

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

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**REBUTTAL TESTIMONY OF**

**LORA C. CHEATUM**

**ON BEHALF OF  
KANSAS CITY POWER & LIGHT COMPANY**

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**IN THE MATTER OF THE APPLICATION OF  
KANSAS CITY POWER & LIGHT COMPANY  
TO MODIFY ITS TARIFFS TO CONTINUE THE  
IMPLEMENTATION OF ITS REGULATORY PLAN**

**DOCKET NO. 07-KCPE-905-RTS**

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

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

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

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

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

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

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

11 A: I have an undergraduate degree from Washburn University in Topeka and an MBA  
12 from the University of Kansas. I have held numerous Human Resources positions  
13 with both PepsiCo and Wal-Mart since 1986. I joined KCPL on September 11, 2001

1 as the Director of Human Resources for the Delivery Division and was promoted to  
2 Vice President of Administrative Services in March of 2005.

3 **Q: Have you previously testified in a proceeding at the Kansas Corporation**  
4 **Commission (“KCC” or “Commission”) or before any other utility regulatory**  
5 **agency?**

6 A: Yes, I testified before the Missouri Public Service Commission concerning KCPL’s  
7 2006 rate case in Case No. ER-2006-0314.

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

9 A: The purpose of my testimony is to rebut the testimony of Citizens’ Utility Ratepayers  
10 Board (“CURB”) witness Andrea C. Crane regarding Talent Assessment Program  
11 costs.

12 **Q: Please provide the background of the Talent Assessment Program.**

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

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

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

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

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

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

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

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

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

21 **Q: Does this table include all costs associated with the program?**

22 A: This table does not include costs incurred prior to 2006, the test year in this rate case.

23 **Q: Why are costs incurred prior to 2006 not included in this table?**

1 A: Those costs, totaling \$516,316, related to outside services employed in the planning  
2 and administration of the program and were addressed in the Company's last rate  
3 case, Docket No. 06-KCPE-828-RTS ("2006 rate case"). I will discuss those costs  
4 later in my testimony.

5 **Q: What ratemaking treatment is the Company proposing in regard to the 2006**  
6 **Talent Assessment Program costs included in the table above?**

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

9 **Q: What ratemaking treatment did Ms. Crane propose for these costs in her direct**  
10 **testimony in this rate case?**

11 A: Ms. Crane proposes that the Company's claim for recovery of these costs be denied.

12 **Q: On what basis does Ms. Crane base her proposal?**

13 A: Ms. Crane appears to have four concerns:

14 (1) "The severance payments...are not representative of a 'normal' severance  
15 cost level;"

16 (2) "KCPL has already expensed these costs on its books and records of  
17 account, and should not now be allowed to receive retroactive recovery of  
18 these costs;"

19 (3) "ratepayers should not be asked to fund additional new positions at the  
20 same time they are being asked to fund severance costs for positions that the  
21 Company did not need in the past and will not need in the future;" and

1 (4) although the Stipulation in the 2006 rate case allowed recovery of the 2005  
2 outside services costs, it “does not state that the Company may continue to  
3 defer these costs.”

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

5 A: Certainly. Regarding the first point, KCPL concurs that these costs are not  
6 representative of a ‘normal’ severance cost level. That is exactly why the Company  
7 has proposed that these costs be deferred in a regulatory asset account and be  
8 amortized into rates over a five-year period.

9 **Q: Has Ms. Crane stated or implied that these costs were not incurred for a valid  
10 business reason?**

11 A: No, she does not appear to have any concerns in this regard.

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

13 A: Yes. The Company was preparing to begin several major projects as part of our  
14 Comprehensive Energy Plan (such as a plant build, significant environmental  
15 upgrades, building wind generation, etc.). The Company knew that in order to  
16 successfully execute these projects and be prepared to meet the needs of our  
17 customers and the communities in which we operate, we needed to have the right  
18 people with the right skills in the right positions. Employees who did not feel that  
19 they could or did not wish to meet new expectations for the future, would not be able  
20 to assist us in building an organizationally excellent, cost-effective, customer-focused  
21 utility.

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

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

8 **Q: Please address Ms. Crane's second concern.**

9 A: KCPL expensed these costs on its books in 2006, which is exactly the point. Similar  
10 to any other valid cost the Company incurred during 2006, the test year in this rate  
11 case, the Company is now seeking rate recovery. In this particular instance, KCPL is  
12 not asking to recover the entire cost in the current rate case, but rather over a five-  
13 year period. Therefore, there is no "retroactive ratemaking".

14 **Q: Please address Ms. Crane's third concern.**

15 A: Employment levels included in the Company's annualized payroll calculation are up  
16 slightly from the test year payroll levels due to factors unrelated to the Talent  
17 Assessment Program (apprentice programs to prepare skilled workers to replace an  
18 aging workforce, as described in the Direct Testimony of F. Dana Crawford; project  
19 management, engineering, and construction management expertise to execute our  
20 Comprehensive Energy Plan, etc.). The recovery of costs for new, necessary  
21 positions is entirely unrelated to the five-year recovery of Talent Assessment Program  
22 costs. As to Ms. Crane's statement that the severance costs relate to "positions that  
23 the Company did not need in the past and will not need in the future," this assertion is

1 completely invalid and is a very disparaging assessment of the work performed by  
2 these individuals. These positions were necessary, and the individuals performing the  
3 work were severed not because their positions were unnecessary but because they  
4 lacked either the desire or the skills and abilities to meet new expectations for their  
5 performance. These positions will continue to be needed in the future.

6 **Q: Please address Ms. Crane's fourth concern.**

7 A: The fact that the Stipulation in the 2006 rate case did not address future Talent  
8 Assessment Program costs does not imply that such costs are non-recoverable. These  
9 additional costs were incurred in a test year subsequent to 2005, the test year for the  
10 2006 rate case, and should be considered for recovery in the current case that utilizes  
11 the 2006 test year. Actually, the fact that the Stipulation and Agreement in the 2006  
12 rate case allowed recovery of Talent Assessment Program costs implies that the  
13 parties to the Stipulation recognized the benefits of the Talent Assessment Program to  
14 the Company and to customers. It seems a logical extension to allow recovery of  
15 additional prudent Talent Assessment Program costs incurred subsequent to 2005, the  
16 test period for KCPL's 2006 rate case.

17 **Q: Please summarize the Company's position regarding the Talent Assessment  
18 Program severance and outplacement costs.**

19 A: The Company proposes that these costs be deferred in a regulatory asset and  
20 amortized into rates over a five-year period, or \$1,869,404 annually (total company).  
21 These costs were necessary to ensure the appropriate human capital for the Company  
22 to be able to execute major projects to achieve the goals of the Comprehensive  
23 Energy Plan and Strategic Intent. Our goal was, and continues to be, to ensure we

1            have employees with the knowledge, skills, ability, and desire to run an operationally  
2            excellent, cost-effective, customer-focused, reliable utility.

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

4    A:    Yes, it does.

