

Exhibit No.:
Issue: Bad Debt; Regulatory Assets (Pension); Tracker
Balances in Rate Base; Expense Report Charges
Witness: Ronald A. Klote
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2016-0156
Date Testimony Prepared: September 2, 2016

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0156

SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
September 2016**

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SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2016-0156

1 Q: Are you the same Ronald A. Klotte who pre-filed direct and rebuttal testimony in
2 this matter on behalf of KCP&L Greater Missouri Operations Company (“GMO”
3 or the “Company”)?

4 A: Yes.

5 Q: What is the purpose of your surrebuttal testimony?

6 A: I will respond to the rebuttal testimony of Mr. Keith Majors submitted in this proceeding
7 on behalf of the Staff of the Missouri Public Service Commission (“Staff”) as it relates to
8 bad debt and regulatory assets/liabilities (pension) issues. I will also respond to the
9 rebuttal testimony of Mr. Mark Oligschlaeger submitted on behalf of Staff as it relates to
10 the general policy of tracker balances in rate base. Finally, I will also respond to the
11 rebuttal testimony of Mr. Charles Hyneman submitted in this proceeding on behalf of the
12 Office of Public Counsel (“OPC”) as it relates to officer expense reporting issues.

13 **I. BAD DEBT**

14 Q: What is the position of Staff witness Keith Majors in rebuttal testimony regarding
15 bad debt expense?

16 A: Staff witness Majors disagrees with the Company adjusting bad debt expense that is
17 associated with the ultimate revenues that will result from this rate case.

1 **Q: Does the Company agree with this position?**

2 A: No. The Company, as in previous cases, disagrees with this Staff position. In fact, as I
3 stated in my rebuttal testimony, this position by Staff is contrary to a previous
4 Commission decision.

5 **Q: Why does the Company disagree with this position?**

6 A: As discussed in my rebuttal testimony, the Company and Staff appear to be aligned
7 regarding the calculation of the bad debt write-off factor, which is computed using
8 historical revenue and historical bad debt write-off amounts. But the Company and Staff
9 disagree on what level of revenues this write-off factor should be applied too.

10 **Q: Does the Company disagree with the financial analysis that Staff has performed**
11 **associated with bad debt expense?**

12 A: No. The Company does not disagree that bad debt expense fluctuates over time. In fact,
13 that is the exact reason why the Company and Staff develop a bad debt write-off factor to
14 be applied to the current revenues in this rate case proceeding.

15 **Q: Is the analysis Staff conducted to refute the Company's position on this issue**
16 **relevant to deciding whether the bad debt factor should be applied to revenue levels**
17 **which include or exclude the increase awarded in this case in order to estimate going**
18 **forward bad debt expense to be included in rates?**

19 A: No. Staff and Company have always agreed to base the bad debt write-off ratio on a
20 historical level of revenues and a historical level of bad debt write-offs. This is done
21 because the level of bad debts written off on a monthly basis varies month by month.
22 This level of historical revenues captures a point in time in order to develop a write-off
23 ratio to revenues collected that can be associated with the revenues that will be received

1 at the conclusion of this rate case. Much testimony has been provided on this issue in this
2 rate case and in previous rate cases. But, the issue really boils down to one simple factor
3 for this Commission to decide. Since the Company and Staff agree on how to calculate
4 the bad debt factor, should the agreed-upon bad debt factor be applied to the weather
5 normalized revenues that are prior to the rate increase in this case, as Staff has done, or to
6 the weather normalized revenue that include the rate increase resulting from this rate
7 case, as proposed by the Company? The Company believes that the correct amount of
8 bad debt expense that should result from this case can only be the latter since those are
9 the total revenues from which uncollectible revenues will be written off. The annualized
10 level of bad debt expense built into rates should therefore be based on total revenues
11 resulting from this rate case. Analyzing the monthly fluctuation of bad debts over time as
12 Staff has done does correctly point out that bad debt expense fluctuates over time and that
13 a ratio of bad debt expense to total revenues should be calculated, but to set rates for this
14 rate case by applying this ratio to the annualized level before the rate increase is not
15 proper as it should be based on the true revenues resulting from this case as those are the
16 same revenues that will become the source of future bad debt write-offs when new rates
17 are in effect. Staff's approach simply ignores this fact.

18 **Q: Does the Company agree with Staff that late payment fees (forfeited discounts)**
19 **should be factored up associated with the final revenues in this rate case if bad debt**
20 **expense is factored up?**

21 A: Yes. The Company and Staff are in agreement.

1 **II. REGULATORY ASSETS / LIABILITIES (PENSION ISSUE)**

2 **Q: What is the position that Staff witness Majors has taken in regards to the prepaid**
3 **pension amortization established in Case No. ER-2004-0034 that expired in July**
4 **2013?**

5 A: Staff's direct filed prepaid pension "tracker" adjustment captures the expired
6 amortization of the L&P prepaid pension asset amortization that was established in Case
7 No. ER-2004-0034 and was amortized over nine and one-quarter years. As part of
8 Schedule RAK-24 attached to this testimony is the *Unanimous Stipulation and*
9 *Agreement* in Case No. ER-2004-0034. This Stipulation and Agreement on page 9 and
10 10 describes the establishment of a \$3,352,742 annual provision prior to capitalization for
11 the amortization of prepaid pension amounts. When the prepaid pension asset established
12 in 2004 was fully amortized in July 2013, Staff treated the amount being collected in
13 rates as if it were additional cash pension expense being collected in rates and "rolled"
14 the dollars associated with the expired amortization into the current FAS 87 pension
15 tracker mechanism even though it had no connection with the establishment of the
16 current FAS 87 tracker mechanism and there was no mention of tracking the expired
17 amortizations in the original Stipulation and Agreement in ER-2004-0034. *See* Schedule
18 RAK-24, ¶16, pp. 9-10.

19 **Q: Is the over-amortization of the prepaid pension amortization established in 2004 a**
20 **component of the current FAS 87 pension tracker?**

21 A: No. In Case ER-2010-0356, the Stipulation and Agreement regarding pensions
22 specifically detailed how the FAS 87 tracker would record the difference in the current
23 level of FAS 87 costs and the level of FAS 87 costs built into rates. See Schedule RAK-

1 25 which provides the *Second Non-Unanimous Stipulation and Agreement Regarding*
2 *Pension and Other Post-Employment Benefits* that was approved by the Commission in
3 Case No. ER-2010-0356. Paragraph 41 on page 17 of Schedule RAK-25 addresses the
4 prepaid pension amortization established in Case No. ER-2004-0034 and no tracking
5 treatment after conclusion of that amortization is provided. The prepaid pension
6 amortization established in 2004 was not a part of the establishment of the FAS 87
7 tracker in the 2010 rate case or in any subsequent case, therefore the Company followed
8 the Stipulation and Agreement and properly did not include the excess amortization
9 associated with the expired prepaid amortization.

10 **Q: Does the Company agree with Staff's position to include the over-amortization of**
11 **prepaid pension amortization established in the 2004 case in the current FAS 87**
12 **pension tracker mechanism?**

13 A: No. As stated in my rebuttal testimony the Company does not agree with the approach
14 that Staff is applying to the prepaid pension amortization. The *Unanimous Stipulation*
15 *and Agreement* in the 2004 case, which is carried forward in pension-related agreements
16 in subsequent rate cases, includes no language to establish a tracker after the conclusion
17 of the prepaid pension amortization. The recapture of the amortization of pension costs
18 from over ten years ago under a recovery method different than that which was
19 previously agreed to and approved by the Commission in ER-2004-0034 (and other rate
20 cases) is unreasonable and constitutes overreaching by the Staff. I also believe it
21 constitutes retroactive ratemaking that I understand is forbidden.

1 **Q: If the Commission were to accept the retroactive prepaid pension position proposed**
2 **by Staff in this rate proceeding what would be the impact on the Company's**
3 **earnings in 2016?**

4 A: If the Commission were to accept Staff's position and begin to track the amortization of
5 prepaid pensions established in 2004, and which became fully amortized in July 2013, the
6 Staff proposal would be tracked through July 2016 in this case and through December 22,
7 2016 for the next general rate case. The impact of Staff's proposal would create an
8 immediate reduction to the Company's 2016 earnings before tax impacts in the amount of
9 \$8,639,275 which would be required to be recorded in 2016. This retroactive ratemaking
10 proposal would be significantly detrimental to the Company's earnings and was just
11 simply not contemplated in the previous pension Stipulation and Agreements.

12 **III. TRACKER BALANCES IN RATE BASE**

13 **Q: What position does Staff witness Oligschlaeger take in Rebuttal Testimony**
14 **regarding establishing a general policy for the inclusion of tracker balances in rate**
15 **base?**

16 A: In response to OPC witness Charles Hyneman , Mr. Oligschlaeger states, on p. 17 of his
17 Rebuttal Testimony, that Staff does not see the need to establish a general policy and
18 believes the question of rate base treatment of tracker balances can best be determined on
19 a case-by-case basis.

20 **Q: What position does the Company take on this issue?**

21 A: The Company agrees with Staff witness Oligschlaeger. Mr. Oligschlaeger makes an
22 excellent point when he states that unless rate base treatment is given to the unamortized
23 balance of tracked regulatory assets/liabilities, either the utility or its customers will not

1 be made fully “whole” for the tracked cost differential as either party would lose the
2 “time value of money” associated with the item. On such important issues where
3 regulatory assets or liabilities are established for tracked balances that provide a “return
4 on” the tracked amount for either the Company or the customer each event should be
5 evaluated on a case-by-case basis rather than formulation of a general policy that does not
6 consider the unique facts surrounding the tracked issue.

7 **Q: Is there any other point you would like to make or reiterate?**

8 A: Yes. In my rebuttal testimony, I responded to OPC witness Hyneman’s position in which
9 he took exception with the inclusion of certain regulatory assets associated with major
10 construction projects and pension assets. My rebuttal testimony established the
11 regulatory accounting history associated with the Iatan 1 & Common Regulatory Asset,
12 the Iatan 2 Regulatory Asset and the Regulatory Asset associated with the FAS 87
13 Pension Tracker. These assets were properly approved to be included in rate base in prior
14 cases and the continuation of that treatment is appropriate in this rate case.

15 **IV. EXPENSE REPORT CHARGES**

16 **Q: Does OPC witness Hyneman address expense report issues in his rebuttal**
17 **testimony?**

18 A: Yes. On page 60 of his rebuttal testimony, OPC witness Hyneman attempts to persuade
19 the Commission that the Company is not serious about enhancing its customer experience
20 by stating that if it were it would have “ceased its imprudent, excessive and unreasonable
21 expense account spending habits.”

1 **Q: How do you respond?**

2 A: Mr. Hyneman is just wrong. In fact he is contradicting his own direct testimony in this
3 rate case, on page 46, where he testified:

4 Q: Has KCPL and GMO made what could potentially be significant
5 improvements in its office[r] and employee expense report charges?
6

7 A: Yes. I was provided with a list of proposed changes by KCPL which
8 would lessen the risk of inappropriate expense report charges being reflected in
9 KCPL and GMO's regulated books and records. If these changes are actually
10 made and effectively enforced, then there will be less risk of inappropriate
11 employee and officer charges being included in utility rates.
12

13 This statement by Mr. Hyneman in his direct testimony seemed to provide evidence that
14 he believed improvements were being made that reduced the risk of inappropriate
15 expense report charges being included in the utility rates that are charged to our
16 customers.

17 **Q: Did the list of proposed changes that was provided to OPC witness Hyneman reflect
18 that KCP&L senior management was serious about providing expense account
19 controls that would provide protections for customers?**

20 A: Yes absolutely. Attached to my testimony is Schedule RAK-26 which provides the
21 listing that Mr. Hyneman referred to in his Direct Testimony which was provided to OPC
22 and was the result of a *Partial Non-Unanimous Stipulation and Agreement as to Certain
23 Issues* in KCP&L Case No. ER-2014-0370. This listing provided changes in the
24 following areas:

- 25 • Officer Expenses
- 26 • Additional Review of Transactions
- 27 • Job Aides
- 28 • Restriction of Chartfield Values

- 1 • Default Accounting Code Block Chartfield Value Reviews
- 2 • General Allocator

3 These changes increased the internal controls that were in place to address expense
4 account issues that had arisen in the past. These changes were meaningful changes that
5 were put in place and representative of the commitment by senior management to
6 improve expense account issues.

7 **Q: Was there other testimony provided in this case by Mr. Hyneman in his Direct**
8 **Testimony that continued to find fault with the expense account process?**

9 A: Yes, but the Company addressed these issues in its Rebuttal Testimony by Company
10 witness Steven Busser and my previous rebuttal testimony. The Company has protected
11 customers in this rate case proceeding by performing a review of expense reports and by
12 further implementing controls on a going forward basis to attempt to mitigate
13 unreasonable expenses being passed onto customers. The Company actions demonstrate
14 that it takes this issue seriously.

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

16 A: Yes, it does.

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

In the Matter of the Request of Aquila, Inc., d/b/a)
Aquila Networks-L&P and Aquila Networks-MPS, to)
Implement a General Rate Increase in Electric Rates.) Case No. ER-2004-0034

In the Matter of the Request of Aquila, Inc. d/b/a)
Aquila Networks – L&P to Implement a General Rate)
Increase in Steam Rates) Case No. HR-2004-0024

UNANIMOUS STIPULATION AND AGREEMENT

COME NOW Aquila, Inc. d/b/a Aquila Networks – MPS (“MPS”) and Aquila Networks – L&P (“L&P”) (“Aquila” or “Company”), the Staff of the Missouri Public Service Commission (“Staff”), the Office of the Public Counsel (“Public Counsel”), the Sedalia Industrial Energy Users’ Association, Ag Processing, Inc. (“AGP”), the City of Kansas City, Missouri, the Missouri Department of Natural Resources (“MDNR”) and the United States Department of Defense and other Executive Agencies, (collectively “Parties”) and state to the Missouri Public Service Commission (“Commission”):

BACKGROUND

1. On July 3, 2003, Aquila submitted to the Commission proposed tariff sheets designed to increase rates for the electric and industrial steam service provided to its customers in the Missouri service areas of the Company. The proposed tariff sheets bore an effective date of August 4, 2003. The proposed electric service tariff sheets were designed to produce an annual increase of \$65,000,000 for Aquila, exclusive of applicable fees and taxes, from the customers it serves as MPS. The proposed electric service tariff sheets were designed to produce an annual increase of \$14,639,000 for Aquila, exclusive of applicable fees and taxes, from the

customers it serves as L&P. The proposed industrial steam service tariff sheets were designed to produce an annual increase of \$1,340,000 for Aquila, exclusive of applicable fees and taxes, from customers it serves as L&P.

2. On July 22, 2003, the Commission issued its Order suspending the proposed tariffs for a period of 120 days plus an additional six months beyond the proposed effective date, until June 2, 2004. Subsequently, on July 24, 2003, the Commission consolidated the electric and industrial steam cases with the electric case, Case No. ER-2004-0034, established as the lead case. Thereafter, in accordance with the Commission's procedural schedule, litigation of these cases began on Monday, February 23, 2004. During the course of this litigation, the Parties also met for the purpose of exploring settlement of the outstanding issues. As a result of those discussions and negotiations, the Parties have reached the stipulations and agreements set out herein which resolve all remaining issues in this case.

RESOLUTION OF ISSUES

Revenue Requirement

3. All Parties agree that the proposed tariff sheets filed with the Commission on July 3, 2003, be rejected and that Aquila shall be authorized to file revised tariff sheets containing rate schedules for electric service in its MPS service area that are designed to produce an increase in overall gross annual electric revenues, exclusive of applicable fees and taxes, of \$14,500,000. Aquila shall also be authorized to file with the Commission revised tariff sheets containing rate schedules for electric service in its L&P service area that are designed to produce an increase in overall gross annual electric revenues, exclusive of applicable fees and taxes, of \$3,250,000. Aquila shall also be authorized to file with the Commission revised tariff sheets containing rate

schedules for steam service in its L&P service area that are designed to produce an increase in overall gross annual steam revenues, exclusive of applicable fees and taxes, of \$1,300,000.

AGP Special Contract

4. Aquila agrees to grant industrial steam customer AGP a five (5) year special contract, with a one (1) year evergreen provision, which special contract will provide a discount from steam tariffs, on file and approved by the Commission, in an amount of \$35,000 per month (not to exceed the total amount billed in that month) in each month based upon an agreed upon load factor and usage level. Aquila agrees that for future ratemaking determinations, AGP will be treated as if it were paying the full tariff rate.

IEC

5. All Parties agree to a two year Interim Energy Charge (“IEC”) for Aquila’s Missouri electric operations. The terms of the IEC are contained in **Appendix A** to this Stipulation and Agreement.

Summary

6. A summary of the rate adjustments and special contract agreed to herein is as follows:

	(Dollars in Millions)			
	MPS	L&P Electric	L&P Steam	Total
Base Rates (gas embedded @ \$3.50)	\$14.50	\$3.25	\$1.30	\$19.05
IEC (87%/13% split)	<u>\$16.10</u>	<u>\$2.40</u>	----	<u>\$18.50</u>
Total Tariff Increase	\$30.60	\$5.65	\$1.30	\$37.55
AGP Special Contract (annual reduction in tariffed rates)			(\$0.42)	(\$0.42)

Tariff and Implementation

7. Illustrative tariff sheets designed to implement the agreed-to-rate increase, the IEC and other agreed-to-tariff changes are attached as **Appendix B** to this Stipulation and Agreement. The AGP Special Contract is attached as **Appendix C** to this Stipulation and Agreement. The Parties agree that, as a part of this Stipulation and Agreement, the Commission, in its order approving this Stipulation and Agreement, is to order Aquila to file tariff sheets in the form of **Exhibit B** to become effective on the effective date of the Commission’s order approving this Stipulation and Agreement. Commission acceptance of this Stipulation and Agreement shall constitute approval of the AGP Special Contract.

Reliability Reporting

8. Aquila agrees to provide the Staff, Public Counsel and any other signatory to this Stipulation and Agreement the following call center, meter reading and reliability reporting, twenty-one (21) days after the last day of the month for which the information covers:

The specific information that will be provided by Aquila on a monthly basis includes the following:

Call Center Data

Total Calls Offered to the Call Center

Call Center Staffing including Call Center Management Personnel

Average Speed of Answer (“ASA”) - All Other Calls

Abandoned Call Rate (“ACR”)

Service Level - All Other Calls

Service Level - Emergency Calls

Meter Reading Data

Number and Percentage of Total Electric and Gas Meters Read

Number and Percentage of Meters Estimated

Number of Consecutive Estimated Meters Read for a period greater than seven (7) months

Reliability Indicators

Customer Average Interruption Duration Index (“CAIDI”)

System Average Interruption Duration Index (“SAIDI”)

System Average Interruption Frequency Index (“SAIFI”)

Aquila also agrees to provide the Staff, Public Counsel and any other party Momentary Average Interruption Frequency Index (“MAIFI”) data on a quarterly basis and will be transmitted with the monthly data at the end of each quarter.

When Aquila has the above call center data available on a state-by-state basis, it will provide this information to the Staff, Public Counsel and any other party on a state-by-state basis.

Aquila agrees that it will provide the Staff, Public Counsel and any other party the above reporting requirement information on a monthly basis, except for MAIFI, until Aquila’s financial condition reaches investment grade and the Staff determines Aquila’s customer service and reliability performances no longer require monthly reporting to the Staff of the above data. At that time, Aquila will commence reporting to the Staff, Public Counsel and any other party the above-specified information on a quarterly rather than on a monthly basis.

Depreciation

9. The Commission shall order Aquila to use the depreciation rates and Average Service Lives set out in **Appendix D** to this Stipulation and Agreement.

The Parties agree with the provision for jurisdictional net cost of removal (cost of removal less salvage) recommended by Staff. The provision for jurisdictional net cost of removal of \$1,471,339 for MPS electric, \$454,995 for L&P electric and \$24,382 for L&P steam is to be recorded as an annual expense for rate making purposes. Aquila shall book for its MPS electric and L&P electric and steam operation, actual levels of annual net cost of removal as an expense up to the amounts listed above. For any actual amount of annual net cost of removal that differs from these amounts, Aquila will record the difference in its accumulated depreciation reserve. The Parties agree this methodology will represent full recovery of all of the Company's annual net cost of removal expenditures. This methodology will be reviewed in Aquila's next general rate case in which its retail electric rates are under review to determine whether the methodology will be continued.

Miscellaneous Service Matters

10. The Parties agree that for electric and steam service in Missouri:
 - a. The late payment charge will be a simple $\frac{1}{2}$ percent per month of the original net amount due on the delinquent bill in both the MPS and the L&P service areas;
 - b. The customer deposit interest during the calendar year in both the MPS and L&P service areas will be one percentage point (1%) above the prime rate published in the Wall Street Journal on the last business day in December of the prior year;
 - c. The miscellaneous charges for electric service will be as outlined in the rebuttal testimony of Staff witness William McDuffey except for special meter reading, temporary meter sets, and collection charges;

- d. The special meter reading charges for electric service will be \$12 and \$16 in both the MPS and the L&P service areas;
- e. The temporary meter set charge for electric service will be \$100 in both the MPS and the L&P service areas; and
- f. The collection charge for electric service will be \$25 in both the MPS and L&P service areas.

Weatherization

11. The agreed-to rate increase described above does not take into account any contribution for weatherization or other programs proposed by the City of Kansas City or the MDNR. Aquila agrees that it will supply, through shareholder funds, a one-time funding of \$75,000 to conduct tall tower wind assessments as described in the direct testimony of MDNR witness Anita Randolph, to be initiated on or before January 1, 2005. Aquila agrees to work with the MDNR to apply for any federal grant opportunities that become available. Aquila further agrees to fund through shareholder funds, on an annual basis and until the next general rate proceeding involving Aquila's Missouri electric rates, \$93,500 that may be used for a low-income weatherization program that is consistent with federal weatherization assistance program guidelines, commercial energy audit and/or Change-A-Light program. Aquila will meet with Staff, Public Counsel, MDNR and the City of Kansas City on a collaborative basis to determine the details of the programs that the monies agreed to above will fund, and the manner in which those monies will be distributed and accounted for consistent with applicable federal and state guidelines. Aquila further agrees to work with the MDNR and City of Kansas City to explore an energy efficiency planning and implementation approach, funding mechanism and regulatory process similar to programs in place in Iowa and/or Minnesota.

Tax Study

12. Aquila agrees to undertake a study for its MPS division to develop the level of detail needed to assess Staff's method to determine its regulated income tax expense for Missouri ratemaking purposes, all as more particularly described in **Appendix E** to this Stipulation and Agreement.

Customer Service Inquiries

13. Aquila will respond to inquiries from Staff's Consumer Services Department within three (3) business days, except for interruption of service issues, to which it will respond within twenty-four (24) hours.

Billing Determinants

14. All Parties agree to use of Staff's billing determinants to develop the rates resulting from this Stipulation and Agreement.

Aries Information

15. Aquila will store and maintain all information, documents and other records that it has assembled and collected regarding the Aries plant, including those obtained from affiliates and other entities and including those records that it has provided to Staff under restricted access in this case and any such information, documents or other records it may obtain in the future respecting Aries, until the Commission determines that it is not necessary that Aquila continue to store and maintain said information, documents or other records. Aquila will make said information, documents and records available for review and taking of notes at the offices of its Jefferson City legal counsel during normal business hours upon reasonable notice. All Parties reserve their rights with respect to the Commission discovery rules.

Pensions

16. All Parties agree that MPS rates include a \$1,470,509 annual provision, prior to capitalization, for MPS electric jurisdictional pension cost. All Parties agree that L&P rates include a \$8,858 annual provision, prior to capitalization, for L&P electric pension cost and L&P steam rates include \$261 annual provision, prior to capitalization, for L&P steam pension costs. Company is authorized to reflect pension cost equal to this provision for the ERISA minimum and record the difference between the ERISA minimum and the annual provision for pension cost as a regulatory asset or liability. This regulatory asset and/or liability is intended to track the difference between the provision for the ERISA minimum contribution included in cost of service in this case, and the Company's actual ERISA minimum contributions made after the effective date of rates established in this case. This regulatory asset and/or liability will be included in rate base in the company's next rate case and amortized over a five (5) year period. The Company is authorized to make such additional entries as are appropriate under FAS71 to reflect that rates do not include FAS87 in cost of service. Company is authorized to adjust its calculation of the MPS and L&P ERISA minimum, and the allocations to MPS and L&P of pension related assets and costs, to reflect the exclusion of Aquila's total company actual contributions that are in excess of the ERISA minimum. All Parties further agree that MPS rates include a \$2,110,436 annual provision, prior to capitalization, for an MPS electric jurisdictional prepaid pension amortization. This amortization will be in effect for a five and one-half (5 ½) year period beginning with the effective date of rates established in this case. All Parties agree that L&P rates include a \$3,352,742 annual provision, prior to capitalization, for L&P electric prepaid pension amortization and that L&P steam rates include \$98,687 annual provision, prior to capitalization, for L&P steam prepaid pension amortization. This amortization will be in

effect for a nine and one-quarter (9.25) year period beginning with the effective date of rates established in this case.

IRP

17. Aquila will hold Integrated Resource Planning (“IRP”) presentations semiannually and, in addition to making its presentation to the Staff, Public Counsel and the Missouri Department of Natural Resources, will invite all Parties in this proceeding to same. To the extent any such party is not required by statute to maintain the confidentiality of the substance of such presentations, the presentations will be subject to a confidentiality agreement(s).

18. Aquila will file detailed resource plans for its Missouri operations every two years. Its initial filing shall be made in March 2005. These detailed resource plans shall cover at least a ten-year planning horizon and, at a minimum, shall include (a) load forecast of seasonal energies and peaks; (b) identification of changes in the load forecast from its last filing with an explanation of the reasons for the changes; (c) a measurement of the impact on the seasonal demands and energies of all demand response programs, including interruptible and demand curtailment type programs; (d) identification of projected retirement of existing supply-side resources; (e) identification of supply-side resource options; (f) ranking of options based on their relative annualized capital and operating costs; (g) identification of candidate resource options for purposes of developing alternative resource plans; (h) explanations of eliminations from further consideration of those options eliminated in a screening analysis; (i) identification of opportunities for life extension and refurbishment of existing generation plants; (j) opportunities for long-term power purchases and sales, both firm and nonfirm, that are likely to be available over the planning horizon; (k) transmission plans including strategic transmission issues; (l)

sensitivity analysis to identify uncertain factors that are critical to the performance of the resource plan including but not limited to load forecast risk, changing fuel prices, and the cost of complying with new environmental and other state and federal legislation; (m) decision tree analysis of each resource plan that appropriately represents the key resource decisions and critical uncertain factors that affect the performance of the resource plan; (n) a preferred resource plan that, in the judgment of the utility, strikes a balance among all planning objectives; and (o) a three-year implementation plan that specifies the major tasks and schedules necessary to implement the preferred resource plan.

Aquila's filing shall include a capacity balance table that shows the peak load forecast taking into account all demand response programs, the generation capacity by unit, contract capacity purchases and sales amounts, planning reserve margin and capacity excess or need for at least the ten year planning horizon.

Within two weeks of its resource plan filing, Aquila will meet with the Staff, Public Counsel and the Missouri Department of Natural Resources, to present its resource plan and to answer questions regarding the filed plan.

If Aquila significantly changes its last filed resource plan or implementation plan between the semiannual meetings and the filings, Aquila will file its modified plan within thirty (30) days of its decision to change the plan.

Aquila will continue to provide to Staff and Public Counsel copies of competitive bidding requests for proposals ("RFPs") at least 45 days prior to sending out each RFP. Staff and Public Counsel shall have the opportunity to provide comments to Aquila within 30 days of their receipt of the RFP.

Thirty days before awarding contracts to successful bidders, Aquila will provide to Staff and Public Counsel its evaluation of the proposals received in response to its RFP for its forecasted capacity needs. This evaluation will include the elements of risk analysis and plan selection as described in 4 CSR 240-22.070.

Aquila acknowledges Staff and Public Counsel have the right to discovery consistent with the Commission rule 4 CSR 240-2.090 regarding any information about Aquila's resource planning.

If there are issues regarding the resource planning process or plans that the Staff, Public Counsel and Aquila cannot resolve, any such party may take the issue(s) to the Commission for resolution.

Steam Operation

19. All Parties agree that expenses for L&P steam operations will be allocated for ratemaking, but that Aquila should be granted a waiver from the Commission's requirement expressed in a prior order that such expenses be booked monthly within Aquila's accounting system. Annually Aquila shall conduct a Steam operation study, and report the results of its study to the Staff and to AGP. Nothing in this agreement excuses Aquila from charging its direct expenses to the appropriate operation or from any requirement to keep the monthly, daily, hourly data necessary to accurately allocate all costs as needed for ratemaking purposes.

Books and Recordkeeping

20. Aquila agrees to meet with Public Counsel each month over the next six months in an effort to resolve concerns with respect to Aquila's books and records. If Aquila is not able to resolve Public Counsel's concerns within the next six months, Public Counsel is free to

request modifications to Aquila's books and recordkeeping procedures and Aquila is free to take any position with regard to such a request.

Cost of Capital

21. Aquila agrees that in future rate cases, it will not seek a cost of capital higher than a group of comparable electric utilities with an investment grade rating. This condition will continue until two requirements are satisfied. These requirements are 1) Aquila must have an investment grade rating; and (2) a company-specific discounted cash flow analysis can be performed on Aquila.

Litigation

22. When a Commission order approving this Stipulation and Agreement becomes final and unappealable, AGP and the Public Counsel agree to dismiss, with prejudice, any then-pending action(s) with respect to the merger between UtiliCorp United Inc. (now Aquila, Inc.) and St. Joseph Light & Power Company. Specifically, AGP and the Public Counsel agree to dismiss, with prejudice, *State of Missouri ex rel. AG Processing Inc., and the Missouri Office of the Public Counsel v. The Missouri Public Service Commission and the Commissioners Thereof*, Cole County Circuit Court Case No. 04CV323493; further, no signatory to this Stipulation and Agreement shall pursue rehearing or judicial review with respect to the Commission's *Second Report and Order* issued in Case No. EM-2000-292 on February 26, 2004, and effective March 7, 2004, and any such application for rehearing or judicial review then pending shall be dismissed with prejudice. Further, no signatory to this agreement shall challenge the validity of the tariff filings made by Aquila, Inc. on July 3, 2003, and docketed as Case Nos. ER-2004-0034 and HR-2004-0024 and the tariff filing made by Aquila, Inc. on August 1, 2003, and docketed as Case No. GR-2004-0072, with respect to the legal authority of Aquila, Inc. to make such filings.

Furthermore, the Public Counsel agrees to withdraw, with prejudice, the Motion to Dismiss which it filed with the Commission in Aquila's currently pending gas rate case, Case No. GR-2004-0072.

Moratorium

23. Aquila agrees that it will not seek a general increase in the retail electric rates of its MPS operating division or in the retail electric rates of its L&P operating division, or in the industrial steam rates of its L&P operating division, for a period not to exceed thirteen (13) months after the effective date of the tariffs attached as **Appendix B**, and further agrees that no increase in said rates shall become effective any earlier than the date that the IEC terminates, unless there is the occurrence of a significant, unusual event that has a major impact on either or both of said operating divisions such as:

- Terrorist activity or an act of God;
- A significant change in federal or state tax laws; or
- A significant change in federal or state utility or environment laws or regulations.

GENERAL PROVISIONS

24. All Parties agree to use their best efforts to achieve implementation of this Stipulation and Agreement with tariffs effective April 15, 2004.

Admission of Party Testimony

25. All Parties agree that, in the event the Commission approves this Stipulation and Agreement without modification or condition, then the prefiled testimony of all witnesses in this proceeding may be included in the record of this proceeding, without the necessity of such witnesses taking the stand.

Contingent Waiver of Rights

26. This Stipulation and Agreement is being entered into solely for the purpose of settling all issues in these cases. None of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost determination or cost allocation or revenue related methodology, and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding, whether this Stipulation and Agreement is approved or not, except as otherwise expressly specified herein,.

27. This Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve this Stipulation and Agreement by June 2, 2004, or approves this Stipulation and Agreement with modifications or conditions that a party to this proceeding objects to prior to the effective date of the Order approving this Stipulation and Agreement, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof, except as otherwise provided herein.

28. If the Commission does not unconditionally approve this Stipulation and Agreement without modification, and notwithstanding its provision that it shall become void therein, neither this Stipulation and Agreement, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any party has for a decision in accordance with §536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the Parties shall retain all procedural and due process rights as fully as though this Stipulation and Agreement had not been presented for approval, and any suggestions or memoranda, testimony or exhibits that have been offered or received in support of this

Stipulation and Agreement shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

29. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the signatories waive their respective rights to present oral argument and written briefs pursuant to §536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to §536.080.2 RSMo 2000; their respective rights to seek rehearing, pursuant to §386.500 RSMo 2000; and their respective rights to judicial review pursuant to §386.510 RSMo 2000. This waiver applies only to a Commission Order respecting this Stipulation and Agreement issued in this proceeding, and does not apply to any matters raised in any prior or subsequent Commission proceeding, or any matters not explicitly addressed by this Stipulation and Agreement.

Right to Disclose

30. The Staff shall file suggestions or a memorandum in support of this Stipulation and Agreement. Each of the Parties shall be served with a copy of any such suggestions or memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's suggestions or memorandum, responsive suggestions or a responsive memorandum which shall also be served on all Parties. The contents of any suggestions or memorandum provided by any party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation and Agreement, whether or not the Commission approves and adopts this Stipulation and Agreement.

31. At any Commission agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, the Staff also shall have the right to provide,

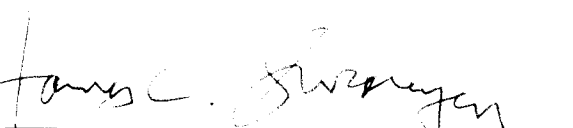
whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the other Parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any protective order issued in this case.

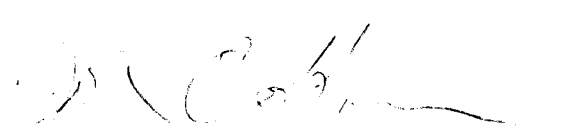
Integration

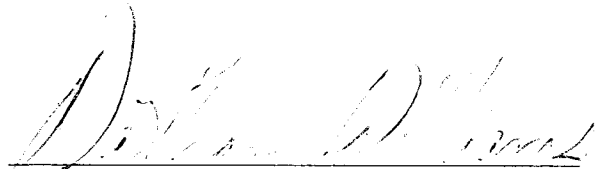
32. This Stipulation and Agreement incorporates the agreements of the Parties on all issues that the Parties presented to the Commission as issues to be decided in Case Nos. ER-2004-0034 and HR-2004-0024 and that were not resolved in the stipulation and agreement pertaining to Rate Design and Class Cost of Service filed in Case No. ER-2004-0034 on December 16, 2003.

WHEREFORE, for the foregoing reasons, the undersigned Parties respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this Stipulation and Agreement.

Respectfully submitted,

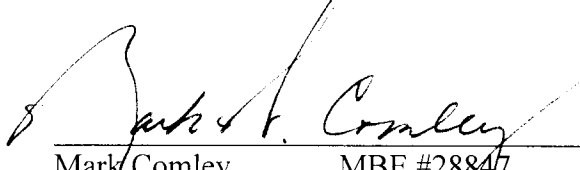

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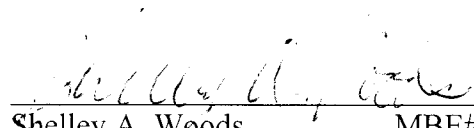


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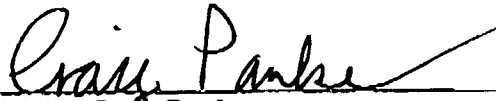
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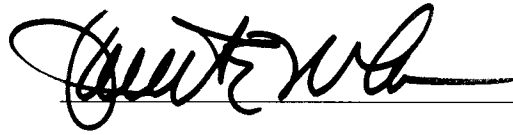
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*For attachment to 3-16-04
 S.F.A. in ER-2004-0034 et al.*

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was sent by electronic mail on this 16th day of March, 2004, to the Parties of record.



A handwritten signature in black ink, appearing to read "Gunter W.", is written over a horizontal line.

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

In the Matter of the Application of KCP&L-)
Greater Missouri Operations Company for)
Approval to Make Certain Changes in its)
Charges for Electric Service) Case No. ER-2010-0356

**SECOND NONUNANIMOUS STIPULATION AND
AGREEMENT REGARDING PENSIONS
AND OTHER POST-EMPLOYMENT BENEFITS**

COMES NOW KCP&L Greater Missouri Operations Company (“GMO” or “Company”) and the Staff of the Missouri Public Service Commission (“Staff”), and respectfully state to the Missouri Public Service Commission (“Commission”):

1. GMO’s and Staff’s nonunanimous stipulation and agreement regarding pensions and other post-employment benefits that the Commission approved in its May 4, 2011, *Report and Order* includes pension, other post-employment benefit, and tracker amounts (rate base and amortization) based on an assumption of the allocation of Iatan 2 between MPS and L&P different than what the Commission ordered in its *Report and Order*.

2. In light of the Commission’s decision on the allocation of Iatan 2 stated in its *Report and Order*, GMO and the Staff (individually “Signatory” and collectively “Signatories”) have reached an agreement (“Agreement”) to modify¹ their prior unopposed, Commission-approved nonunanimous stipulation and agreement that resolved between them pension and other post-employment benefit (“OPEB”) costs for GMO as of December 31, 2010, and the treatment of

¹ This Agreement modifies the Signatories’ prior agreement by changing certain amounts in that agreement as follows. The indicated paragraph numbers are those used in the original agreement. The associated paragraphs in this second agreement are two paragraphs later in each instance: Paragraph 19 – MPS total pensions – to \$7,916,590 from \$7,945,506, decrease of (\$28,916); Paragraph 24 - L&P electric pensions – to \$1,100,735 from \$1,070,694, increase of \$30,041; Paragraph 29 - MPS total OPEB – to \$3,764,186 from \$3,772,156, decrease of (\$7,970); Paragraph 34 - L&P total OPEB – to \$1,245,242 from \$1,236,214, increase of \$9,028; Paragraph 38 – MPS total ERISA Tracker (Rate Base) – to \$6,324,263 from \$6,352,121; Paragraph 38 – MPS total ERISA Tracker amortization – to \$926,125 from \$930,204; Paragraph 38 – L&P electric ERISA Tracker (Rate Base) – to (\$205,033) from (\$233,131); and Paragraph 38 – L&P electric ERISA Tracker amortization – to (\$30,919) from (\$35,156).

those costs for this and future cases.

3. This Agreement will be applied individually for the Missouri Public Service (“MPS”) and St. Joseph Light & Power (“L&P”) rate jurisdictions. Nothing in this Agreement prevents either of the Signatories from proposing changes to the provisions of this Agreement in a future case.

Purpose of the Stipulation and Agreement

4. The Generally Accepted Accounting Principles (“GAAP”) related to pension and OPEB costs are now identified in Accounting Standards Codification (“ASC”) 715 – Compensation – Retirement Benefits. Prior to the codification of accounting standards, GAAP for pensions and OPEB costs were included in Statement of Financial Accounting Standards (“FAS”) Nos. 87, 88, 106, 112, 132(R) and 158. For purposes of clarity and consistency in this Agreement with past practice, however, they will be referred to by their original FAS designations.

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

- a. Establish the ratemaking methodology for each GMO rate jurisdiction consistent with that authorized for Kansas City Power & Light Company (“KCP&L”), that is appropriate for the calculation of pension and OPEB costs for financial reporting and ratemaking.
 - i. Ensure that the FAS 87 cost used as a basis for the amount collected in rates is determined using the “ratemaking method” of GAAP as documented in paragraph 8 below, and that the FAS 106 GAAP cost is used as a basis for the amount of OPEB costs collected in rates.
 - ii. Ensure that the pension cost used as a basis for the amount collected in rates is contributed to the pension trust. Ensure that the OPEB cost

used as a basis for the amount collected in rates is contributed to the Voluntary Employees' Beneficiary Association ("VEBA") Trusts or other irrevocable trusts.

- iii. Ensure that amounts contributed by GMO to the pension trust, except as otherwise indicated herein are considered for ratemaking and/or will be recoverable in rates approved by the Commission in this case. Any reasonable and prudent amounts contributed by GMO to the pension trust in the future will be considered for ratemaking in those future rate cases. Nothing in this agreement should be considered as an assurance of recovery of future pension contributions in future rates other than as allowed in paragraph 13.
- b. Establish that the pension and OPEB costs for each GMO jurisdiction will include that jurisdiction's share of costs related to jointly-owned facilities for which it is not the primary operator including the Iatan 1, Iatan 2 and Iatan Common and Jeffrey generating units/stations.
- c. Identify for each jurisdiction, for purposes of calculating the tracking mechanisms included herein, the Regulatory Assets, including the Prepaid Pension Asset, and the annual Pension Cost resulting from rates established in this rate case, Case No. ER-2010-0356. The tracking mechanism requires that all Regulatory Assets and/or Liabilities, including the Prepaid Pension Asset, and annual Pension Cost be identified as of the established true-up date for each GMO rate case.
- d. Establish an agreement between the Staff and GMO regarding the treatment of pension and OPEB costs which result under Statement of Financial

Accounting Standards 88 (“FAS 88”) for financial reporting and ratemaking purposes.

- e. Recognize contributions in excess of FAS 87 pension expense to include reasons arising due to the enactment of the Pension Protection Act of 2006 (“2006 Act”).
- f. Recognize that the methodology adopted herein is determined to satisfy the requirements of Case No. EM-2000-292, the UtiliCorp United / St. Joseph Light & Power Company (“SJL&P”) merger case, that SJL&P pension funded status be accounted for separately following the merger.

Provisions of the Stipulation and Agreement

- 6. To accomplish the goals above, the Signatories agree to the following:
- 7. The FAS 87 cost, for each jurisdiction’s financial reporting purposes, will differ from the method used for ratemaking purposes described in paragraph 6 below. GMO’s pension costs are included in the Great Plains Energy (“GPE”) consolidated pension plans. GPE became the parent company of KCP&L in a 2001 corporate restructuring. Prior to that restructuring, KCP&L made a voluntary decision (not required for compliance with a Commission order) in January 2000, to amortize gains and losses under FAS 87 for financial reporting purposes over a five (5) year period. A five (5) year average of the unrecognized gain/loss balance has been amortized over five (5) years since January 2000. KCP&L has established a regulatory asset or liability for the annual difference in the FAS 87 result from the two different methods. When GMO adopts the ratemaking method of GAAP pension accounting under this Agreement, it will also need to record a regulatory asset or liability for each jurisdiction’s share of the difference between the two methods. GPE’s outside actuary will maintain actuarial reports under each method on an annual basis. Any difference between the two methods is merely a timing

difference which will eventually be recovered, or refunded, through rates under the method used in setting rates over the life of the pension plan. No rate base recognition will be required for any regulatory asset or liability calculated in accordance with this Paragraph.

8. FAS 87 pension cost, used for ratemaking purposes, will be calculated based on the following methodology.

- a. Market Related Value (“MRV”) for asset determination, smoothing all asset gains and losses that occur over five (5) years.
- b. No 10% corridor.
- c. Amortization period of ten (10) years for unrecognized gains and losses. (With a five (5) year MRV amortization - all gains/losses are reflected in fifteen (15) years).
- d. Pension cost will be calculated by the GPE’s actuaries without regard for the extent to which the Company will expense or capitalize components of the cost. Only the expense component of such cost will be included in the MPS and L&P cost of service.
- e. The term “cost” as used herein means each jurisdiction’s share of the consolidated GPE pension cost calculated by GPE’s actuaries. The term “expense” as used herein means each jurisdiction’s share of the consolidated GPE pension cost calculated by GPE’s actuaries less each jurisdiction’s capitalization component of such cost. The capitalization component is derived by multiplying the capitalization rate determined in the Payroll Annualization adjustment for each jurisdiction by the pension cost for each jurisdiction.
- f. “Each jurisdiction’s share” of the consolidated GPE pension cost is derived by first applying the most recent annualized payroll allocation factor for each jurisdiction, determined using the methodology identified in the Payroll Annualization

adjustment which relies on the time reporting system that tabulates the amount of time employees perform work activities among the various GPE entities, to the consolidated GPE cost determined by the GPE's actuaries for management and joint trustee pension plans. KCP&L's joint owners' shares are eliminated before calculating both the payroll allocation factors and the cost to which the factors are applied. Consequently, each jurisdiction's shares of the pension costs for the Iatan and Jeffrey generating stations must then be added. Additionally, as determined by GPE's actuaries and applied in this case, a limited-time annual funding status adjustment is required to reflect that the St. Joseph Light & Power portion of the Aquila pension plan was better funded than both the Missouri Public Service portion of the Aquila plan and the KCP&L pension plan when GPE purchased Aquila's Missouri electric properties. The adjustment made in this case to address the different funding statuses of the GPE entities had the effect of decreasing the pension cost for L&P and increasing the pension costs both for MPS and for KCP&L.

- g. The above methodology is determined to satisfy the requirements of Case No. EM-2000-292, the UtiliCorp United / St. Joseph Light & Power Company ("SJL&P") merger case, that SJL&P pension funded status be accounted for separately following the merger.
- h. Because use of the above method to determine pension cost for ratemaking would result in a substantial increase in revenue requirement for the MPS rate jurisdiction over the method previously authorized, the impact will be mitigated by use of a 12-year average of the cost projections for the MPS jurisdiction. GPE's actuaries have computed the 12-year average for MPS of its projected pension cost, including the

special temporary adjustment described in (f), from 2010 through 2021 as \$10.5 million. This average cost will be adjusted in future rate cases to reflect revised projections, if necessary, and will be used until the actual cost is less than the projected average cost. The difference between the current year pension cost, as adjusted per (f), and the 12-year average used to establish rates in this case will be included in the FAS 87 Regulatory Asset beginning with the implementation of the new method on the effective date of new rates in the ER-2010-0356 case.

Nothing in the above paragraph binds the Signatories from taking positions inconsistent with the provisions of the paragraph in future rate proceedings.

9. The Signatories agree that a FAS 87 regulatory asset or liability will be established on each jurisdiction's books to track the difference between the level of FAS 87 cost calculated pursuant to paragraph 8 above, during each current annual rate period and the level of pension cost used to establish rates for that period. The level of FAS 87 current period cost for each jurisdiction, before capitalization, will be updated annually based on the amounts provided by GPE's actuaries. For each jurisdiction, if the FAS 87 cost during the current period is more than the cost used to determine rates for the period, the applicable jurisdiction will establish a regulatory asset or reduce the existing regulatory liability. If the FAS 87 cost during the current period is less than the cost used to determine rates for the period, the applicable jurisdiction will either establish a regulatory liability or reduce the existing regulatory asset. If the current period FAS 87 cost becomes negative during a period in-between rate proceedings, a regulatory liability equal to the difference between the level of pension cost used to determine rates for that period and \$0 will be established. Since paragraph 9 is a cash item, the cumulative net regulatory asset or liability will be included in rate base and amortized over five (5) years at the next rate case, subject to a review for prudence.

10. If FAS 87 cost becomes negative for the period that is used to establish new rates, the Signatories agree that the pension cost used to establish rates will be set at \$0. Each jurisdiction shall set up a regulatory liability to offset (reduce) the negative cost in an amount equal to the difference between the \$0 level of pension cost underlying rates and the negative pension cost for each annual period until current period pension cost becomes positive. In future years, when FAS 87 cost becomes positive again, rates will remain zero (\$0) until the Prepaid Pension Asset that was created in paragraph 13 below as a result of negative cost is reduced to zero (\$0). The regulatory liability will be reduced at the same rate as the Prepaid Pension Asset is reduced until the regulatory liability becomes zero (0). This regulatory liability is a non-cash item and should be excluded from rate base in future years.

11. Any amount of FAS 87 cost (as calculated in paragraph 8 above), which exceeds the actual level of contributions as authorized in paragraph 13 below, must be funded by MPS and L&P, either through a cash contribution or through a reduction of the Prepaid Pension Asset discussed in paragraph 13 below.

12. Any FAS 87 amount that exceeds the actual level of contributions as authorized in paragraph 13 below that is not funded because it exceeds the amount of funding that is tax deductible will be tracked, as a regulatory liability, to ensure it is funded in the future when it becomes tax deductible. The non-funded amount (regulatory liability) will be allowed, as a rate base offset (reduction), for the excess collected in rates but not contributed to the trust fund, until such time as the contribution occurs.

13. Consistent with the goal expressed in paragraph 5.a.iii, a Prepaid Pension Asset may be established if a GMO jurisdiction's share of amounts contributed to the pension trust, as authorized for the reasons below, exceeds the jurisdiction's FAS 87 cost calculated in paragraph 8 above. The Signatories agree to allow each jurisdiction rate recovery for contributions made to

the pension trust in excess of the FAS 87 cost calculated pursuant to paragraph 8 above for the following reasons:

- a. The minimum required contribution under the Employee Retirement Income Security Act of 1974 (“ERISA”) as amended for the Pension Protection Act of 2006 (“2006 Act”) is greater than the FAS 87 cost level.
- b. Additional contributions are made to avoid or reduce Pension Benefit Guarantee Corporation (“PBGC”) variable premiums,

The Prepaid Pension regulatory asset will be continued for each jurisdiction and will be allowed rate base treatment for the excess of any contribution over the annual FAS 87 cost calculated in accordance with paragraph 8 above. This regulatory asset may be used to satisfy, in whole or in part, the FAS 87 funding requirement described in paragraph 11 above. The Prepaid Pension Asset will be reduced as it is used to satisfy the FAS 87 funding requirement.

14. Due to the 2006 Act, GPE may be required to make contributions in excess of amounts calculated for FAS 87 Regulatory Expense in order to avoid benefit restrictions under the 2006 Act or “at risk” status under the 2006 Act. Such contributions will be examined in the context of future rate cases and a determination will be made at that time as to the appropriate and proper level recognized for ratemaking as a Prepaid Pension Asset.

- a. Additional contributions are made to avoid benefit restrictions under the 2006 Act. Such restrictions could cause an inability of the Company to pay pension benefits to recipients according to the normal provisions of the plan (e.g., providing the lump sum form of payment option). Generally, a plan’s funded status as defined in the 2006 Act must remain above 80% in order to avoid benefit restrictions. If additional contributions are made under this provision, such contributions will be examined in future rate cases and a determination will be made as to the appropriate

and proper level considered for recovery in rates.

- b. Additional contributions are made to avoid “at risk” status under the 2006 Act. If a plan is “at risk”, minimum contributions are greatly accelerated. If additional contributions are made under this provision, such contributions will be examined in future rate cases and a determination will be made as to the appropriate and proper level considered for recovery in rates.

15. Any FAS 87 prepaid pension asset, other than the amount authorized in paragraph 13 above or after review and approval of amounts in paragraph 14 above, will not earn a return in future regulatory proceedings. The regulatory assets/liabilities identified in items 9, 10, and 12 above address the inclusion or exclusion of any additional rate base amounts.

Establishment of an OPEB Tracking Mechanism

16. The Signatories agree that each GMO jurisdiction may establish a tracking mechanism for its share of FAS 106 OPEB costs consistent with the provisions of paragraphs 8 through 15 above, beginning with the effective date of new rates in this case, with the following modifications:

- a. OPEB cost, as described for pensions in paragraph 8, will be calculated based on FAS 106 requirements.
- b. Funding requirements, as described for pensions in paragraph 13, are replaced with a single requirement that current period OPEB cost will be funded.
- c. Amortization of unrecognized OPEB costs as of the July 2008 acquisition of Aquila, Inc. by GPE will be directly assigned to the applicable GMO affiliates.

Treatment of Pension/OPEB Cost for Joint Owners in Iatan

17. KCP&L, GMO and The Empire District Electric Company (“Empire”) jointly own the Iatan 1 generating unit. KCP&L, GMO, Empire, Missouri Joint Municipal Electric Utility

Commission (“MJMEUC”), and Kansas Electric Power Cooperative, Inc. (“KEPCO”) jointly own the Iatan 2 generating unit and Iatan Common plant. As the majority owner and operator of the Iatan generating units/stations, KCP&L allocates the operating costs, including pension costs, to the other joint owners: GMO, Empire, MJMEUC and KEPCO. The reference to joint owners below is to the joint owners in the Iatan 1 and 2 generating units/stations and Iatan Common plant.

18. GMO and the Staff agree KCP&L employee pension and OPEB costs related to KCP&L employees directly assigned to or who allocate part of their time to work for the Iatan 1, Iatan 2 and Iatan Common generating units/stations will be calculated consistently with the methodology identified in the Payroll Annualization adjustment. Any cost or regulatory asset, including the prepaid pension asset, and/or liability, generated under paragraphs 8 through 16 above, will be calculated separately for the amounts related to KCP&L’s joint owners. KCP&L management and joint trustee pension costs and OPEB costs for KCP&L employees charging payroll costs to the Iatan generating units/stations will be allocated among the joint owners of the stations in proportion to their ownership interests. Only the portion of the regulatory assets and/or liabilities, including the prepaid pension asset, or annual pension and OPEB costs related to each GMO jurisdiction will be reflected in rate base or cost of service in any GMO rate case.

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

19. GPE maintains a Supplemental Executive Retirement Plan (SERP) for key employees. The plan, administered by GPE, does not utilize a trust fund. The Signatories agree that SERP expense will not be included in the tracking mechanism for Regulatory Assets and/or Liabilities, including the Prepaid Pension Asset. SERP expense is not included in the amounts reflected below for this Agreement or in any costs included herein. SERP will be considered in cost of service separately for rate making purposes to the extent it is determined to be appropriate

and reasonable. The Signatories are free to consider other alternative treatment in future rate cases.

Annual Pension Cost and Regulatory Assets - Case No. ER 2010-0356 – MPS

20. The provisions of the pension and OPEB ratemaking methodology in this Agreement will be effective with new rates in this case, anticipated to be June 4, 2011. Regulatory assets and liabilities authorized in the orders in prior rate cases will continue in place up to the effective date of rates in this case, including additions and amortizations, and will continue to be amortized subsequent to that time in accordance with prior orders until they become \$0. See section titled “Regulatory Assets and Liabilities Under Prior Agreements”.

21. MPS’s Missouri jurisdictional rates established in this case, ER-2010-0356, are based on \$7,916,590 (total MPS) for annual pension cost expensed under FAS 87, 1) after removal of capitalized amounts and 2) after inclusion of the portion of KCP&L’s annual pension cost which is allocated to MPS for its joint owner share of KCP&L’s Iatan generating unit/station, but 3) before inclusion of allowable SERP pension costs and 4) before amortization of pension-related regulatory assets/liabilities and 5) before application of the retail jurisdictional allocation factor. As described in paragraph 8.f, an annual funding status adjustment has been made from L&P to MPS in the amount of \$2.5 million (total jurisdiction before capitalization). The GPE’s actuaries have determined that this adjustment is required annually for an approximate five (5) year period. All resulting pension amounts reflect MPS’s share of the consolidated GPE pension costs and do not include any costs applicable to KCP&L or L&P.

22. MPS’s Prepaid Pension Asset balance included in rate base subsequent to the adoption of this ratemaking method in ER-2010-0356, is \$0 (total MPS) at December 31, 2010.

23. MPS’s FAS 87 Regulatory Asset included in rate base for the cumulative difference between pension cost recognized in its prior rates and its actual pension costs under FAS 87

subsequent to adoption of this ratemaking method in ER-2010-0356 is \$0 (total MPS) at December 31, 2010, inclusive of any amount allocated to MPS from KCP&L as a joint owner in the Iatan 2 generating unit/station.

24. MPS's rates reflect the 5-year amortization of the \$0 FAS 87 Regulatory Asset identified in the prior paragraph at an annual rate before capitalization of \$0 (total MPS). MPS will amortize \$0 (total MPS), after capitalization, to pension expense annually beginning with the effective date of rates established in this case, File No. ER-2010-0356.

Annual Pension Cost and Regulatory Assets - Case No. ER 2010-0356 – L&P

25. The provisions of the pension and OPEB ratemaking methodology in this Agreement will be effective with new rates in this case, anticipated to be June 4, 2011. Regulatory assets and liabilities authorized in the orders in prior rate cases will continue in place up to the effective date of rates in this case, including additions and amortizations, and will continue to be amortized subsequent to that time in accordance with prior orders until they become \$0. See section titled "Regulatory Assets and Liabilities Under Prior Agreements".

26. L&P's Missouri jurisdictional rates established in this case, ER-2010-0356, are based on \$1,100,735 (L&P-Electric) for annual pension cost expensed under FAS 87, 1) after removal of capitalized amounts and amounts related to the steam jurisdiction and 2) after inclusion of the portion of KCP&L's annual pension cost which is allocated to L&P for its joint owner share of KCP&L's Iatan 1 and 2 generating units/stations, but 3) before inclusion of allowable SERP pension costs and 4) before amortization of pension-related regulatory assets/liabilities. As described in paragraph 8.f, an annual funding status adjustment has been made from L&P to MPS and KCP&L in the amount of (\$4.0 million) (total jurisdiction before capitalization). GPE's actuaries have determined that a (\$2.5 million) adjustment to MPS is required for an approximate five (5) year period while an adjustment to KCP&L for (\$1.5

million) is necessary for an approximate ten (10) year period. All resulting pension amounts reflect L&P's share of the consolidated GPE pension costs and do not include any costs applicable to MPS or KCP&L.

27. L&P's Prepaid Pension Asset balance included in rate base subsequent to the adoption of this ratemaking method in ER-2010-0356, is \$0 (L&P-Electric) at December 31, 2010.

28. GMO-L&P's FAS 87 Regulatory Asset included in rate base for the cumulative difference between pension cost recognized in its prior rates and its actual pension costs under FAS 87 subsequent to adoption of this ratemaking method in ER-2010-0356 is \$0 (L&P-Electric) at December 31, 2010, inclusive of any amounts allocated to L&P from KCP&L as a joint owner in the Iatan 1 and 2 generating units/stations.

29. L&P's rates reflect the 5-year amortization of the \$0 FAS 87 Regulatory Asset identified in the prior paragraph at an annual rate before capitalization of \$0 (L&P-Electric). L&P will amortize \$0 (L&P-Electric), after capitalization, to pension expense annually beginning with the effective date of rates established in this case, ER-2010-0356.

Annual OPEB Cost and Regulatory Assets - Case No. ER 2010-0356 – MPS

30. Expense and contribution trackers for MPS OPEB costs will be initiated with the effective date of rates in Case No. ER-2010-0356, anticipated to be June 4, 2011.

31. MPS's Missouri jurisdictional rates established in this case, ER-2010-0356, are based on \$3,764,186 (total MPS) for annual OPEB cost expensed under FAS 106, 1) after removal of capitalized amounts and 2) after inclusion of MPS's portion of KCP&L's annual OPEB cost which is allocated from KCP&L to MPS for its joint owner share in the Iatan 2 generating unit/station, but 3) before amortization of OPEB-related regulatory assets/liabilities and 4) before application of the retail jurisdictional allocation factor. All OPEB amounts reflect

MPS's share of the consolidated GPE OPEB costs and do not include any costs applicable to L&P or KCP&L.

32. MPS's Prepaid OPEB Asset balance included in rate base, inclusive of its joint owners share of the Iatan generating station/unit, is \$0 (total MPS) at December 31, 2010.

33. MPS's FAS 106 Regulatory Asset included in rate base for the cumulative difference since inception (see paragraph 30) between OPEB cost recognized in its prior rates and its actual OPEB costs under FAS 106 is \$0 (total MPS) at December 31, 2010, inclusive of its joint owner share of the Iatan 2 generating unit.

34. MPS's rates reflect the 5-year amortization of the \$0 FAS 106 Regulatory Asset identified in the prior paragraph at an annual rate before capitalization of \$0 (total MPS). MPS will amortize \$0 (total MPS), after capitalization, to OPEB expense annually beginning with the effective date of rates established in this case, ER-2010-0356.

Annual OPEB Cost and Regulatory Assets - Case No. ER 2010-0356 – L&P

35. Expense and contribution trackers for L&P OPEB costs will be initiated with the effective date of rates in ER-2010-0356, anticipated to be June 4, 2011.

36. L&P's Missouri jurisdictional rates established in this case, ER-2010-0356, are based on \$1,245,242 (total L&P) for annual OPEB cost expensed under FAS 106, 1) after removal of capitalized amounts and 2) after inclusion of L&P's portion of KCP&L's annual OPEB cost which is allocated from KCP&L to L&P for its joint owner share in the Iatan 1 and 2 generating units/stations, but 3) before amortization of OPEB-related regulatory assets/liabilities and 4) before application of the retail electric jurisdictional factor. All OPEB amounts reflect L&P's share of the consolidated GPE OPEB costs and do not include any costs applicable to MPS or KCP&L.

37. L&P's Prepaid OPEB Asset balance included in rate base, inclusive of its joint owner share of the Iatan 1 and 2 generating units/stations, is \$0 (total L&P) at December 31, 2010.

38. L&P's FAS 106 Regulatory Asset included in rate base for the cumulative difference since inception (see paragraph 35) between OPEB cost recognized in its prior rates and its actual OPEB costs under FAS 106 is \$0 (total L&P) at December 31, 2010, inclusive of its joint owner share of the Iatan 1 and 2 generating units/stations.

39. L&P's rates reflect the 5-year amortization of the \$0 FAS 106 Regulatory Asset identified in the prior paragraph at an annual rate before capitalization of \$0 (total L&P). L&P will amortize \$0 (total L&P), after capitalization, to OPEB expense annually beginning with the effective date of rates established in this case, ER-2010-0356.

Amortization of Regulatory Assets Incurred under Prior Agreements

40. In the ER-2009-0090 case ("2009 Case"), GMO was authorized to continue, for the MPS and L&P jurisdictions, its previously authorized process to reflect pension cost equal to the respective provisions for the ERISA minimum and record the difference between the ERISA minimum included and the annual provision for pension cost as a regulatory asset or liability. These regulatory assets and/or liabilities were intended to track separately for MPS and L&P, the difference between the provision for the ERISA minimum contribution included in costs of service for MPS and L&P in the 2009 Case, and the actual ERISA minimum contributions made for MPS and L&P, respectively, after the effective date of rates established in that case. These regulatory assets will continue to be tracked until the effective date of rates in this case, anticipated to be June 4, 2011. Amounts that will be incurred as of the December 31, 2010 True Up date will be included in the rate base of MPS and L&P in this rate case and amortized over five-year period beginning in this case. To the extent that there is activity for the period January

1, 2011 through May 31, 2011, the amortization in the next case will be adjusted. No new activity will be added subsequent to May 31, 2011. Deferred amounts as of December 31, 2010 for MPS and L&P-Electric respectively, are \$6,324,263 and (\$205,033) including amounts capitalized. The annual amortization included in cost of service with the effective date of new rates in this case is \$926,125 and (\$30,919), respectively, excluding amounts capitalized.

41. The customer rates established in this case for L&P will include a \$3,352,742 annual provision prior to capitalization (\$2,527,967 excluding amounts capitalized) for electric jurisdictional prepaid pension amortization. This amortization is in effect for a nine and one-quarter (9 ¼) year period beginning with the effective date of rates established in Case No. ER-2004-0034, and concluding July 31, 2013. The unamortized balance of the regulatory asset established as result of this ratemaking treatment is included in the L&P-Electric rate base. The unamortized balance at December 31, 2010 is \$8,577,432.

Pension and OPEB Provisions for L&P-Steam

42. The method of accounting for pensions and OPEB costs authorized for the L&P Steam jurisdiction in HR-2009-0092 will continue until the effective date of rates in the next case, at which time the provisions of this Agreement will become the authorized method for L&P-Steam, unless otherwise determined in that case.

FAS 88 Pension Cost Treatment for Financial Reporting and Ratemaking Purposes

43. The Signatories agree to adopt deferred accounting treatment for FAS 88 pension costs consistent with the agreement for FAS 87 deferred accounting treatment. Unlike FAS 87, which allows for delayed recognition in net periodic pension cost of certain unrecognized amounts, FAS 88 requires immediate recognition of certain costs arising from settlements and curtailments of defined benefit plans. Without Commission approved deferred accounting treatment, MPS and L&P would be required to recognize a significant FAS 88 pension cost in

any year in which a FAS 88 event might occur. FAS 88 costs are legitimate pension costs which should be recovered in rates.

- a. Any future FAS 88 pension costs deferred and subject to recovery in a future GMO rate case should (a) include only the MPS and L&P shares of consolidated GPE FAS 88 costs related to MPS's and L&P's Missouri jurisdictional electric and steam, if applicable, operations, and (b) include MPS's and L&P's shares of KCP&L's FAS 88 costs allocated to MPS and L&P as joint owners of the Iatan generating units/stations;
- b. All of GMO's FAS 88 pension costs related to GMO Missouri jurisdictional electric operations, inclusive of amounts allocated to GMO as a joint -owner of the Iatan generating units/stations, subsequent to December 31, 2010 will be deferred in a regulatory asset by jurisdiction and amortized to cost-of-service over 5-years in the next MPS and L&P rate cases. This treatment will continue to apply in all future GMO rate cases. Regulatory Asset for FAS 88 pension costs was \$0 (total MPS) and \$0 (total L&P) for MPS and L&P, respectively, at December 31, 2010.
- c. MPS's rates reflect the 5-year amortization of the \$0 Regulatory Asset identified in this paragraph at an annual amount of \$0 (total MPS) before capitalization (\$0 expensed to cost of service).
- d. L&P's rates reflect the 5-year amortization of the \$0 Regulatory Asset identified in this paragraph at an annual amount of \$0 (total L&P) before capitalization (\$0 expensed to cost of service).

- e. MPS and L&P will be required to fund all FAS 88 pension costs it collects in rates. Since MPS and L&P will not be required to fund any FAS 88 cost prior to recovery in rates, no rate base treatment will be required for the regulatory asset representing deferred FAS 88 costs.

FAS 88 OPEB Cost Treatment for Financial Reporting and Ratemaking Purposes

44. All of MPS's and L&P's FAS 88 OPEB costs related to MPS's and L&P's Missouri jurisdictional operations, inclusive of amounts allocated to MPS and L&P as joint owners of the Iatan generating stations/units, subsequent to December 31, 2010 will be deferred in a regulatory asset by jurisdiction and amortized to cost-of-service over 5-years in the next MPS and L&P rate cases consistent with the provisions of paragraphs 34 and 39, respectively.

45. No FAS 88 OPEB costs have been incurred as of December 31, 2010.

Treatment of Pension and OPEB-Related Other Comprehensive Income (OCI)

46. The provisions of FAS 158, require certain adjustments to the pension or OPEBs asset and/or pension or OPEBs liability with a corresponding adjustment to equity (i.e., decreases/increases to Other Comprehensive Income). Each GMO jurisdiction shall be allowed to set up a regulatory asset/liability to offset any adjustments that would otherwise be recorded to equity caused by applying the provision of FAS 158 or any other FASB statement or procedure that requires accounting adjustments to equity due to the funded status or other attributes of the pension or OPEB plan. The parties acknowledge that the adjustments described in this paragraph shall not increase or decrease rate base.

General Provisions

47. This Agreement is being entered into solely for the purpose of settling the issues in this case explicitly set forth above. Unless otherwise explicitly provided herein, none of the Signatories to this Agreement shall be deemed to have approved or acquiesced in any ratemaking

or procedural principle, including, without limitation, any cost of service methodology or determination, depreciation principle or method, method of cost determination or cost allocation or revenue-related methodology. Except as explicitly provided herein, none of the Signatories shall be prejudiced or bound in any manner by the terms of this Agreement in this or any other proceeding, regardless of whether this Agreement is approved.

48. This Agreement is a negotiated settlement. Except as specified herein, the Signatories to this Agreement shall not be prejudiced, bound by, or in any way affected by the terms of this Agreement: (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Agreement, or in any way condition its approval of same.

49. This Agreement has resulted from extensive negotiations among the Signatories, and the terms hereof are interdependent. If the Commission does not approve this Agreement unconditionally and without modification, then this Agreement shall be void and no Signatory shall be bound by any of the agreements or provisions hereof.

50. If approved and adopted by the Commission, this Agreement shall constitute a binding agreement among the Signatories. The Signatories shall cooperate in defending the validity and enforceability of this Agreement and the operation of this Agreement according to its terms.

51. If the Commission does not approve this Agreement without condition or modification, and notwithstanding the provision herein that it shall become void, (1) neither this Agreement nor any matters associated with its consideration by the Commission shall be considered or argued to be a waiver of the rights that any Signatory has for a decision in accordance with RSMo. §536.080 or Article V, Section 18 of the Missouri Constitution, and (2) the Signatories shall retain all procedural and due process rights as fully as though this

Agreement had not been presented for approval, and any suggestions, memoranda, testimony, or exhibits that have been offered or received in support of this Agreement shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any purpose whatsoever.

52. If the Commission accepts the specific terms of this Agreement without condition or modification, only as to the issues of the issues in these cases explicitly set forth above, the Signatories each waive their respective rights to present oral argument and written briefs pursuant to RSMo. §536.080.1, their respective rights to the reading of the transcript by the Commission pursuant to §536.080.2, their respective rights to seek rehearing pursuant to §536.500, and their respective rights to judicial review pursuant to §386.510. This waiver applies only to a Commission order approving this Agreement without condition or modification issued in this proceeding and only to the issues that are resolved hereby. It does not apply to any matters raised in any prior or subsequent Commission proceeding nor any matters not explicitly addressed by this Agreement.

WHEREFORE, the undersigned Signatories respectfully request the Commission to issue an order in this case approving this Second Non-Unanimous Stipulation And Agreement Regarding Pensions And Other Post Employment Benefits subject to the specific terms and conditions contained therein.

Respectfully submitted,

KCP&L GREATER MISSOURI
OPERATIONS COMPANY

/s/ Nathan Williams

Nathan Williams MBE# 35512

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 13th day of May 2011.

/s/ Roger W. Steiner

Roger W. Steiner

Pursuant to paragraph G of the July 1, 2015 *Partial Non-Unanimous Stipulation and Agreement as to Certain Issues* in Case No. ER-2014-0370, Kansas City Power & Light Company (“KCP&L” or “Company”) hereby submits the actions it has implemented to address expense account issues.

- **Officer Expenses**

- The general ledger default account for all officers has been set to below-the-line non-utility accounts. In order for an officer expense to be recorded to an operating utility account, the officer or administrative assistant must positively enter an operating utility account code to override this default coding.

- **Additional Review of Transactions**

- The Wells Fargo company credit card program administrator is reviewing various samples of company credit card business transactions each month to ensure company credit card policy compliance as well as accurate accounting code block coding is followed.
- When company credit card accounting code block coding is questioned, follow up is done with the employee to get more information on the transaction and educate the employee on proper use of accounting code block values.
- Company credit card business transactions are looked at every month for proper information regarding meal attendees, business purpose and to/from information on mileage. Employees who might be missing this information are contacted directly.

- **Job Aids**

- Job aids used by all the executive administrative assistants were reviewed for completeness and accuracy regarding company accounting code block policies

associated with the implementation of the new company credit card transaction process.

- Training sessions were held with the executive administrative assistants to educate them on the coding of expense reports.

- **Restriction of Chartfield Values**

- Wells Fargo, the company credit card provider, has been provided a shortened list of available accounting code block chartfield values. With this reduced list, employees can only choose from those values that should be used for company credit card purchases.
- All combinations of accounting code block chartfield values are sent thru all possible accounting code block edits to ensure no coding rules are broken in the combinations that are entered.

- **Default Accounting Code Block Chartfield Values Review**

- Default accounting code block chartfield values were reviewed in the third and fourth quarters of 2015. This review enabled the Company to continue to educate employees on the proper use of operating unit and accounting code block.
- All default accounting code block chartfield values are now re-reviewed on a quarterly basis.

- **General Allocator**

- The 2015 General Allocator was based on a calculation of total expenses including all direct and indirect charges including the General Allocator. In 2016, the General Allocator calculation was changed to include only direct and indirect charges allocated using causal factors. Any costs allocated based on the General Allocator

were excluded from the 2016 General Allocator calculation. For the 2016 General Allocator calculation, income tax expense was excluded from the drivers if a negative value existed.

- The 2016 General Allocator allocates a portion of common costs to non-regulated below-the-line activity. The non-regulated below-the-line allocations were based on below-the-line charges to nonregulated projects.