

Exhibit No.:
Issues: *Talent Assessment, Severance,*
Hawthorn V Subrogation Proceeds
Witness: *Charles R. Hyneman*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No: *ER-2007-0291*
Date Testimony Prepared: *July 24, 2007*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2007-0291

Jefferson City, Missouri
July 2007

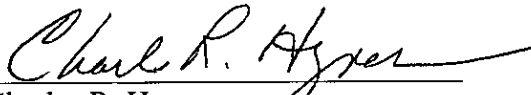
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas)
City Power and Light Company for) Case No. ER-2007-0291
Approval to Make Certain Changes in its)
Charges for Electric Service To Implement)
Its Regulatory Plan.)

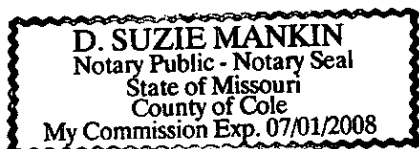
AFFIDAVIT OF CHARLES R. HYNEMAN

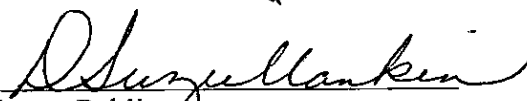
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the following 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.


Charles R. Hyneman

Subscribed and sworn to before me this 23rd day of July, 2007.




Notary Public

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DIRECT TESTIMONY OF
CHARLES R. HYNEMAN
KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2007-0291

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Q. Please state your name and business address.

A. Charles R. Hyneman, Fletcher Daniels Office Building, 615 East 13th Street, Room G8, Kansas City, Missouri, 64106.

A. Charles R. Hyneman, Fletcher Daniels Office Building, 615 East 13th Street,
G8, Kansas City, Missouri, 64106.

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

A. I was awarded a Masters of Business Administration from the University of Missouri at Columbia and a Bachelor of Science degree with a double major in Accounting and Business Administration from Indiana State University. I am a Certified Public Accountant (CPA) licensed in Missouri.

I served 12 years on active duty in the United States Air Force in the missile operations and contracting career fields. I was promoted to the rank of Captain in 1989. I was honorably discharged from the Air Force in December 1992 and joined the Commission Staff in April 1993.

A. Yes. Schedule 1, attached to this testimony, lists the cases in which I have filed testimony before the Commission.

1 Q. Did you examine and analyze the books and records of Great Plains
2 Energy, Inc. (GPE), its regulated utility subsidiary Kansas City Power & Light Company
3 (KCPL or Company) and its affiliated service company, Great Plains Energy
4 Services (GPES)?

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

6 Q. With reference to Case No. ER-2007-0291, what is the purpose of your direct
7 testimony?

8 A. The purpose is to summarize my responsibilities in the Staff's determination of
9 KCPL's revenue requirement in this filing and the issues I directly worked on where a
10 significant difference exists in the methodology and value between the Staff and KCPL, as of
11 the date of the Staff's direct filing.

12 Q. Please summarize your responsibilities in the Staff's determination of KCPL's
13 revenue requirement.

14 A. As the Staff's lead auditor, I am ultimately responsible for all of the accounting
15 schedules filed as an attachment to the Staff's Cost of Service Report in this case. One of my
16 major responsibilities in this rate case was to determine the fuel (coal, natural gas, nuclear, oil
17 and transportation) prices to use as inputs into the Staff's fuel model. I was also the Staff's
18 primary witness on fuel prices in KCPL's 2006 rate case, No. ER-2006-0314.

19 The Staff's fuel model, described in the Staff's Cost of Service Report, uses various
20 inputs, including fuel prices, to determine the level of variable fuel and purchase power
21 expense the Staff uses in determining KCPL's revenue requirement. In making the
22 adjustments to KCPL's 2006 test year fuel and purchase power accounts, I relied on the

1 results of the Staff's fuel model which was provided to me by Leon Bender of the
2 Commission's Energy Department.

3 **EXECUTIVE SUMMARY**

4 Q. Please provide a summary of the issues you directly worked on where there is
5 a significant difference in the methodology and value between the Staff and KCPL.

6 A. The first issue is the treatment of KCPL's subrogation proceeds of
7 \$38.9 million it received due to litigation involving the 1999 Hawthorn No. 5 generating unit
8 boiler explosion. The Staff and KCPL differ on how to treat \$23.1 million of those proceeds.
9 Although it accounted for them as offsets to expenses on its books, KCPL excluded them
10 when it determined its revenue requirement. In contrast, for reasons provided later, the Staff
11 has included \$4.62 million, one-fifth of the \$23.1 million, as an offset to KCPL's cost of
12 service when it determined KCPL's revenue requirement.

13 The other issue is the treatment of \$9.3 million in severance costs KCPL incurred
14 related to its talent assessment program. The Staff is not including in its revenue requirement
15 for KCPL any recovery of KCPL's talent assessment severance costs. In contrast, KCPL is
16 proposing to defer these costs as a regulatory asset and amortize this amount over five years.
17 KCPL has included one-fifth, or \$1.9 million as an additional expense it is seeking to recover
18 from ratepayers. KCPL is also proposing a recovery of a normalized level of several costs.
19 This proposal was rejected by the Staff and the Commission in KCPL's last two rate cases.
20 The Staff is proposing the same treatment in this case.

21 **Hawthorn No. 5 Subrogation Proceeds**

22 Q. How did the Hawthorn 5 subrogation proceeds issue arise?

1 A. In 1999, KCPL's Hawthorn No. 5 generating unit boiler exploded. KCPL
2 rebuilt the boiler and returned the generating unit to service. In 2001 KCPL filed a lawsuit
3 against several parties alleging they had responsibility for damages KCPL incurred due to the
4 boiler explosion. KCPL and National Union Fire Insurance Company of Pittsburgh,
5 Pennsylvania (National Union) entered into a subrogation agreement under which recoveries
6 in this suit were allocated 55% to National Union and 45% to KCPL. In 2006, KCPL
7 received, after payment of attorney's fees, proceeds of \$38.9 million pursuant to the
8 subrogation agreement.

9 KCPL accounted for the \$38.9 million it received by reducing purchased power
10 expense by \$10.8 million and fuel expense by \$3.7 million, increasing wholesale revenues by
11 \$2.5 million, allocating \$6.1 million of interest to a below-the-line non-operating interest
12 revenue account, and allocating \$15.8 million as a recovery of capital expenditures charged to
13 depreciation reserve.

14 Q. How does Staff's and KCPL's treatment of the subrogation proceeds differ for
15 purposes of determining KCPL's cost of service in this rate case?

16 A. In its direct filing in this case, KCPL made adjustments to remove the effects
17 of how it had booked \$23.1 million of the total \$39.8 million of Hawthorn subrogation
18 proceeds before it determined its cost of service. In effect, KCPL has treated the
19 \$23.1 million as belonging to its shareholders. KCPL received the proceeds as a direct result
20 of KCPL's regulated activities. Without substantive reasons to the contrary, revenues and
21 expenses directly related to regulated operations should be accounted for as regulated
22 revenues and expenses. KCPL has provided no reasons why the Hawthorn V proceeds should
23 not be accounted for as an offset to its regulated cost of service over the next five years.

1 Therefore, the Staff is treating the \$23.1 million as a regulatory liability amortized over a five-
2 year period beginning January 1, 2008.

3 **Severance Costs**

4 Q. What is the severance cost issues?

5 A. KCPL has incurred two distinct sets of severance costs. It refers to the first set
6 as “Talent Assessment” or “Skill Set Realignment” costs. These costs are severance
7 payments, outplacement service costs and payroll taxes of 119 Company employees
8 terminated after undergoing a “talent assessment.” The Staff includes none of these costs in
9 KCPL’s cost of service in this case because KCPL’s customers received no benefit from
10 them. In contrast, KCPL is seeking to recover \$9.3 million over five years, or \$1.9 million
11 per year.

12 KCPL has incurred other severance costs in the past. The Staff has included none of
13 those costs in determining KCPL’s cost of service because 1) KCPL’s customers received no
14 benefit from them and 2) it is likely that KCPL has already recovered at least 100 percent of
15 these costs in rates. KCPL is seeking to recover a 3-year average of these past severance
16 costs, in the amount of \$520,022.

17 Through these two severance costs issues, KCPL is seeking to increase its revenue
18 requirement in this case by over \$2.4 million. The Staff opposes rate recovery of both.

19 Q. Has the Commission recently addressed the rate treatment of KCPL’s
20 severance costs?

21 A. Yes. Just a few months ago the Commission explicitly rejected KCPL’s
22 proposal in its 2006 rate case to recover a normalized level of severance costs. In its Report
23 and Order in Case No. ER-2006-0314, KCPL’s 2006 rate case, the Commission stated:

KCPL wishes to recover severance that it pays to former employees in its cost of service on the grounds that those costs extinguish any possible liability those former employees may have against the company. It also claims that these severance costs are recurring. In contrast, Staff asserts that only KCPL shareholders, and not its ratepayers, receive the benefit of these costs.

The Commission finds that the competent and substantial evidence supports Staff's position, and finds this issue in favor of Staff. Staff's witness on this issue, Charles Hyneman, testified that KCPL answered one of his data requests by admitting that severance costs protect KCPL against such issues as sexual harassment or age discrimination, and that such costs are not recoverable in rates.[118]

He contrasted those severance payments, made only to protect shareholders, with severance payments made to decrease payroll, which could be included in cost of service because of the benefit to ratepayers.

Moreover, Staff points out that KCPL excluded its 2005 severance costs from its earnings per share calculation that determines its management's incentive compensation payment.[119]

The Commission sees no equity in allowing KCPL to recover these costs from ratepayers when its own management excludes those same costs from its EPS calculation, to the enrichment of its executives via the incentive compensation plan.

Q. Please describe KCPL's talent assessment program.

A. KCPL's talent assessment program was a major employee reorganization program ostensibly created by KCPL to improve the quality of its employees. KCPL described its Talent Assessment Program in its 2006 SEC Form 10-K, filed on February 2007 as follows:

2006 10K Consolidated KCP&L Skill Set Realignment Costs

In 2005 and early 2006, management undertook a process to assess, improve and reposition the skill sets of employees for implementation of the comprehensive energy plan. KCP&L recorded \$9.3 million in 2006 related to this workforce realignment process reflecting severance, benefits and related payroll taxes provided by KCP&L to employees. In its 2007 rate cases, KCP&L is requesting to establish a regulatory asset for these costs and amortize them over five years effective with new rates on January 1, 2008.

1 KCPL also described its talent assessment program in a June 2007 edition of
2 Integration Insights, a company newsletter:

3 What's the story on the Talent Assessment? In 2004, KCP&L worked
4 with the community to develop its Comprehensive Energy Plan. After
5 announcing the plan, the company assessed the skills needed to
6 implement it. We also wanted to ensure that the individuals taking this
7 journey with us were comfortable with the new direction. A Talent
8 Assessment process was used to evaluate non-bargaining unit
9 employees. Where concerns existed, employees were asked to decide if
10 they wanted to make the journey with us, and if so, to demonstrate their
11 commitment to the new expectations. This Talent Assessment process
12 was completed in 2006, and we have no plans for another one.

13 Q. Why does the Staff oppose KCPL recovering from customers its talent
14 assessment severance costs?

15 A. The Staff is opposed to rate recovery of these costs for the following reasons:

16 1. There is no evidence that KCPL was not providing safe and adequate
17 service with the employee base that existed prior to the talent assessment
18 severance program. Therefore, there is no evidence that the incurrence of this
19 cost was necessary for KCPL to meet its obligation.

20 2. There is no evidence that the costs of this talent assessment program has yet
21 or will ever provide any benefit to KCPL's customers.

22 3. KCPL's management is responsible for the hiring of employees and training
23 of employees. If the employees who were terminated under this program did
24 not meet KCPL's management's performance expectations, then KCPL's
25 management should bear the primary responsibility for this result.

26 4. In response to Staff data request 238, KCPL provided documents that show
27 that the severance costs of the talent assessment program were removed from
28 KCPL's 2006 earnings in the determination of KCPL's management's
29 incentive compensation. As noted above, the Commissions stated in its Report
30 and Order in Case No. ER-2006-0314 that it sees no equity in allowing KCPL
31 to recover costs from ratepayers when its own management excludes the same
32 costs from its EPS calculation, to the enrichment of its executives via the
33 incentive compensation plan.

34 Q. Why does the Staff oppose KCPL recovering from customers its three-year
35 average normalized severance costs?

1 A. The Staff will repeat the concerns that it had with this same issue in KCPL's
2 2006 rate case in which the Commission rejected KCPL's normalized severance cost recovery
3 proposal. The severance payments made by KCPL are not recurring costs of the type that
4 should be borne by regulated customers, nor are they expenditures that will result in any
5 payroll savings costs. There is no indication that the normalized severance payments in which
6 KCPL is seeking to recover in this case will provide any benefit to its customers.

7 In addition, by seeking rate recovery of severance payments, KCPL ignores that
8 payroll expenses for the severed employee that continues to be recovered in rates after the
9 employee leaves the company. In fact, KCPL might expect to double or triple recover the
10 cost of the severance by recovering the payroll costs for this employee until rates are changed.

11 In previous rate cases the Staff has allowed recovery of severance costs when a
12 company can demonstrate that the employee reorganization or downsizing that caused an
13 incurrence of severance costs will result in future payroll savings and that the utility has not
14 recovered the affected employees' payroll costs (after being severed) in utility rates. This
15 savings opportunity normally results from major corporate reorganizations or as a result of a
16 merger when employees who provide duplicate services are terminated. KCPL cannot make
17 this assertion with respect to these particular severance costs.

18 Q. Does this conclude your testimony?

19 A. Yes. My remaining adjustments and proposals will be included in the Staff's
20 Cost of Service Report.

CHARLES R. HYNEMAN**CASE PARTICIPATION**

Date Filed	Issue	Case Number	Exhibit	Case Name
7/16/1993	Cash Working Capital; Other Rate Base Components	TR93181	Direct	United Telephone Company of Missouri
8/13/1993	Cash Working Capital	TR93181	Rebuttal	United Telephone Company of Missouri
8/25/1993	Cash Working Capital	TR93181	Surrebuttal	United Telephone Company of Missouri
4/11/1994	Pension Expense; Other Postretirement Benefits	ER94163	Direct	St. Joseph Light & Power Company
5/16/1994	Pension Expense; Other Postretirement Benefits	HR94177	Direct	St. Joseph Light & Power Company
4/20/1995	Pension Expense; OPEB Expense; Deferred Taxes; Income Taxes; Property Taxes	GR95160	Direct	United Cities Gas Company
5/7/1996	Merger Premium	EM96149	Rebuttal	Union Electric Company
8/9/1996	Income Tax Expense; AAO Deferrals; Acquisition Savings	GR96285	Direct	Missouri Gas Energy
9/27/1996	Income Tax Expense; AAO Deferrals; Acquisition Savings	GR96285	Rebuttal	Missouri Gas Energy
10/11/1996	Income Tax Expense; AAO Deferrals; Acquisition Savings	GR96285	Surrebuttal	Missouri Gas Energy
6/26/1997	Property Taxes; Store Expense; Material & Supplies; Deferred Tax Reserve; Cash Working Capital; Postretirement Benefits; Pensions; Income Tax Expense	GR97272	Direct	Associated Natural Gas Company Division of Arkansas Western Gas Company
8/7/1997	FAS 106 and FAS 109 Regulatory Assets	GR97272	Rebuttal	Associated Natural Gas Company Division of Arkansas Western Gas Company
11/21/1997	OPEB's; Pensions	ER97394	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
3/13/1998	Miscellaneous Adjustments; Plant; Reserve; SLRP; AMR; Income and Property Taxes;	GR98140	Direct	Missouri Gas Energy, A Division of Southern Union Company

Date Filed	Issue	Case Number	Exhibit	Case Name
4/23/1998	Service Line Replacement Program; Accounting Authority Order	GR98140	Rebuttal	Missouri Gas Energy, A Division of Southern Union Company
5/15/1998	SLRP AAOs; Automated Meter Reading (AMR)	GR98140	Surrebuttal	Missouri Gas Energy, A Division of Southern Union Company
7/10/1998	SLRP AAOs; Reserve; Deferred Taxes; Plant	GR98140	True-Up	Missouri Gas Energy, A Division of Southern Union Company
4/26/1999	Merger Premium; Merger Accounting	EM97515	Rebuttal	Western Resources Inc. and Kansas City Power and Light Company
9/2/1999	Accounting Authority Order	GO99258	Rebuttal	Missouri Gas Energy
3/1/2000	Acquisition Detriments	GM2000312	Rebuttal	Atmos Energy Company and Associated Natural Gas Company
5/2/2000	Deferred Taxes; Acquisition Adjustment; Merger Benefits; Merger Premium; Merger Accounting; Pooling of Interests	EM2000292	Rebuttal	UtiliCorp United Inc. / St. Joseph Light and Power
6/21/2000	Merger Accounting Acquisition	EM2000369	Rebuttal	UtiliCorp United Inc. / Empire District Electric Company
11/30/2000	Revenue Requirements	TT2001119	Rebuttal	Holway Telephone Company
4/19/2001	Revenue Requirement; Corporate Allocations; Income Taxes; Miscellaneous Rate Base Components; Miscellaneous Income Statement Adjustments	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
12/6/2001	Corporate Allocations	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Corporate Allocations	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
1/8/2002	Acquisition Adjustment	EC2002265	Rebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service

Date Filed	Issue	Case Number	Exhibit	Case Name
1/8/2002	Acquisition Adjustment	ER2001672	Rebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Acquisition Adjustment	ER2001265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Acquisition Adjustment; Corporate Allocations;	EC2001265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
4/17/2002	Accounting Authority Order	GO2002175	Rebuttal	Utilicorp United Inc. d/b/a Missouri Public Service & St. Joseph Light & Power
8/16/2002	Prepaid Pension Asset; FAS 87 Volatility; Historical Ratemaking Treatments- Pensions & OPEB Costs; Pension Expense-FAS 87 & OPEB Expense-FAS 106; Bad Debt Expense; Sale of Emission Credits; Revenues	ER2002424	Direct	The Empire District Electric Company
3/17/2003	Acquisition Detriment	GM20030238	Rebuttal	Southern Union Co. d/b/a Missouri Gas Energy
12/9/2003	Current Corporate Structure; Aquila's Financial Problems; Aquila's Organizational Structure in 2001; Corporate History; Corporate Plant and Reserve Allocations; Corporate Allocation Adjustments	HR20040024	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
12/9/2003	Corporate Plant and Reserve Allocations; Corporate Allocation Adjustments; Aquila's Financial Problems; Aquila's Organizational Structure in 2001; Corporate History; Current Corporate Structure	ER20040034	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
1/6/2004	Corporate Allocation Adjustments; Reserve Allocations; Corporate Plant	GR20040072	Direct	Aquila, Inc.

Date Filed	Issue	Case Number	Exhibit	Case Name
2/13/2004	Severance Adjustment; Supplemental Executive Retirement Plan; Corporate Cost Allocations	HR20040024	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
2/13/2004	Severance Adjustment; Corporate Cost Allocations; Supplemental Executive Retirement Plan	ER20040034	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
4/15/2004	Pensions and OPEBs; True-Up Audit; Cost of Removal; Prepaid Pensions; Lobbying Activities; Corporate Costs; Miscellaneous Adjustments	GR20040209	Direct	Missouri Gas Energy
6/14/2004	Alternative Minimum Tax; Stipulation Compliance; NYC Office; Executive Compensation; Corporate Incentive Compensation; True-up Audit; Pension Expense; Cost of Removal; Lobbying.	GR20040209	Surrebuttal	Missouri Gas Energy
1/14/2005	Accounting Authority Order	GU20050095	Direct	Missouri Gas Energy
2/15/2005	Accounting Authority Order	GU20050095	Direct	Missouri Gas Energy
10/14/05	Corporate Allocations, Natural Gas Prices Merger Transition Costs	ER-2005-0436	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
11/18/05	Natural Gas Prices	ER-2005-0436	Rebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
12/13/05	Natural Gas Prices; Supplemental Executive Retirement Plan Costs; Merger Transition Costs	ER-2005-0436	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
10/14/05	Corporate Allocations, Natural Gas Prices Merger Transition Costs	HR-2005-0450	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P

Date Filed	Issue	Case Number	Exhibit	Case Name
11/18/05	Natural Gas Prices	HR-2005-0450	Rebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
12/13/05	Natural Gas Prices; Supplemental Executive Retirement Plan Costs; Merger Transition Costs	HR-2005-0450	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
08/08/2006	Fuel Prices Miscellaneous Adjustments	ER-2006-0314	Direct	Kansas City Power and Light Company
10/06/2006	Severance, SO ₂ Liability, Corporate Projects	ER-2006-0314	Surrebuttal	Kansas City Power and Light Company
11/07/2006	Fuel Prices	ER-2006-0314	True-Up	Kansas City Power and Light Company
01/18/07	Fuel Prices Corporate Allocation	ER-2007-0004	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
02/20/07	Natural Gas Prices	ER-2007-0004	Rebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
03/20/07	Hedging Policy Plant Capacity	ER-2007-0004	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P