they were in as of the date of retirement, death, or disability.

Exempt and non-exempt employees, who are on an approved absence for 13 weeks cumulative or more during the plan year, who return to work and receive a performance appraisal will receive a pro-rated bonus payment based on the number of months they were actively employed, computed plan results and their individual performance. An approved absence includes, but not limited to sick leave, long-term disability, and paid and unpaid leaves.

Exempt and non-exempt employees who are on an approved military leave during the plan year will receive a bonus payment. This bonus payment will NOT be pro-rated for the amount of time the employee was on military leave during the plan year. If an employee is on military leave at the time of the ValueLink bonus payment, they will receive the payment via direct deposit or check.

Exempt or non-exempt employees who are placed on a performance improvement plan during the plan year and are subsequently terminated for poor performance will receive no bonus. However, the ValueLink bonus amounts for these employees will be retained in the ValueLink bonus pool and allocated by division senior management to other employees who are eligible to receive ValueLink bonuses.

Incentive awards are not included in the calculation of health and welfare benefits. Incentive awards do not count toward the definition of pensionable earnings for the Management Pension Plan. Incentive awards are not included in the definition of covered compensation for the ESP (401-K) plan.

## **X. PROMOTIONS, DEMOTIONS, LATERAL MOVES, EVALUATION CHANGES**

Any change in position due to a promotion, demotion, lateral move or transfer that results in a change in job grade will result in a pro-rated ValueLink bonus. The bonus will reflect the number of months an employee was in each target percent and ValueLink Index number levels.

For example: Joe Generation was in Position A with a 6% bonus target for the first 6 months of the year and in Position B with an 8% bonus target for the last 6 months. Joe's bonus amount at target will be:

- 6% times 6/12 = 3% times the ValueLink Index Number for Position A
- 8% times 6/12 = 4% times the ValueLink Index Number for Position B

The prorated bonus amount will include a portion tied to your individual performance

## **XI. MANAGEMENT NEW HIRES**

Employees who are hired into management from January 1, 2005 to October 31, 2005 will receive a pro-rated bonus amount for the length of time spent in a management position.

Management employees who are hired into management from November 1, 2005 to December 31, 2005 are not eligible to participate in the Plan.

## **XII. TRANSFERS BETWEEN BARGAINING UNIT AND MANAGEMENT**

Employees who transfer between bargaining unit and management during the plan year will receive a pro-rated bonus amount for the length of time spent in the union Rewards Plan and the management ValueLink Incentive Plan during the plan year.

Employees who transfer from a bargaining unit position to a management (non-bargaining unit) position from November 1, 2005 to December 31, 2005 are eligible to receive a pro-rated ValueLink bonus.

### **XIII. TRANSFERS WITHIN GREAT PLAINS ENERGY**

Employees who transfer from Kansas City Power and Light or Great Plains Energy Services to a subsidiary or affiliated company of Great Plains Energy will receive a pro-rated bonus payment based on their amount of service with Kansas City Power and Light or Great Plains Energy Services.

Employees who transfer from a subsidiary or affiliated company of Great Plains Energy to Kansas City Power and Light or Great Plains Energy Services will receive a pro-rated bonus payment based on their amount of service with Kansas City Power and Light or Great Plains Energy Services.

Employees who transfer between November 1, 2005 and December 31, 2005 are not eligible to participate in the Plan.

### **XIV. TERMINATION OF EMPLOYMENT**

Employees are not eligible for payout if they voluntarily terminate their employment prior to December 31, 2005.

Eligible participants who voluntarily terminate after the performance year concludes on December 31, 2005 but prior to the date of the bonus payment will receive the incentive award to which they would have been entitled if they had remained employed.

Employees who are terminated for cause during the plan year will receive no payout.

### **XV. PROGRAM ADMINISTRATION – PRO-RATION RULE**

Any change that requires payout calculations to be pro-rated for any reason will use the following pro-ration rules:

If an action takes place between the 1st and 15th of the month, it shall be considered to have taken place as of the 1<sup>st</sup> of the month.

If an action takes place between the 16<sup>th</sup> and the end of the month, it shall be considered to have taken place as of the first of the following month

## **XVI. PROGRAM ADMINISTRATION (MISCELLANEOUS)**

This plan may be modified, suspended, terminated or reinstated at the sole discretion of the Chief Executive Officer (CEO).

This plan is not an employment agreement and in no way limits the right of the Company to terminate the employment of a participant at any time, with or without cause. Employment with the Company is employment at will and either party has the right to terminate the relationship at any time, with or without cause or advance notice.

The CEO shall administer the plan or delegate the administration of the plan to various members of management.

The CEO shall review and approve all goals established for each plan year, and determine at the conclusion of the plan year the achievement of goals for the payment of incentive awards.

The CEO may determine incentive payment levels for various employees or groups of employees at his discretion, exclusive of performance against goals for the plan year.

## **XVII. DISPUTE RESOLUTION**

Any and all disputes, controversies or claims arising from or relating to this plan must be resolved under ACCESS, the Company's dispute resolution program.

## **XVIII. PAYMENT**

Incentive awards are paid in lump sum by check. The awards are subject to taxes and withholdings. Generally, payment will be made prior to the end of first quarter of the next plan year. For example, payment for the 2005 ValueLink results will most likely be paid by the end of the first quarter of 2006.

# 2005 INCENTIVE PLAN FOR PMG

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# **2005 INCENTIVE PLAN FOR PMG**

## **I. Plan Objectives**

The incentive plan for the Power Marketing Group is to recognize and reward excellence in performance and is designed to achieve the following outcomes:

- Increase bulk power profitability by providing cash compensation at market for achieving profitability goals
- Motivate all PMG employees to achieve departmental goals and the goals of the Generation division
- Reinforce KCP&L's organizational culture to be market and performance driven

## **II. Plan Year**

The plan year covered by this incentive plan runs from January 1 to December 31 of each calendar year.

## **III. Eligibility**

Participants in the Power Marketing Group (PMG) Incentive Plan include all management positions in the Power Sales and Services (PS&S) department.

Employees of PS&S must be working within the department as of the first of January of each year to be eligible to participate in the Plan.

## **IV. New Participants**

Newly hired or transferred employees entering positions covered by the Plan during the period of January 1 to October 31 will be eligible to participate on a pro-rated basis.

New plan participants hired or transferred into an eligible position during the period of November 1 to December 31 will not be eligible to participate until the following Plan year.

For newly eligible participants whose participation will be pro-rated:

- If entry into an eligible position occurs from the first through the fifteenth day of the month, participation will begin as of the first day of that month
- If entry into an eligible position occurs after the fifteenth of the month, participation will begin as of the first day of the following month



# 2005 INCENTIVE PLAN FOR PMG

## V. Award Determination

Participants in the PMG incentive plan do not participate in the GPE ValueLink incentive plan.

The PMG incentive plan awards for 2005 are based on performance against:

- PMG net profit goals
- Generation's divisional goals
- Individual goal attainment

Awards for performance against PMG net profit goals are computed on a group basis for the plan year.

Awards for Generation's divisional goal attainment are computed on a divisional basis for the plan year.

Awards for individual goal attainment are computed on an individual basis for the plan year.

Each employee's award potential at minimum, target and maximum will be expressed on a performance unit basis.

### A. PMG Net Profit Goals

Net profit is defined as revenues less variable fuel and O&M costs.

- The threshold is \$64,700,000 of net profit.
- The incentive at target for 2005 will be paid at \$68,600,000 of net profit.
- The incentive at maximum for 2005 will be paid at \$70,550,000 of net profit.

The portion of the PMG Incentive tied to PMG Net Profit goals will be measured and calculated based on a group basis. The Plan has been set up to be self-funding.

Incentive will be calculated and paid out in performance units. The value of a performance unit will vary based on profitability. The value of a performance unit at target is \$50 and the value at maximum is \$75. Every incremental \$78,000 above the threshold level of performance will increase the value of a performance unit by \$1.00.

# 2005 INCENTIVE PLAN FOR PMG

## **B. Plan Funding for Division and Individual Performance**

GPE earnings per share (EPS) funds the portion of the PMG Incentive Plan tied to division and individual performance. In essence, the level of GPE EPS acts as a multiplier to the final division and individual results. The plan will fund beginning at the threshold level of achievement at 50% of target. The value of each performance unit above threshold will be based on a sliding scale of achievement and will not exceed maximum, or 150% of target. If GPE does not meet its stated 2005 earnings per share goal, there will be no payment for either of these two plan components.

The following chart shows the level of plan funding based on the GPE EPS level.

GPE EPS	Funding Level	GPE EPS	Funding Level
\$2.04	0%	\$2.15	95.5%
2.05	50.0%	2.16	100.0%
2.06	54.6%	2.17	105.6%
2.07	59.1%	2.18	111.1%
2.08	63.7%	2.19	116.7%
2.09	68.2%	2.20	122.2%
2.10	72.8%	2.21	127.8%
2.11	77.3%	2.22	133.4%
2.12	81.9%	2.23	138.9%
2.13	86.4%	2.24	144.5%
2.14	91.0%	2.25	150.0%

## **C. Generation Divisional Performance**

The divisional performance component of the PMG plan tracks performance metrics that drive the operational results of Generation. Items from the Generation Balanced scorecard have been selected from the four areas of the scorecard: Financial, Customer, Internal & Learning & Innovation. It is important to recognize that all of the metrics we track are crucial to the short & long term success of the Generation Services Division. The divisional performance goals for the PMG plan will be the same as those identified for the ValueLink and Rewards Incentive plans.

# 2005 INCENTIVE PLAN FOR PMG

## D. Individual Performance

The amount awarded for this component will vary based on your individual performance. Your performance rating for the 2005 performance plan year will be used as a guideline to help PMG management in determining the value of the performance units allocated to you for individual performance.

It is the intent of the PMG Plan to pay for performance, such that higher performing employees will receive larger bonuses for individual performance as compared to other employees.

### **A couple of key points:**

- If you are rated "Successful +" or "Distinguished", you will receive at least the target value of the performance units tied to your individual performance and perhaps more.
- If you are rated "Successful", you may receive more or less than the target value of the performance units tied to your individual performance.
- If you are rated "Successful -", you may receive target and most likely less than the target value of the performance units tied to your individual performance.
- If you are rated "Needs Improvement", you will not receive any value (\$0) for the performance units allocated to your individual performance, but are value of the performance units tied to divisional performance and PMG net profit.
- If you are rated "Unacceptable", you will receive **no** bonus (\$0).

As stated previously, GPE earnings per share funds the portion of the PMG Incentive Plan for individual performance.

## 2005 INCENTIVE PLAN FOR PMG

### V. Award Determination (continued)

The number of Performance units granted is based on the incentive level at target for each position within the Power Sales and Services group for the following positions:

<b>Position Title</b>	<b>Portion of Incentive tied to Generation's Results</b>	<b>Portion of Incentive tied to PS&amp;S's Results</b>	<b>Portion of Incentive tied to individual goal Attainment</b>
Manager, Power Sales and Service	40%	40%	20%
Manager, Energy Trading	20%	60%	20%
Supervisor, System Operations	20%	60%	20%
Supervisor, Technical and Analytical Support	40%	40%	20%
Sr. Technical Professional	40%	40%	20%
Project Technical Professional (Generation)	40%	40%	20%
Supervisor, Transaction Accounting	40%	40%	20%
Engineer II / Project Engineer	40%	40%	20%
Technical Professional II (Generation)	40%	40%	20%
Power Sales Assistant	40%	40%	20%
Hourly Marketer II	20%	60%	20%
Sr. Technical Professional Interchange	20%	60%	20%
Interchange Marketer	20%	60%	20%
Project Technical Professional – Interchange	20%	60%	20%
System Operator II	20%	60%	20%

# 2005 INCENTIVE PLAN FOR PMG

## V. Award Determination (continued)

### Example - Steps to compute the incentive for PMG results:

The value of a performance unit is as follows:

- \$0 at threshold
- \$50 at target
- \$75 at maximum

The value of a performance unit awarded depends on PMG's results, Generation's divisional results and individual performance.

#### Example 1:

Assume that a Marketing position will be assigned 100 performance units.

- PMG's results = 100% of net profitability goal achieved
- GPE EPS = \$2.16 (100%)
- Generation's results = 100%
- Individual results = 100%

<u>Goal</u>	<u>Percent Achieved</u>	<u>No. of Units Earned</u>	<u>Value Per Unit</u>	<u>Payout</u>
Generation Results	100%	20	\$50	\$1000
PMG Results	100%	60	\$50	\$3000
Individual Results	100%	20	\$50	\$1000
Total		100		\$5000

#### Example 2:

Assume that a Marketing position will be assigned 100 performance units.

- PMG's results = 150% of net profitability goal achieved
- GPE EPS = \$2.25 (150%)
- Generation's results\* = 100%
- Individual results\* = 100%

\* Net result will be 150% due to GPE EPS performance

<u>Goal</u>	<u>Percent Achieved</u>	<u>No. of Units Earned</u>	<u>Value Per Unit</u>	<u>Payout</u>
Generation Results	100%	60	\$75	\$ 4500
PMG Results	100%	20	\$75	\$1500
Individual Results	100%	20	\$75	\$ 1500
Total		100		\$7500

# 2005 INCENTIVE PLAN FOR PMG

## **VI. Program Administration**

If a mid-month change occurs, such as a promotion, which requires payout calculations to be pro-rated for any reason, the change will be applied in the current month if the action takes place between first and fifteenth day of that month.

If a mid-month change occurs after the fifteen of the month, the change will be applied as of the first of the following month.

### **A. Transfers**

Movements from a position eligible to participate under this Plan to a position not covered by this Plan constitute a transfer out of the Plan.

Employees transferring out of the Plan will receive credit toward goal achievement through the close of business on the last full day of the prior month. Employees transferring out the Plan will receive their earned incentive payment on the same schedule as other plan participants.

### **B. Terminations**

Employees who terminate their position voluntarily or involuntary prior to the last day of the Plan year shall receive no incentive payment for that plan year.

Employees terminated for cause during the plan year shall receive no payment for that plan year.

Eligible Participants who voluntarily terminate their employment after the completion of the plan year but prior to the date of the incentive payout will receive the incentive award that they would have received if they had remained employed by KCP&L.

# 2005 INCENTIVE PLAN FOR PMG

## VII. Program Administration (continued)

### C. Retirements, Deaths, Long-Term Disability and Other Approved Absences & Leaves

A Participant who retires, dies, is placed on LTD or is on an approved absence or leave for thirteen (13) cumulative weeks or longer will be eligible for a pro-rated incentive based on the amount of time the Participant was actively at work under the eligibility of the plan.

## VIII. General Provisions

### A. No Employment Right

Neither this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any right to be retained as an employee of the Company or any of its subsidiaries.

### B. Finality of Determination

The Company reserves the right to determine the resolution of any operational questions or interpretations arising from or relating to this Plan. The employee acknowledges and understands that the terms and conditions of the KCP&L dispute resolution program ("ACCESS") are applicable to any disputes.

### C. Amendment and Termination of the Plan

The Plan, at the sole discretion of the Company, may be modified, suspended, terminated, or reinstated. Any modification or addendum to this Plan shall be effective on the date specified in such modification or addendum, whether or not the Participant has received notice thereof.

# 2005 INCENTIVE PLAN FOR PMG

## VIII. General Provisions (continued)

### D. Award Review

The Company reserves the right, whether or not the incentive award has already been paid to the Participant, to review any award payments to determine the appropriateness of any award or any assumptions used in calculating the value of awards. If KCPL determines inaccurate or inappropriate information or assumptions were used to determine incentive awards, the incentive award shall be denied or, if already paid, shall result in an adjustment to the Participant's future incentive award payments.

### E. Ethical Considerations

The Participant shall not assign, give, or promise to assign or give any part of an incentive award payment to any person or organization to induce a commitment of any kind from the person or organization.

### F. Relationship to Other Benefits

No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing or group insurance plan of the Company or any subsidiary.

Payments under the Plan cannot be contributed to the Company's Employee Savings Plus [401(k)] plan.

### G. Timing and Payment of Incentive Awards

Incentive awards are paid in lump sum by check. The award will be subject to taxes and withholdings. Payment will be made after close of the Plan year but before April 1st of the following year.

### H. Governing Law

All matters relating to the Plan or to Awards granted hereunder shall be governed by the law of the State of Missouri, without regard to the principles of conflict of laws.



## 2005 INCENTIVE PLAN FOR PMG

### Appendix I.

The number of Performance units granted is based on the incentive level at target for each position within the Power Sales and Services group for the following positions:

<b>Position Title</b>	<b>Incentive at Target</b>	<b>Incentive tied to Generation's Results</b>	<b>Incentive tied to PS&amp;S's Results</b>	<b>Incentive tied to individual goal Attainment</b>
Manager, Power Sales and Service	15%	6%	6%	3%
Manager, Energy Trading	12%	2.4%	7.2%	2.4%
Supervisor, System Operations	12%	2.4%	7.2%	2.4%
Supervisor, Technical and Analytical Support	8%	3.2%	3.2%	1.6%
Sr. Technical Professional	8%	3.2%	3.2%	1.6%
Project Technical Professional (Generation)	6%	2.4%	2.4%	1.2%
Supervisor, Transaction Accounting	6%	2.4%	2.4%	1.2%
Engineer II / Project Engineer	6%	2.4%	2.4%	1.2%
Technical Professional II (Generation)	6%	2.4%	2.4%	1.2%
Power Sales Assistant	6%	2.4%	2.4%	1.2%
Hourly Marketer II	35%	7%	21%	7%
Sr. Technical Professional Interchange	18%	3.6%	10.8%	3.6%
Interchange Marketer	18%	3.6%	10.8%	3.6%
Project Technical Professional – Interchange	18%	3.6%	10.8%	3.6%
System Operator II	12%	2.4%	7.2%	2.4%

## 2005 INCENTIVE PLAN FOR PMG

### Appendix II.

The value of a performance unit at target is \$50. The value of a performance unit at maximum is \$75.

The number of Performance units is granted to each position within the Power Sales and Services group as follows:

<b>Position Title</b>	<b>Total Number Of Performance Units at Target</b>	<b>No. Of Performance Units for Generation's Results</b>	<b>No. Of Performance Units for PS&amp;S's Results</b>	<b>No. Of Performance Units for individual goal Attainment</b>
Manager, Power Sales and Service	360	144	144	72
Manager, Energy Trading	245	49	147	49
Supervisor, System Operations	230	46	138	46
Supervisor, Technical and Analytical Support	155	62	62	31
Sr. Technical Professional	150	60	60	30
Project Technical Professional (Generation)	85	34	34	17
Supervisor, Transaction Accounting	100	40	40	20
Engineer II	65	26	26	13
Project Engineer	93	37	37	19
Technical Professional II (Generation)	68	27	27	14
Power Sales Assistant	52	21	21	10
Hourly Marketer II	580	116	348	116
Sr. Technical Professional Interchange	320	64	192	64
Interchange Marketer	320	64	192	64
Project Technical Professional – Interchange	320	64	192	64
System Operator II	215	43	129	43

# 2005 INCENTIVE PLAN FOR PMG

DRAFT

GREAT PLAINS ENERGY, INC.  
2005 Rewards Plan Document

Effective January 1, 2005

# DRAFT

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# DRAFT

## I. ELIGIBILITY

All permanent full-time and part-time bargaining unit employees are eligible to participate in the Rewards program, if they are employed by GPES, KCP&L or Worry Free (the "Company"), during the plan year. Part-time employees will be defined according to the "Letter of Agreement" dated January 12, 2004, establishing part-time Customer Communications positions, specifically job classifications 364 and 365.

Bargaining unit employees hired during the plan year are eligible to participate in the Rewards program on a pro-rated basis.

Employees who are hired into a bargaining unit position from November 1, 2005 to December 31, 2005 are not eligible to participate in the Plan.

## II. KEY DEFINITIONS

"Plan" or "the Plan" refers to the Rewards Incentive Program.

"Plan year" refers to the Rewards plan year of January 1, 2005 to December 31, 2005.

"Employee" refers to a non-exempt bargaining unit employee of the Company who is scheduled to work a minimum of 24 hours per week. Employees who are scheduled to work fewer than 24 hours per week are not eligible to participate in the Rewards program.

"Company" refers to GPES, KCP&L or Worry Free, or all of these entities exclusively.

# DRAFT

## III. PLAN FUNDING

The size of the Rewards bonus pool amount for non-exempt bargaining unit employees will be determined based on corporate performance against the following goals:

GPE Earnings Per Share	Funding Level
2.05	50.0%
2.06	54.6%
2.07	59.1%
2.08	63.7%
2.09	68.2%
2.10	72.8%
2.11	77.3%
2.12	81.9%
2.13	86.4%
2.14	91.0%
2.15	95.5%

GPE Earnings Per Share	Funding Level
2.16	100.0%
2.17	105.6%
2.18	111.1%
2.19	116.7%
2.20	122.2%
2.21	127.8%
2.22	133.4%
2.23	138.9%
2.24	144.5%
2.25	150.0%

The plan will fund beginning at the threshold level of achievement at 50% of target (i.e. when GPE EPS = \$2.05). Funding of the plan above threshold will be based on a sliding scale of achievement and will not exceed maximum, or 150% of target (GPE EPS = \$2.25).

**There is no payment for any KCP&L or Divisional performance goals if the corporate EPS threshold is not met.**

# DRAFT

## IV. PLAN STRUCTURE

There are two components that, when added together, constitute each employee's total bonus amount. The two components and their corresponding weights are as follows:

- o 50% based on KCP&L Scorecard
- o 50% based on Division Scorecard

Payment above 100% will be based on achievement of corporate EPS goals.

## V. AWARD CALCULATION –KCP&L PERFORMANCE (50% of Bonus)

For the KCP&L performance component of the Rewards program, senior management has identified five key goals. Results for KCP&L performance will be based on a sliding scale of achievement against these stated goals from threshold (50%) to maximum (150%). The maximum goal levels in the scorecard allow the "make up" of underperformance on one goal with over performance on another goal. The maximum level of goal achievement for the KCPL scorecard goals is 100%. Payment above 100% will be based on achievement of corporate EPS goals.

The 2005 KCP&L goals are as follows:

Scorecard Perspective	Goal	Weight	Threshold 50%	Target 100%	Maximum 150%
Financial	KCP&L Earnings per Share	40%	\$1.86	\$1.91	\$1.96
Customer	JD Powers Customer Satisfaction Index (Residential)	15%	Score of 96	Score of 97-101	Score of 102 or greater
Customer	SAIDI (KCPL System-wide)	15%	91.5 minutes	65.8 minutes	59.2 minutes
Internal	Net Generation (Coal MWh)	15%	15.45 million MWh	15.85 million MWh	16.050 million MWh
Learning & Innovation	Safety – OSHA Incidence Rate	15%	4.4	3.4	3.1

**There is no payment for any KCP&L or Divisional performance goals if the corporate EPS threshold is not met.**



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## VI. AWARD CALCULATION – DIVISION SCORECARD (50% of Bonus)

For 2005, division goals for bargaining unit employees in KCP&L will be set by the division / department heads for the various KCPL divisions or departments and approved by the President, KCP&L.

For 2005, the SVP, Administration, the CFO, the VP, Public Affairs and the division / department heads for the various GPES divisions or departments will set division goals for the GPES business units and departments.

Division senior management will name four (4) to five (5) key goals (six for Generation) that come directly from the division balanced scorecard. There must be at least one goal representing each of the four major driver areas of the scorecard: Financial, Customer, Internal and Learning & Innovation.

Division results will be based on a sliding scale of achievement against these stated goals from threshold (50%) to target (100%) or divisional goals may be set so that they are achieved (100%) or not achieved (0%). Goals are weighted at the discretion of Division senior management. The Supply and Delivery organizations will include maximum levels at 150% to allow the "make up" of underperformance on one goal with over performance on another goal.

As a result, bargaining unit member within the same division will receive the same incentive amount regardless of their local.

**Example:** Information Technology ("IT") has four (4) goals, with the customer goal weighted at 40% and the remaining three goals at 20% each. If they achieve all of their goals with the exception of one of the goals weighted at 20%, then the division achievement for IT is 80%.

## VII. AWARD CALCULATION – Incentive Target

The Rewards Incentive Target is 1.3% of total earnings for all employees in Locals 412, 1464 and 1613. Target reflects payment at 100%, or a GPE EPS level of \$2.16.

Total earnings include base wages, overtime and shift differential. Total earnings do not include reimbursements for safety equipment, meal allowances, credit card reimbursements, Mileage reimbursement, etc.

Every bargaining unit employee will receive a bonus representing an equal dollar share of 1.3% of the cumulative year-end total earnings. The final incentive will be adjusted up or down based on the level of GPE EPS earnings and Division and KCP&L scorecard results as discussed in Sections III - VI.

## DRAFT

The target incentive will not fall below 1.3% of total earnings unless the GPE EPS funding falls below the target level. Management reserves the right to adjust the target incentive level upward at its discretion.

### VII. AWARD CALCULATION (continued)

Bargaining unit employees who retire, die or go onto long-term disability during the plan year will receive a bonus based on the number of months they were actively at work during the Plan year.

Bargaining unit employees, who are on an approved absence of 13 weeks cumulative or more during the plan year, who return to work will receive a pro-rated bonus payment based on the number of months they were actively at work. An approved absence includes, but not limited to sick leave, long-term disability, and paid and unpaid leaves.

Bargaining unit employees who are on an approved military leave during the plan year will receive a bonus payment. If an employee is on military leave at the time of the Rewards bonus payment, they will receive the payment via direct deposit or check.

Incentive awards are not included in the calculation of health and welfare benefits. Incentive awards do not count toward the definition of pensionable earnings for the Joint Trusteed Pension Plan. Incentive awards are not included in the definition of covered compensation for the ESP (401-K) plan.

### VIII. NEW HIRES

Non-exempt employees who are hired into a bargaining unit position from January 1, 2005 to October 31, 2005 will receive a pro-rated bonus amount for the length of time spent in a bargaining unit position and total hours worked during the plan year.

Employees who are hired into a bargaining unit position from November 1, 2005 to December 31, 2005 are not eligible to participate in the Plan.

### IX. TRANSFERS BETWEEN BARGAINING UNIT AND MANAGEMENT

Employees who transfer between bargaining unit and management during the plan year will receive a pro-rated bonus amount for the length of time spent in the union Rewards Plan and the management ValueLink Incentive Plan during the plan year.

Employees who transfer from a bargaining unit position to a management (non-bargaining unit) position from November 1, 2005 to December 31, 2005 are eligible to receive a pro-rated Rewards bonus.

# DRAFT

## X. TRANSFERS WITHIN GREAT PLAINS ENERGY

Bargaining unit employees who transfer from Kansas City Power and Light or Great Plains Energy Services to a subsidiary or affiliated company of Great Plains Energy will receive a pro-rated bonus payment based on their amount of service with Kansas City Power and Light or Great Plains Energy Services.

Bargaining unit employees who transfer from a subsidiary or affiliated company of Great Plains Energy to Kansas City Power and Light or Great Plains Energy Services will receive a pro-rated bonus payment based on their amount of service with Kansas City Power and Light or Great Plains Energy Services.

Bargaining unit employees who transfer between November 1, 2005 and December 31, 2005 are not eligible to participate in the Plan.

## XI. TERMINATION OF EMPLOYMENT

Non-exempt bargaining unit employees are not eligible for payout if they voluntarily terminate their employment prior to December 31, 2005.

Eligible participants who voluntarily terminate after the performance year concludes on December 31, 2005 but prior to the date of the bonus payment will receive the incentive award to which they would have been entitled if they had remained employed.

Union employees who are terminated for cause during the plan year will receive no payout.

## XII. PROGRAM ADMINISTRATION – PRO-RATION RULE

Any change that requires payout calculations to be pro-rated for any reason will use the following pro-ration rules:

If an action takes place between the 1st and 15th of the month, it shall be considered to have taken place as of the 1<sup>st</sup> of the month.

If an action takes place between the 16<sup>th</sup> and the end of the month, it shall be considered to have taken place as of the first of the following month

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## **XIII. PROGRAM ADMINISTRATION (MISCELLANEOUS)**

This plan may be modified, suspended, terminated or reinstated at the sole discretion of the Chief Executive Officer (CEO).

This plan is not an employment agreement and in no way limits the right of the Company to terminate the employment of a participant at any time, with or without cause. Employment with the Company is employment at will and either party has the right to terminate the relationship at any time, with or without cause or advance notice.

The CEO shall administer the plan or delegate the administration of the plan to various members of management.

The CEO shall review and approve all goals established for each plan year, and determine at the conclusion of the plan year the achievement of goals for the payment of incentive awards.

The CEO may determine incentive payment levels for various employees or groups of employees at his discretion, exclusive of performance against goals for the plan year.

## **XIV. DISPUTE RESOLUTION**

Any and all disputes, controversies or claims arising from or relating to this plan must be resolved through the grievance and arbitration process.

## **XV. PAYMENT**

Incentive awards are paid in lump sum by check or direct deposit. The awards are subject to taxes and withholdings. Generally, payment will be made prior to the end of first quarter of the next plan year. For example, payment of the 2005 Rewards incentive will most likely be paid by the end of the first quarter of 2006.



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## **Amended Long-Term Incentive Plan**

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This document is being provided to the parties in the Great Plains Energy Incorporated (the "Company") Long-Term Incentive Plan (the "Plan"). This information includes a copy of the Plan and other information concerning the Plan. It is suggested that this document be retained for future reference.

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THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS  
COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE  
SECURITIES ACT OF 1933.

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GREAT PLAINS ENERGY INCORPORATED  
1201 Walnut  
P. O. Box 418679  
Kansas City, Missouri 64106-2124  
(816) 556-2200

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AMENDMENT EFFECTIVE AS OF MAY 7, 2002

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## GENERAL INFORMATION

The Long-Term Incentive Plan was adopted by the Board of Directors ("Board") on February 4, 1992, subject to the approval of shareholders at the Company's Annual Meeting to be held May 5, 1992. The Board amended the Plan on February 5, 2002, subject to the approval of the Great Plains Energy Incorporated ("Company") shareholders on May 7, 2002.

The purposes of the Plan are to encourage officers and employees of the Company to acquire a proprietary and vested interest in the growth and performance of the Company, to generate an increased incentive to enhance the value of the Company for the benefit of its customers and shareholders, and to aid in the attraction and retention of exceptionally qualified individuals upon whom the Company's success largely depends.

The Plan provides for granting to certain eligible employees of the Company and its subsidiaries (as defined in the Plan) (a) incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended ("Code") or nonqualified stock options ("Stock Options"), (b) awards of limited stock appreciation rights which are exercised automatically in limited circumstances for the value of the cash appreciation of the price of the Company's common stock over the option price ("Limited Stock Appreciation Rights"), (c) awards of shares of the Company's common stock subject to certain restrictions on transferability that lapse after specified periods ("Restricted Stock"), and (d) awards of performance shares to be exchanged for shares of common stock upon the achievement of certain performance measures ("Performance Shares").

Awards may be granted under the Plan for ten years from the effective date of the amendment of the Plan, and the Plan shall continue in effect until all matters relating to the payment of awards and administration of the Plan have been settled. Except for certain circumstances set forth in Section Fourteen of the Plan, the Board may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part.

The Compensation Committee ("Committee") of the Board will administer the Plan. The Committee is composed of directors appointed for one-year terms by the Board. The members of the Committee may be removed by the Board at any time. Members of the Committee are not eligible to participate in the Plan. The current members of the Committee are identified in the Company's most recent Proxy Statement. They may be contacted in care of the Company at the Company's corporate address.

The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 and is not qualified under Section 401(a) of the

Code. A copy of the Plan is attached hereto as Exhibit A and made a part hereof for your information and reference.

### **RESALE RESTRICTIONS**

The Plan does not impose any restrictions on the resale of shares of common stock purchased by the exercise of Stock Options granted under the Plan or received pursuant to Performance Shares. The Plan does impose restrictions on the resale of shares of common stock issued as Restricted Stock under the Plan, until such time as the restrictions imposed pursuant to the Plan lapse. In addition, any "affiliate" (as defined in Rule 405 under the Securities Act of 1933 ["Securities Act"] which may include officers) of the Company who holds shares of the Company's common stock so acquired may sell such shares only if they have been registered under the Securities Act of 1933 for sale by such person or pursuant to an exemption from the registration provision of the Securities Act. One such exemption available to affiliates is provided by Rule 144 under the Securities Act.

### **FEDERAL INCOME TAX CONSEQUENCES**

**Certain Tax Aspects.** The following is a summary of certain federal income tax consequences of the Plan, based on current income tax laws, regulations and rulings. Each participant is urged to consult a tax advisor concerning the tax consequences of the receipt of Stock Options and other awards under the Plan. Additionally, each participant is urged to consult a tax advisor concerning the state and local tax consequences of the transactions related to the Plan. Any time a distribution is made under the Plan, whether in cash or in shares of common stock, the Company may withhold any amount of cash necessary to satisfy federal and state tax withholding requirements with respect to the distribution.

#### **Options.**

**Incentive Stock Options.** An optionee does not recognize income on the grant of an incentive stock option. Generally, if an optionee exercises an incentive stock option in accordance with the terms of the option and does not dispose of the shares acquired within two years from the date of the grant of the option nor within one year from the date of exercise, the optionee will not recognize income by reason of the exercise and the Company will be allowed no deduction by reason of the grant or exercise. The optionee's basis in the shares acquired upon exercise will be the amount paid upon exercise. (See the discussion below for the tax consequences of the exercise of an option with stock already owned by the optionee.) Provided the optionee holds the shares as a capital asset at the time of sale or other disposition of the shares, his gain or loss, if any,



recognized on the sale or other disposition will be capital gain or loss. The amount of his gain or loss will be the difference between the amount realized on the disposition of the shares and his basis in the shares.

If an optionee disposes of the shares within two years from the date of grant of the option or within one year from the date of exercise (an "Early Disposition"), the optionee will realize ordinary income at the time of such Early Disposition which will equal the excess, if any, of the lesser of (i) the amount realized on the Early Disposition or (ii) the fair market value of the shares on the date of exercise (or, six months less one day after the date of exercise for persons subject to the Section 16(b) restrictions discussed below) over the optionee's basis in the shares. The Company will be entitled to a deduction in an amount equal to such income. The excess, if any, of the amount realized on the Early Disposition of such shares over the fair market value of the shares on the date of exercise (or, six months less one day after the date of exercise for persons subject to the Section 16(b) restrictions discussed below) will be long-term or short-term capital gain, depending upon the holding period of the shares, provided the optionee holds the shares as a capital asset at the time of Early Disposition. If an optionee disposes of such shares for less than his basis in the shares, the difference between the amount realized and his basis will be a long-term or short-term capital loss, depending upon the holding period of the shares, provided the optionee holds the shares as a capital asset at the time of disposition.

The excess of the fair market value of the shares at the time the incentive stock option is exercised over the exercise price for the shares is an adjustment for calculating the optionee's alternative minimum taxable income (which has the effect of being an item of tax preference, the "Stock Option Preference"). However, for persons subject to the Section 16(b) restriction (discussed below), the Stock Option Preference will generally not arise until six months less one day after exercise and the measure of the Stock Option Preference will be the excess of the fair market value of the shares six months less one day after exercise over the option price. An optionee subject to the Section 16(b) restriction may elect to recognize a Stock Option Preference at the time of exercise in lieu of six months less one day after exercise. The recognition of this Stock Option Preference income will increase the optionee's basis in the option shares for alternative minimum tax purposes, thus allowing for a negative adjustment for purposes of computing alternative minimum taxable income in the year of sale or disposition. If the optionee disposes of the shares in an Early Disposition occurring in the same year in which the options were exercised or the same year in which the Section 16(b) restriction lapses, there will be no adjustment to alternative minimum taxable income (i.e., no Stock Option Preference).

**Nonqualified Stock Options.** Nonqualified stock options do not qualify for the tax treatment accorded to incentive stock options under the Code. Although an optionee does not recognize income at the time of the grant of the option, he recognizes ordinary income upon the exercise of a nonqualified stock option in an amount equal to the difference between the fair market value of the shares on the date of exercise of the option and the amount of cash paid for the shares. However, so long as the sale of the shares by the optionee at a profit would subject him to suit under Section 16(b) of the Exchange Act (the "Section 16(b) restriction"), the optionee will not recognize income until the Section 16(b) restriction lapses. Upon the lapse of the Section 16(b) restriction, the optionee will recognize income equal to the excess, if any, of the fair market value of the shares at the time the Section 16(b) restriction lapses over the option price. The optionee may elect to recognize income upon receipt of the shares and not at the time the Section 16(b) restriction lapses, in which case the tax consequences to the optionee are the same as if he were not subject to the Section 16(b) restriction.

As a result of the optionee's exercise of a nonqualified stock option, the Company will be entitled to deduct as compensation an amount equal to the amount included in the optionee's gross income in the same taxable year that the optionee recognizes gross income. Subsequent to the exercise of the option and lapse of the Section 16(b) restriction and provided the optionee holds the shares as a capital asset at the time of sale or other disposition of the shares, his gain or loss, if any, recognized on the sale or other disposition will be capital gain or loss. The amount of his gain or loss will be the difference between the amount realized on disposition of the shares and the basis in the shares.

The excess of the fair market value of the stock on the date of exercise of a nonqualified stock option over the exercise price is not an adjustment nor an item of tax preference for calculating the optionee's alternative minimum taxable income.

**Payment in Shares.** If the optionee exercises an option and surrenders shares already owned by him ("Old Shares"), the following rules apply:

1. To the extent the number of shares acquired ("New Shares") exceeds the number of Old Shares exchanged, the optionee will recognize ordinary income on the receipt of such additional shares (provided the option is not an incentive stock option, in which case no ordinary income is recognized upon exercise) in an amount equal to the fair market value of such additional shares less any cash paid for them, and the Company will be entitled to a deduction in an amount equal to such income. The basis of such additional shares will be equal to the fair market value of such shares

(or, in the case of an incentive stock option, the cash, if any, paid for the additional shares) on the date of exercise, and the holding period for such additional shares will commence on the date the option is exercised. In the case of a nonqualified stock option, if the Section 16(b) restriction applies to the New Shares and the optionee has not elected to recognize income on the exercise of the Stock Option, then the optionee will recognize ordinary income at the time the restriction lapses in an amount equal to the fair market value of such shares at that time. Also, the basis of such additional shares will be the fair market value of those shares on the date the Section 16(b) restriction lapses and the holding period will begin on that same date.

2. In general, to the extent the number of New Shares acquired does not exceed the number of Old Shares exchanged, no gain or loss will be recognized on such exchange, the basis of the New Shares received will be equal to the basis of the Old Shares surrendered (plus any ordinary income recognized by reason of the exchange), and the holding period of the New Shares received will include the holding period of the Old Shares surrendered. However, if the optionee exercises an incentive stock option by surrendering Old Shares, the holding period for the New Shares will begin on the date the New Shares are transferred to the optionee for purposes of determining whether there is an Early Disposition of the New Shares and if the optionee makes an Early Disposition of the New Shares, he will be deemed to have disposed of the New Shares with the lowest basis first. For purposes of computing ordinary income upon the Early Disposition, this basis will equal the fair market value of the shares surrendered on the date of exercise. If the optionee exercises an incentive stock option by surrendering Old Shares which were acquired through the exercise of an incentive stock option and if the surrender occurs prior to the expiration of the holding period applicable to the option under which the Old Shares were acquired, the surrender will be deemed to be an Early Disposition of the Old Shares. The federal income tax consequences of an Early Disposition are discussed above.

3. If the Old Shares surrendered were acquired by the optionee by exercise of an incentive stock option, then, except as provided in 2 above, the exchange will not constitute an Early Disposition of the Old Shares.

**Limited Stock Appreciation Rights.** Recipients of Limited Stock Appreciation Rights do not recognize income upon the grant of such an award. If a participant receives a cash payment, or the rights thereto, under the automatic exercise of a Limited Stock Appreciation Right, he recognizes ordinary income in an amount equal to the cash payment and the Company is entitled to a deduction equal to such amount.

**Restricted Stock and Performance Shares.** In general, grantees of Restricted Stock and Performance Shares do not recognize income at the time of the grant of such stock or shares. However, when the shares of common stock are received and become free from any restrictions (including a Section 16(b) restriction) or when cash, or the rights thereto, is received, grantees recognize ordinary income in an amount equal to the cash payment or the fair market value of the shares on the date all restrictions lapse. Alternatively, the recipient of Restricted Stock or stock received under Performance Share awards may elect to recognize income upon the receipt thereof and not at the time the restrictions lapse.

**Dividends.** The recipient of dividends or their equivalents with respect to the number of shares covered by awards will receive ordinary taxable income on the date the dividends become subject to the unqualified demand of the recipient. This is generally when the Stock Option or the Limited Stock Appreciation Rights are exercised or when the dividends are paid to the holder of an award. In general, the ordinary taxable income will be classified as "dividends" for tax purposes only when the underlying stock is owned by the recipient without restriction, including the Section 16(b) restriction. However, all distributions received with respect to stock after an election has been made to recognize ordinary income will be classified as "dividends" for tax purposes. In the event the Company's current and accumulated earnings and profits are insufficient to cover the dividends paid, the adjusted basis of the recipient's stock is reduced for that portion of the distribution. Once the recipient's basis has been reduced to zero, any remaining distribution not covered by current and accumulated earnings and profits is treated as capital gain, provided that the stock is held as a capital asset at the time of sale or other disposition.

**Taxation of Preference Items.** Section 55 of the Code imposes an alternative minimum tax equal to the excess, if any, of (i) 24% of the optionee's "alternative minimum taxable income" over (ii) his "regular" federal income tax. Alternative minimum taxable income is determined by adding the optionee's Stock Option Preference and any items of tax preference to the optionee's "regular" taxable income and then subtracting certain allowable deductions and an exemption amount. The exemption amount is \$30,000 for single taxpayers and heads of households, \$40,000 for married taxpayers filing jointly, and \$20,000 for married taxpayers filing separately. However, these exemption amounts are phased out beginning at certain levels of alternative minimum taxable income.

**Change in Control.** If there is an acceleration of the vesting or payment of benefits under the Plan as a result of a "Change in Control" (as defined in the Plan), certain recipients may be treated as having received "parachute payments" under Section 280G of the Code. Generally, if the amount of the "parachute payment" exceeds three times the recipient's

average annual compensation for the preceding five years, then a 20% excise tax is payable by the recipient on the amount of the "parachute payment" in excess of this five year average. Additionally, the Company is not entitled to a related income tax deduction.

The foregoing statement is only a summary of the federal income tax consequences of the Plan and is based on the Company's understanding of present federal tax laws and regulations.

#### **INCORPORATION OF CERTAIN INFORMATION BY REFERENCE AVAILABLE INFORMATION**

As stated previously, this document constitutes part of a Prospectus covering securities that have been registered under the Securities Act of 1933. The Company hereby incorporates by reference the following documents filed with the Commission:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
2. The information under the caption "Description of Common Stock" in the Prospectus dated April 28, 2002, included in the Company's Registration Statement Form S-3, Registration No. 333-87190, filed pursuant to the Securities Act of 1933, as amended.

All documents filed with the Commission by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act after the date of this document and prior to the filing of a post-effective amendment which indicates that all the securities offered have been sold or which deregisters all securities then remaining unsold shall be deemed to be incorporated by reference in this document and to be a part hereof from the date of filing of such documents.

The Company hereby undertakes to provide without charge to each person to whom a copy of the Plan has been delivered, including any beneficial owner, upon the written or oral request of such person, a copy of any or all documents referred to above which have been or may be incorporated in this document by reference, other than certain exhibits to such documents. Requests should be directed to Corporate Secretary, Great Plains Energy Incorporated, 1201 Walnut, Kansas City, Missouri 64105, telephone number (816) 556-2936.

**GREAT PLAINS ENERGY INCORPORATED**

**LONG-TERM INCENTIVE PLAN**

**SECTION ONE. PURPOSE OF PLAN**

The purposes of the Plan are to encourage officers and employees of the Company to acquire proprietary and vested interest in the growth and performance of the Company, to generate an increased incentive to enhance the value of the Company for the benefit of its customers and Shareholders, and to aid in the attraction and retention of exceptionally qualified individuals upon whom the Company's success largely depends.

**SECTION TWO. DEFINITIONS**

The following definitions are applicable herein:

"Award" means the award to a Participant of Restricted stock, Stock Option, Limited Stock Appreciation Right, or Performance Shares.

"Award Period" means that period established by the Committee during which any performance goals specified with respect to earning any Award are to be measured.

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations promulgated thereunder.

"Committee" means the Compensation Committee of the Board, composed of not less than two directors, each of whom is a Disinterested Person.

"Common stock" means the common stock, without par value, of the Company, or such other class of shares or other securities as may be subject to the Plan as a result of an adjustment made pursuant to the provisions of Section Fifteen I.

"Company" means Great Plains Energy Incorporated and its successors, including any Company as provided in Section Fifteen J.

"Date of Disability" means the date on which a Participant is classified as disabled as defined in the Company's Long-Term Disability Plan.

"Date of Grant" means the date on which an Award is granted by the Committee or such later date as may be specified in making such grant.

"Date of Retirement" means the date of normal retirement or early retirement as defined in the Company's pension plan.

"Disinterested Person" means a disinterested person as defined in Rule 16b-3(c)(2)(i) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor definition adopted by the Securities and Exchange Commission.

"Eligible Employee" means any person employed by the Company or a Subsidiary on a regularly scheduled basis during any portion of an Award Period and who satisfies all of the requirements of Section Six.

"Fair Market Value" means the average of the high and low prices for the common stock as reported on the New York Stock Exchange Composite Transactions for the date(s) specified from time to time by the Committee.

"Incentive Stock Option" means an incentive stock option within the meaning of Section 422 of the Code.

"Option" or "Stock Option" means either a non-qualified stock option or an Incentive Stock Option granted under Section Eight.

"Option Period" or "Option Periods" means the period or periods during which an option is exercisable as described in Section Eight E.

"Participant" means an Eligible Employee who has been granted an Award under the Plan.

"Plan" means the Great Plains Energy Incorporated Long-Term Incentive Plan.

"Performance Shares" means an Award granted under Section Ten.

"Restricted stock" means an Award granted under Section Seven.

"Subsidiary" means any corporation of which 50% or more of its outstanding voting stock or voting power is beneficially owned, directly or indirectly, by the Company.

"Termination" means resignation or discharge from employment with the Company or any one of its Subsidiaries, except in the event of death, disability, or retirement.

### **SECTION THREE. EFFECTIVE DATE, DURATION AND STOCKHOLDER APPROVAL**

#### **A. Effective Date.**

The Plan became effective on May 5, 1992.

#### **B. Period for Grants of Awards.**

Awards may be granted until May 5, 2012.

#### **C. Termination of the Plan.**

The Plan shall continue in effect until all matters relating to the payment of Awards and administration of the Plan have been settled.

### **SECTION FOUR. ADMINISTRATION**

The Plan shall be administered by the Committee for, and on behalf of, the Board. The Committee shall have all of the powers (other than amending or terminating this Plan as provided in Section Fourteen) respecting the Plan. All questions of interpretation and application of the Plan, or of the terms and conditions pursuant to which Awards are granted, exercised or forfeited under the provisions hereof, shall be subject to the determination of the Committee. Any such determination shall be final and binding upon all parties affected thereby.

### **SECTION FIVE. GRANT OF AWARDS AND LIMITATION OF NUMBER OF SHARES AWARDED**

The Committee may, from time to time, grant awards to one or more Eligible Employees, provided that (i) subject to any adjustment pursuant to Section Fifteen I, the aggregate number of shares of common stock available for Awards under this Plan may not exceed 3,000,000 shares; (ii) to the extent that an award lapses or the rights of the Participant to whom it was granted terminate, any shares of common stock subject to such Award shall again be available for the grant of an Award under the Plan; and (iii) shares delivered by the Company under the Plan may be authorized but unissued common stock, common stock held in the treasury of the Company or common stock purchased on the open market (including private purchases) in accordance with applicable securities laws. In determining the size of the Awards, the Committee shall assess the performance of the Eligible Employees against criteria to be established by the Committee, from time to time, based on the Company's performance (such as stockholder and customer related factors) and shall take into account a Participant's responsibility level, potential, cash compensation level, and the Fair Market Value of the common stock at the time of Awards, as well as such other considerations as it deems appropriate.



## **SECTION SIX. ELIGIBILITY**

Officers and other employees of the Company and its subsidiaries (including officers or salaried full-time employees who are members of the Board, but excluding directors who are not officers or employees) who, in the opinion of the Committee, make significant contributions to the continued growth, development, and financial success of the Company or one or more of its Subsidiaries shall be eligible to receive Awards. Subject to the provisions of the Plan, the Committee shall from time to time select from such eligible persons those to whom Awards shall be granted and determine the amount of such Awards. No officer or employee of the Company or any of its Subsidiaries shall have any right to be granted an Award under this Plan.

## **SECTION SEVEN. RESTRICTED STOCK**

### **A. Grant of Restricted stock.**

An Award made pursuant to this Section Seven shall be in the form of shares of common stock, restricted as provided herein. The restricted stock shall be issued in the name of the Participant and shall bear a restrictive legend prohibiting sale, transfer, pledge or hypothecation of the restricted stock until the expiration of the restriction period.

The Committee may also impose such other restriction and conditions on the restricted stock as it deems appropriate.

Upon issuance to the Participant of restricted stock, the Participant shall have the right to vote the restricted stock.

### **B. Restriction Period.**

At the time restricted stock is awarded, the Committee shall establish a restriction period applicable to such Award which shall not be less than three years nor more than ten years. Each Restricted Stock Award may have a different restriction period at the discretion of the Committee.

Notwithstanding the other provisions of this Section Seven B, the Committee is authorized in its sole discretion to accelerate the time at which any or all of the restrictions on the restricted stock shall lapse or to remove any or all of such restrictions whenever the Committee may decide that changes in tax or other laws or business conditions arising after the granting of a restricted stock Award make such action appropriate. Notwithstanding the above, the shares of restricted stock may not be sold by a Participant within six months of the date on which such shares were granted.

**C. Payout of Award.**

Upon completion of the restriction period and satisfaction of any other restrictions required by the Award, all restrictions upon the Award will expire. New certificates representing the Award will be issued without the restrictive legend described in Section Seven A, and the shares will become nonforfeitable.

**SECTION EIGHT. STOCK OPTION**

**A. Grant of Option.**

An Award of one or more options may be granted to any Eligible Employee.

**B. Stock Option Agreement.**

Each option granted under the Plan shall be evidenced by a "Stock Option Agreement" between the Company and the Participant containing such terms and conditions as may be determined by the Committee, including, without limitations, provisions to qualify Incentive Stock Options as such under Section 422 of the Code; provided, however, that each Stock Option Agreement must include the following terms and conditions: (i) that the Options are exercisable either in total or in part with a partial exercise not affecting the exercisability of the balance of the option; (ii) that every share of common stock purchased through the exercise of an option shall be paid for in full at the time of the exercise; (iii) that each option shall cease to be exercisable, as to any share of Common stock, at the earliest of (a) the Participant's purchase of the common stock to which the option relates, (b) the exercise of a related Limited Stock Appreciation Right, or (c) the lapse of the option; and (iv) that options shall not be transferable by the Participant other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

**C. Option Price.**

The Option Price per share of common stock shall be set by the grant, but shall not be less than 100% of the Fair Market Value at the Date of the Grant.

**D. Form of Payment.**

At the time of an exercise of an option, the option price shall be payable in cash or in previously-owned shares of common stock or in a combination thereof. When common stock is used in full or partial payment of the option price, it shall be valued at the Fair Market Value on the date the option is exercised.

**E. Other Terms and Conditions.**

Each option shall become exercisable in such manner and within such option period or periods not to exceed ten years from its Date of Grant, as set forth in the Stock Option Agreement.

**F. Lapse of Option.**

An option will lapse upon the first occurrence of one of the following circumstances: (i) ten years from the Date of Grant; (ii) three months following the Participant's Date of Retirement; (iii) at the time of a Participant's Termination; (iv) at the expiration of the option period set by the grant; or (v) twelve months from the Date of Disability. If, however, the Participant dies within the option period and prior to the lapse of the Option, the Option shall lapse unless it is exercised within the option period or twelve months from the date of the Participant's death, whichever is earlier, by the Participant's legal representative or representatives or by the person or persons entitled to do so under the Participant's will or, if the Participant shall fail to make testamentary disposition of such option or shall die intestate, by the person or persons entitled to receive said option under the applicable laws of descent and distribution.

**G. Rights as a Stockholder.**

A participant or a transferee of a Participant shall have no rights as a stockholder with respect to any shares of common stock covered by an option, until the date the option is exercised, except as provided in Section Fifteen A.

**H. Early Disposition of Common stock.**

If a Participant shall engage in a disqualifying disposition (such as term or successor term is then used under the Code) with respect to any shares of common stock purchased pursuant to an Incentive stock option (presently within one year from the date the shares were acquired or within two years from the Date of Grant of the Option), then, to provide the Company with the opportunity to claim the benefit of any income tax deduction which may be available to it under the circumstances, the Participant shall, within ten days of such disposition, notify the Company of the dates of acquisition and disposition of such shares of common stock, the number of shares so disposed and the consideration, if any, received therefore.

**I. Individual Dollar Limitations.**

The aggregate Fair Market Value (determined at the time of Award) of the common stock, with respect to which an Incentive Stock Option is exercisable for the first time by a Participant during any calendar year (whether under this Plan

or another plan or arrangement of the Company) shall not exceed \$100,000 (or such other limit as may be in effect under the Code on the date of Award).

**J. No Obligation to Exercise Option.**

The Granting of an option shall impose no obligation on the Participant to exercise such option.

**K. Six Month Period.**

At least six months must elapse between the date the option is acquired by the Participant and the date of disposition of the option (other than upon exercise or conversion) or the common stock for which it is exercisable.

**SECTION NINE. LIMITED STOCK APPRECIATION RIGHT**

**A. Grant of Limited Stock Appreciation Right.**

The Committee may, in its sole discretion, grant a Limited Stock Appreciation Right to the holder of any stock option granted under the Plan.

A Limited Stock Appreciation Right may be granted with respect to a stock option at the time of its grant or any time thereafter up to six months prior to its expiration.

**B. Exercise of Limited Stock Appreciation Right.**

Limited Stock Appreciation Rights will be automatically exercised one day after an event of Change of Control (as defined in Section Eleven). A Limited Stock Appreciation Right cannot be exercised in any other manner. Notwithstanding the above, a Limited Stock Appreciation Right will only be exercised if the Change in Control event occurred six months after the date of the grant of the Limited Stock Appreciation Right and the stock option to which it relates has not previously been exercised.

The exercise of a Limited Stock Appreciation Right will cancel any related stock option and allow the holder to receive in cash an amount equal to the excess of the Fair Market Value on the date of exercise of one share of common stock over the option price, multiplied by the number of shares of common stock covered by the related stock option.

In the event of an exercise of a Limited Stock Appreciation Right, the number of shares reserved for issuance shall be reduced by the number of shares covered by the Stock Option Award.

## **SECTION TEN. PERFORMANCE SHARES**

### **A. Grant of Performance Shares.**

A Performance Share is the right to receive a payment from the Company with respect to such Performance Share subject to satisfaction of such terms and conditions as the Committee may determine. Performance Shares shall be credited to a Performance Share account to be maintained for each Participant. Each Performance Share shall be deemed to be equivalent of one share of common stock. The Award of Performance Shares under the Plan shall not entitle the participant to any interest in or to any dividend, voting, or other rights of a stockholder of the Company.

A grant of Performance Shares may be made by the Committee during the term of the Plan.

The Participant shall be entitled to receive payment for each Performance Share of an amount based on the achievement of performance measures for such Award Period as determined by the Committee. The Committee shall have the right to establish requirements or other criteria for measuring performance prior to the beginning of the Award Period but subject to such later revisions as the Committee shall deem appropriate to reflect significant or unforeseen events or changes.

### **B. Form and Timing of Payment.**

Except in the event of a Change of Control, no payment in respect of Performance Shares shall be made prior to the end of an Award Period. Payment thereafter shall be made as soon as practicable.

The payment to which a Participant shall be entitled at the end of an Award Period shall be a dollar amount equal to the Fair Market Value of the number of shares of Common stock equal to the number of Performance Shares earned. Payment shall normally be made in common stock. The Committee, however, may authorize payment in such combinations of cash and common stock or all in cash as it deems appropriate.

The number of shares of common stock to be paid to a Participant will be determined by dividing the portion of the payment not paid in cash by (i) the Fair Market Value of the common stock on the date on which the shares are issued; or (ii) the price per share paid for shares purchased for a Participant's account should the Board determine to purchase common stock on behalf of the Participant. Stock received in settlement of Performance Shares may not be disposed of within six months of the date on which the Performance Shares were granted.

## **SECTION ELEVEN. CHANGE IN CONTROL**

In the event of Change in Control (as defined below) of the Company, and except as the Committee may expressly provide otherwise, (i) all Stock Options then outstanding shall become fully exercisable unless Limited Stock Appreciation Rights were granted in connection with the Stock Options which in such event the Limited Stock Appreciation Rights will be automatically exercised as provided for in Section Nine herein; (ii) all restrictions (other than restrictions imposed by law) and conditions of all Restricted stock Grants then outstanding shall be deemed satisfied as of the date of the Change in Control; and (iii) all Performance Share Grants shall be deemed to have been fully earned as of the date of the Change in Control, subject to the limitation that any Award which has been outstanding less than six months on the date of the Change in Control shall not be afforded such treatment.

A "Change in Control" shall be deemed to have occurred if (i) any person other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company, and other than the Company or a corporation owned, directly or indirectly, by the Shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Company representing 20% or more of the Common stock of the Company then outstanding; or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in (i) above) whose election by the Board or nomination for election by the Company's Shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof.

## **SECTION TWELVE. FORFEITURE**

In the event a Participant ceases employment, restricted stock for which the restriction period has not expired and Performance Shares are subject to forfeiture as follows:

- (i) Termination - the Award would be completely forfeited as of the date of termination.
- (ii) Retirement - payout of the Award would be prorated for service during the period.
- (iii) Disability - payout of the Award would be prorated for service during the period.
- (iv) Death - payout of the Award would be prorated for service during the period.

In any instance where payout of an Award is to be prorated, the Committee may choose to provide the Participant (or the Participant's estate) with the entire Award rather than the prorated portion thereof.

Restricted stock which is forfeited will be transferred to the Company or canceled and made available again for the grant of an Award under the Plan.

### **SECTION THIRTEEN. DEFERRAL ELECTION**

Upon the request of a Participant, the Committee may, in its sole discretion, permit a Participant to elect to defer payout of all or any part of any Award under the Plan under such conditions as the Committee may establish.

### **SECTION FOURTEEN. AMENDMENT OF PLAN**

The Board may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part, except (i) no such action may be taken without shareholder approval which increases the benefits accruing to Participants pursuant to the Plan, increases the number of shares of Common stock which may be issued pursuant to the Plan (except as provided in Section Fifteen I), extends the period for granting Options under the Plan, modifies the requirements as to eligibility for participation in the Plan, or requires shareholder approval under any law or regulation in effect at the time such amendment is proposed for adoption; (ii) no such action may be taken without the consent of the Participant to whom any Award shall theretofore have been granted, which adversely affects the rights of such Participant concerning such Award, except as such termination or amendment of the Plan is required by statute, or rules and regulations promulgated thereunder; and (iii) no such action may be taken if the proposed amendment must be in the discretion of the Committee to comply with the disinterested administration requirements of Rule 16b-3 under the Exchange Act.

### **SECTION FIFTEEN. MISCELLANEOUS PROVISIONS**

#### **A. Dividends.**

The recipient of an Award may, if so determined by the Committee, be entitled to receive, currently or on a deferred basis, dividends or their equivalents, with respect to the number of shares of Common stock covered by the Award.

#### **B. Nontransferability.**

No benefit provided under this Plan shall be subject to alienation or assignment by a Participant (or by any person entitled to such benefit pursuant to the terms of this Plan), nor shall it be subject to attachment or other legal process of whatever nature. Any attempted alienation, assignment or attachment shall be void and of no effect whatsoever. Notwithstanding the above, Stock Options and Limited Stock Appreciation Rights may be transferred as provided in any Stock Option Agreement.

Payment shall be made only into the hands of the Participant entitled to receive the same or into the hands of the Participant's authorized legal representative. Deposit

of any sum in any financial institution to the credit of any Participant (or of a person entitled to such sum pursuant to the terms of this Plan) shall constitute payment into the hands of that Participant (or such person).

**C. No Employment Right.**

Neither this Plan nor any action taken hereunder shall be construed as giving any right to be retained as an officer or employee of the Company or any of its Subsidiaries.

**D. Tax Withholding.**

The Company shall be authorized to withhold under the Plan the amount of withholding taxes due in respect of an Award or payment hereunder and to take such other actions as may be necessary in the opinion of the Company to satisfy all obligations for the payment of taxes. Such withholding may be deducted in cash from the value of any Award.

**E. Fractional Shares.**

Any fractional shares shall be eliminated at the time of payment or payout by rounding down for fractions of less than one-half and rounding up for fractions equal to or more than one-half. No cash settlements shall be made with respect to fractional shares eliminated by rounding.

**F. Government and Other Regulations.**

The obligation of the Company to make payment of Awards in common stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by any government agencies as may be required. Except as required by law, the Company shall be under no obligation to register under the Securities Act of 1933, as amended ("Act"), any of the shares of common stock issued, delivered or paid in settlement under the Plan. If common stock awarded under the Plan may in certain circumstances be exempt from registration under the Act, the Company may restrict its transfer in such manner as it deems advisable to ensure such exempt status.

**G. Indemnification.**

Each person who is or at any time serves as a member of the Committee shall be indemnified and held harmless by the Company against and from (i) any loss, cost liability, or expenses that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit, or proceeding to which such person may be a party or in which such person may be involved by reason of any action or failure to act under the Plan; and (ii) any and all amounts paid by such person in satisfaction of judgment in any such action, suit or



proceeding relating to the Plan. Each person covered by this indemnification shall give the Company an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Restated Articles of Consolidation or By-Laws of the Company or any of its Subsidiaries, as a matter of law, or otherwise, or any power that the Company may have to indemnify such person or hold such person harmless.

**H. Reliance on Reports.**

Each member of the Committee shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company and its Subsidiaries and upon any other information furnished in connection with the Plan. In no event shall any person who is or shall have been a member of the Committee be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information or for any action taken, including the furnishing of information, or failure to act, if in good faith.

**I. Changes in Capital Structure.**

In the event of any change in the outstanding shares of common stock by reason of any stock dividend or split, recapitalization, combination or exchange of shares or other similar changes in the common stock, then appropriate adjustments shall be made in Awards theretofore granted to the Participants and in the aggregate number of shares of common stock (or cash payment in lieu thereof) which may be granted pursuant to the Plan. Such adjustments shall be conclusive and binding for all purposes. Additional shares of common stock issued to a Participant as the result of any such change shall bear the same restrictions as the shares of common stock to which they relate.

**J. Company Successors.**

In the event the Company becomes party to a merger, consolidation, sale of substantially all of its assets or any other corporate reorganization in which the Company will not be the surviving corporation or in which the holders of the common stock will receive securities of another corporation, then such Company shall assume the rights and obligations of the Company under this Plan.

**K. Governing Law.**

All matters relating to the Plan or to Awards granted hereunder shall be governed by the laws of the State of Missouri, without regard to the principles of conflict of laws.

**L. Relationship to Other Benefits.**

No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing or group insurance plan of the Company or any Subsidiary, except as may be required by Federal law and regulation or to meet other applicable legal requirements.

**M. Expenses.**

The expenses of the Plan shall be borne by the Company and its Subsidiaries if appropriate.

**N. Titles and Headings.**

The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.