Exhibit No.:
Issue: *Depreciation*
Witness: *Arthur W. Rice*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *ER-2012-0174*
Date Testimony Prepared: *September 5, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES

REBUTTAL TESTIMONY

OF

ARTHUR W. RICE, PE

KANSAS CITY POWER & LIGHT COMPANY
Great Plains Energy, Inc.

CASE NO. ER-2012-0174

Jefferson City, Missouri
September 2012

TABLE OF CONTENTS

OF THE REBUTTAL TESTIMONY OF

ARTHUR W. RICE, PE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2012-0174

REBUTTAL TESTIMONY

OF

ARTHUR W. RICE, PE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2012-0174

Q. Please state your name and business address?

A. My name is Arthur W. Rice and my business address is Missouri Public Service Commission, P.O. Box 360, Jefferson City, MO 65102.

Q. What is your position with the Staff ("Staff") of the Missouri Public Service Commission ("Commission")?

A. I am a Utility Regulatory Engineer I in the Engineering and Management Services Unit of the Utility Services Division.

Q. Are you the same Arthur W. Rice that previously filed testimony in this proceeding?

A. Yes, I am. I filed testimony on August 2, 2012 contributing to Staff's Cost of Service Report in the Kansas City Power & Light Company (KCPL) rate case in Case No. ER-2012-0174 and also on August 9, 2012 in the KCP&L Greater Missouri Operations Company (GMO) rate case in Case No. ER-2012-0175.

CORRECTIONS TO DEPRECIATION SECTION OF COST OF SERVICE REPORT

Q. Do you have corrections or omissions to your section of the Staff Cost of Service Report?

A. Yes. On page 183 there is a typographical error in the amount listed for account 393. The correction is to change the ($12,434) amount to the correct amount of

$26,434. Correction of this typographical error does not result in any change to the table totals or associated testimony.

Q. Are other clarifications necessary?

A. Yes. Staff recommendation number 6 at page 179 reads as follows:

> Staff recommends the Commission direct KCPL to complete by June 30, 2013 the studies described in Paragraph 10 of the *Nonunanimous Stipulation and Agreement Regarding Depreciation and Accumulated Additional Amortizations,* ("Depreciation Stipulation") and provide the results as described in the Depreciation Stipulation. Staff requests the Commission direct Staff as to whether it should file a complaint against KCPL for its failure to provide study results as described in the Depreciation Stipulation.

Staff was made aware in a technical conference with KCPL on August 23, 2012 that KCPL submitted via email on July 28, 2011 a report that KCPL purports to be a report of the study required by paragraph 10 of the stipulation. Staff overlooked that report in July of 2011. Staff's review, subsequent to the Cost of Service testimony, of the July 2011 KCPL emailed report does not change Staff's recommendation. Staff did not find within the Company July 2011 email a study or report that meets what Staff interprets as the requirements in paragraph 10 of the Depreciation Stipulation.

<u>PURPOSE AND SUMMARY</u>

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to address the Direct Testimony of John Weisensee with respect to the prior rate case Depreciation Stipulation and Agreement.

Q. Do you agree with Mr. Weisensee's testimony on page 54, lines 6 and 7 that KCP&L has complied in all respects with the provisions of the Depreciation S&A?

A. No, I do not agree that KCPL complied with paragraph 5d on page 5, or paragraph 10 on page 8.

Q. What action was required for KCPL to fulfill the requirements of paragraph 5d and paragraph 10?

A. Pursuant to the *NonUnanimous Stipulation and Agreement Regarding Depreciation and Accumulated Additional Amortizations* ("Depreciation Stipulation") in Case No. ER-2010-0355 KCPL was required to perform a study regarding, among other things, the under-recovered general plant accounts ("Stipulated study").

Specifically, Paragraph 5d of the Depreciation Stipulation provides:

> If KCPL or GMO seek to continue use of the Amortization Method as specified in this Agreement in the next rate case, they must submit testimony in that rate case showing why the Amortization Method should be continued.

Specifically, Paragraph 10 of the Depreciation Stipulation provides:

> KCPL and GMO shall complete a thorough study regarding retirement of property from the General plant accounts due to KCPL's operation of Aquila in conjunction with Great Plains Energy's acquisition of Aquila. KCPL shall complete a similar study regarding KCPL's recent corporate office relocations. These studies must include accounts where (1) depreciation was halted or (2) unauthorized rates were used and (3) the retirements from the acquisition or relocations that occurred as addressed in Staff witness Rosella Schad's surrebuttal testimony in GMO Case No. ER-2009-0090. KCPL and GMO shall discuss the scope and the approach of the review for the studies with Staff prior to conducting the studies. The studies shall be completed and submitted to Staff, the Office of the Public Counsel, and the Industrials by the end of July 2011. KCPL shall not transfer reserve to or from the General plant accounts before the foregoing studies are submitted to Staff, the Office of the Public Counsel, and the Industrials. Upon satisfactory presentation of the results of these studies, the Signatories agree to pursue in good faith resolution of the GMO Account 119300 unrecovered reserve issue, as described by KCPL witness Ron Klote in his rebuttal testimony filed in File No. ER-2010-0356, including support of a reasonable request by GMO for an Accounting Authority Order from this Commission which will be permanently resolve this issue by balancing reserves through a transfer of depreciation reserves from Transmission plant to General plant.

Q. As required by paragraph 5d, did Staff find KCPL submitted testimony in this rate case showing why the Amortization Method should be continued?

A. No. Staff did not find any testimony showing why the Amortization Method should be continued. What Staff found is a request by KCPL to continue without justification. Mr. Weisensee's direct testimony at page 54, lines 3 through 5, is the extent of KCPL's testimony on this matter. That testimony follows:

> Q: Does the Company believe that this accounting practice should be continued on a permanent basis?
> A: Yes and KCP&L requests the Commission to so order.

Q. As required by paragraph 10 of the Depreciation Stipulation, did KCPL submit a study regarding under recoveries or retirements due to relocations or acquisitions?

A. No. In a technical conference with KCPL on August 23, 2012, KCPL stated it sent the study to Staff by e-mail on July 28, 2012. KCPL did send Staff a report via email on July 28, 2011. That report consists of a list and brief descriptions of emails, meetings, and data responses related to General Plant reserves, but this July 28, 2011email and attachments did not include the results of a "thorough study regarding retirement of property from the General plant accounts due to KCPL's operation of Aquila in conjunction with Great Plains Energy's acquisition of Aquila," (Operation of Aquila Study), nor did it include the results of a "similar study regarding KCPL's recent corporate office relocations.", (Office Relocation Study).

Q. Paragraph 10 also states "KCPL and GMO shall discuss the scope and the approach of the review for the studies with Staff prior to conducting the studies." Did KCPL provide the scope and the approach of the review for the studies prior to their claim to have conducted a study?

A. No. KCPL did not provide a scope and approach to either of the Aquila acquisition-related study or the KCPL relocations study. Staff was still in a discovery phase of discussions with KCPL and GMO on July 28, 2011 as to what the scope and approach of these studies would be.

Q. Did KCPL explain why the Company did not perform a study to identify specific reasons for any under-recovery or over-recovery in each of the General Plant accounts?

A. Yes. In the July 2011 email item C 2. The reason stated follows:

> As discussed in response to question 1 above under-recovered or over-recovered reserve can be attributed to activity which has occurred over time, such as changes in depreciation rates, asset retirement, and cost of removal and salvage transactions. While the total amount of the difference is known, identifying each specific component that makes up the difference is not possible. To do so would require the re-creation of every transaction that has occurred since the beginning of time for the specific asset account.

Q. Was Staff able to study these items?

A. Yes. As described in Appendix 3, Schedule AWR-1 of Staff's Cost of Service Report, Staff studied these items. Staff concluded that there are only three possible reasons that regulatory depreciation reserves may become deficient. They are:

> 1) the Company failing to properly record depreciation of plant still in service,
> 2) the depreciation analysis or record of retirement history used for projections was in some way defective, and
> 3) unexpected events occurred resulting in retirements earlier than forecast.

A study defined to evaluate these three reasons satisfies the goal of one of the stipulated studies-evaluation of depreciation reserves "regarding retirement of property from the General plant accounts due to KCPL's operation of Aquila in conjunction with Great Plains Energy's acquisition of Aquila." Evaluation of the effect of consolidations, relocations and office moves over a time period where these unexpected events occurred satisfies the stipulated study goals of both the Operation of Aquila Study and the Office Relocation Study.

For the period of 2008 through 2011, Staff compared the observed retirement rate for all recorded retirements and compared each retirement to the expected retirement rate for its associated plant account. Staff used the depreciation study submitted by KCPL in Case No. ER-2010-0355, which used retirement data up to the end of 2008 to define the expected retirement rate. The difference found from Staff's comparison is the $4,844,004 reported on page 178 of the Staff Cost of Service Report recommendation number 3, as attributable to the GPE acquisition of Aquila.

Staff completed the study by evaluation of the other two causes of possible reserve variance. Staff found no instances where failing to properly record depreciation of plant still in service occurred, or where property was sold or transferred with inadequate or improper reserve adjustments recorded. Thus, the attribution to *the Company failing to properly record depreciation of plant still in service* is estimated at $0.00. This only leaves one other possible cause for under-recovery, which is that *the depreciation analysis or record of retirement history used for projections was in some way defective.* The estimate of the defect is simply whatever variance is left after subtracting the other two, and is the $1,639,402 reported on page 178 of the Staff Cost of Service Report recommendation number 3, as attributable to "every other transaction that has occurred since the beginning of time."

Q. Was there another reason KCPL claimed in the July 2011 email that it could not conduct the Operation of Aquila Study defined in paragraph 10 of the Stipulation by reviewing regulatory depreciation reserves?

A. Yes. KCPL claimed in item C 5 of the July 2011 email that a depreciation study would be required to compute the theoretical reserves as part of the evaluation of over- or under- recovered amounts required to satisfy the stipulated study. Staff does not agree. The accounts in question are mainly the vintage amortized accounts, plus structures account 390. The theoretical depreciation reserves at any point in time for an account using the vintage amortization method is simply a sum of the vintage amortizations. This is similar to any amortization; the total amount of amortizations that should have been recorded at any point in time can be computed as the initial amount multiplied by the ratio of the time since start to the total amortization period. If fact, this sum of amortizations (theoretical reserves) was conducted by KCPL in January 2011 when the Company computed the amount to use for the monthly depreciation accrual booking for the amortized accounts going forward in 2011. Below is what the Company claimed in item C 5 of the July 2011 email study report as a reason the study could not be completed.

> KCPL/GMO does not believe the Stipulation requires a depreciation study to be performed nor does KCPL or GMO believe it is prudent to spend the cost to update the study at this time. The study will be updated during the next rate case or within the 5 year time frame as required by Missouri statute. KCPL in Case ER-2010-0355 and GMO in Case ER-2010-0356 provided depreciation data which covered the period ending December 31, 2008. This same data was used in discussions with Staff concerning general plant amortization and how under-recovered and over-recovered reserve amounts were developed. See response to C 1 above. The same methodology will be applied in the next depreciation study.

Only the structures account 390 would require a depreciation study to complete the Office relocation Study. But the 2008 study provided theoretical reserves for this account which could be used. This is especially true for this structures account because the sales or transfers of these large items, (whole facilities and office buildings) are few and easily studied on an individual facility basis as to the relation to the acquisition and the effect on accumulated reserves. Staff did review the transactions recorded to plant and reserves for transfers and sales of service facilities and office buildings for the study period. Staff found the accounting methods used by the Company for these type activities did not create a reserve deficit or deficiency in account 390.

Q. Are there additional reasons Staff rejects the Company claim it has complied with the Depreciation Stipulation?

A. Yes. The KCPL/GMO stated conclusion at the end of the July 2011 email report is erroneous and misleading. That stated conclusion follows:

> KCPL/GMO believes this report documents the study required by the Stipulation and provides the additional information requested by Mr. Rice. As mentioned in the Stipulation the satisfactorily presentation of the study will result in the parties pursuing in good faith the resolution of GMO account 119300 and a request by GMO for an Accounting Authority Order to permanently resolve the issue by transferring depreciation reserves from Transmission plant to General plant.

This infers three things Staff can show are incorrect:

1. That only GMO, and not KCPL, has deficient reserves in the General Plant accounts attributable to the GPE acquisition of Aquila.
2. That account 119.300 is a cause of any under- or over-recovery in the GMO General Plant accounts.
3. That the amounts in account 119.300 are a definition of over- or under-recovery of plant in the GMO General Plant accounts.

Q. What is account 119?

A. The FERC USOA definition of account 119 is: "This account shall include the accumulated provision for depreciation and amortization applicable to utility property other than electric plant."

Q. What is the time period over which accruals occurred in GMO account 119.300?

A. Accruals started around 1999 and continued until the July 2008 Great Plains Energy acquisition of Aquila. No accruals have occurred since then.

Q. Has Staff reviewed the contents and origin of GMO account 119.300?

A. Yes. Staff conducted a detailed review of entries made to General Plant subaccounts within account 119.300 for the years from 1999 through 2008 containing 28,000 records.

Q. What is Staff's assessment of the contents the amounts recorded in GMO account 119.300?

A. The amounts recorded in GMO account 119.300 for the various General Plant accounts is simply an adjustment used to obtain the correct Missouri jurisdictional reserves. When the Company was operated under the Utilicorp United and Aquila names, "corporate" depreciation rates were used to record monthly depreciation accruals to the corporate books. The "corporate" depreciations rates were different, and generally higher, than the Missouri Commission-ordered depreciation rates. The Missouri versus "corporate" difference in the computed monthly accruals for Missouri jurisdiction assets in the General Plan accounts were recorded and accumulated to account 119.300.

Q. What is the current status of GMO account 119.300?

A. Account 119.300 still exists. It is the sum of approximately twelve General Plant accounts and subaccounts shown in the Staff accounting schedules for MPS and L&P under the heading UCU Common General Plant. These General Plant accounts have no Plant In Service associated with them, but show negative numbers in the Accumulated

Depreciation Reserves section of the Staff accounting schedules. Since these UCU Common General Plant reserve accounts contain negative amounts and have no plant associated with them to generate depreciation accruals, the result is a perpetual elevated rate base on a non existing plant.

Q. What is the effect of GMO account 119.300 account listings as UCU Common General Plant accounts on the Staff's accounting schedules for GMO?

A. The correct GMO Missouri jurisdictional accumulated depreciation reserves for many of the General Plant Accounts are derived by correcting (reducing) the amounts listed by the amounts shown in the UCU Common General Plant section of the Staff accounting schedules.

Q. Why does the UCU Common General Plant, account 119.300 amount end up in the KCPL/GMO Stipulated Study Conclusion statement as the amount to transfer between General Plant accounts and the Transmission accounts, as a solution to the under-recovery in the General Plant accounts, and infer that this amount satisfies either the Operation of Aquila Study or the Office Relocation Study for KCPL or GMO?

A. I do not know. There is no link between the Operation of Aquila Study or the Office Relocation Study for KCPL or GMO and account 119.300. The amount in account 119.300 is simply a surrogate account used to properly track Missouri accumulated reserves. There is no basis to claim this amount is the result of inadequate depreciation accruals for Missouri assets before or after Great Plains Energy's acquisition of Aquila. The Company-provided depreciation study conducted using retirement data through 2008 (the period of accumulation of the amounts in account 119.300 which is prior to Great Plains Energy's acquisition of Aquila), shows retirement rates for the General Plant accounts for KCPL, and the GMO rate districts closely match the Commission-ordered rates for that period.

Q. Would there be any reason why the amounts in account 119.300 could be an appropriate amount to satisfy the Stipulated study defined as, "KCPL and GMO shall complete a thorough study regarding retirement of property from the General plant accounts due to KCPL's operation of Aquila in conjunction with Great Plains Energy's acquisition of Aquila. *And,* KCPL shall complete a similar study regarding KCPL's recent corporate office relocations."?

A. No. This Stipulated study refers to activities as a result of and subsequent to the acquisition date, that is, after accruals to account 119.300 were stopped. All of the accruals to account 119.300 occurred prior to the operation of Aquila in conjunction with Great Plains Energy's acquisition of Aquila.

Q. How can accruals to reserves that occurred years prior to the Great Plains Energy acquisition of Aquila be an answer to the effects of any activities that occurred after this acquisition?

A. They cannot be.

Q. Does this end your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2012-0174

AFFIDAVIT OF ARTHUR W. RICE, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Arthur W. Rice, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Arthur W Rice

Arthur W. Rice

Subscribed and sworn to before me this 5th day of September, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public