

KCP&L-238

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

ARTHUR W. RICE, PE

KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2010-0355

Jefferson City, Missouri
January, 2011

Staff Exhibit No. KCP&L-238
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ARTHUR W. RICE, PE
KANSAS CITY POWER & LIGHT COMPANY
FILE NO. ER-2010-0355

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1 A. In response to KCPL witness John Weisensee's Rebuttal Testimony, I will
2 address a change in Staff's depreciation recommendation that affects the depreciation rates of
3 most of the plant accounts, relating to both the treatment of the accumulated additional
4 amortizations and also net salvage. Also, in response to KCPL witness John Spanos' Rebuttal
5 Testimony I will address KCPL's general plant amortization request.

6 **STAFF'S REVISED RECOMMENDATION AND NET SALVAGE**

7 Q. What treatment of the accumulated regulatory plan additional amortizations¹ does
8 KCPL witness Weisensee request in his Rebuttal Testimony?

9 A. Mr. Weisensee, at page 26 and 27, states that "KCP&L recommends spreading
10 the amortization to all plant accounts, excluding Iatan 2, but would be willing to discuss other
11 proposals such as that offered by Mr. Robertson." Mr. Weisensee also discusses the various party
12 proposals on this issue.

13 Q. Has Staff revised its recommendation concerning the treatment of the
14 accumulated additional amortizations?

15 A. Yes. Staff's revised recommendation is to apply the accumulated additional
16 amortizations to the Iatan 2 plant account, as described in more detail below.

17 Q. How did Staff recommend treating the accumulated additional amortizations in its
18 Direct Filing?

19 A. Staff had recommended maintaining a segregated account for the accumulated
20 additional amortizations, from which expenditures for net salvage (cost of removal) would
21 be recovered.

¹ In addition to the \$132,221,058 based on December 31, 2010 of additional amortizations accrued pursuant to the Experimental Regulatory Plan, KCPL has accrued additional amortizations in the amount of \$36,674,731 pursuant to Case No. EO-94-199.

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1 Q. In its direct recommendation, did Staff include an allowance for net salvage in its
2 calculated depreciation rates?

3 A. No. Because of Staff's direct-filed recommendation to utilize the accumulated
4 additional amortizations for incurred net salvage (cost of removal) expenditures, Staff did not
5 include an allowance for net salvage in its direct-filed recommended depreciation rates, nor in its
6 direct-filed depreciation expense recommendation.

7 Q. Does Staff's revision to its recommended treatment of the accumulated additional
8 amortizations require a revision to its depreciation recommendations?

9 A. Yes. Staff has recalculated depreciation rates to include an allowance for net
10 salvage. This revised recommendation of depreciation rates is attached as Schedule AR - 1. The
11 revised depreciation rates resulted in an annual depreciation expense of \$90,234,298, when
12 applied to plant balances in the Staff Accounting Schedules as of December 21, 2010.

13 Q. How does Staff's revised recommendation compare to KCPL's current request,
14 using these same Staff's plant balances?

15 A. Staff input the depreciation rates requested in Mr. Spanos' Direct Testimony to
16 the Staff Accounting Schedules. The resultant annual depreciation expense calculated was
17 \$90,875,531.

18 Q. Does Staff's recommendation concerning treatment of the accumulated additional
19 amortizations require segregating the Iatan 2 depreciation reserve accounts from the remaining
20 steam production fleet?

21 A. Yes. To calculate applicable depreciation rates, Staff recommends segregating
22 the Iatan 2 steam plant accounts as separate sub accounts from the remainder of the steam

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1 generation production fleet². Assigning the regulatory plant amortizations to the reserves of only
2 five steam production accounts specific to Iatan 2 is a relatively straight forward way to track
3 these additional dollars. The Staff recommended depreciation rates shown in attached
4 Schedule AR - 1 for Iatan 2 have been adjusted to amortize these additional reserves over the
5 expected service life of the new plant in service. Depreciation rates are calculated on a service
6 life basis to ensure that ordered rates reflect the benefit of the accumulated additional
7 amortizations to prevent the collection of these dollars a second time.

8 Q. What specific accounting treatment does Staff recommend concerning the
9 accumulated additional amortizations?

10 A. Staff recommends the Commission order KCPL to assign the accumulated
11 additional amortizations to Iatan 2 steam production plant depreciation reserve subaccounts.
12 Specifically, Staff recommends the Commission order KCPL to assign the approximately
13 \$36.7 million and \$132.2 million (total \$168.9 million) currently held in account 399 to newly
14 created accounts 311.5, 312.5, 314.5, 315.5, and 316.5 on a dollar weighted Missouri
15 jurisdictional cost basis of the prudently allowed additions to plant accounts resulting from the
16 construction of Iatan 2, and assigning to accounts 311.6, 312.6, 314.6, 315.6, and 316.6 the
17 depreciation expense accruals resulting from applying the ordered depreciation rates to plant in
18 service for Iatan 2.

19 Q. How should these sub accounts be treated for depreciation purposes?

20 A. For each of the Iatan 2 accounts 311, 312, 314, 315, and 316 the subaccounts
21 defined above are to be viewed as if the two subaccount were a one account for depreciation

²This is similar to the depreciation treatment used for the Hawthorn 5 rebuild accounts. Hawthorn 5 has a large casualty insurance settlement residing in depreciation reserves that are set aside to apply to Hawthorn 5 only. Hawthorn 5 depreciation rate computations are adjusted based on the current reserves balances and expected life of the current dollars in service to ensure depreciation expense is not collected from rate payers to pay for plant that has already been covered by the insurance settlement.

1 analysis purposes. Retirement records for use in future depreciation studies shall be recorded
2 and treated using the sum of the two subaccounts as one reserve account.

3 Q. What amount of the \$168.9 million dollars is credited to each new reserve
4 subaccount for Iatan 2?

5 A. The distribution to plant accounts recognizing Staff's recommended prudence
6 disallowances is shown in the table below.

7 **Staff's recommended assignment of the Accumulated**
8 **Additional Amortizations to the reserves for plant in service accounts**

9	311.5	Structures and Improvements	10.5 %	\$ 17,721,103
10	312.5	Boiler Plant Equipment	75.2	127,006,720
11	314.5	Turbogenerator Units	10.4	17,624,608
12	315.5	Accessory Electrical Equip	3.5	5,894,241
13	316.5	Misc Power Plant Equip	0.4	1,787,709
14				
15		TOTAL	100 %	\$168,895,789

16
17 Q. Does the Report and Order in Case No. ER-2006-0314 provide guidance
18 concerning the accounting treatment of the accumulated additional amortizations?

19 A. Yes. The Commission states at page 56 of its 2006 Order "any Regulatory Plan
20 additional amortization that is provided to KCPL pursuant to that Stipulation and Agreement
21 shall be used as a reduction in rate base for the longer of (a) at least ten (10) years following the
22 effective date of the July 28, 2005 Report And Order in Case No. EO-2005-0329 or (b) until the
23 investment in plant in service accounts to which the Regulatory Plan additional amortizations are
24 ultimately assigned by the Commission is retired.

25 Q. Is KCPL's requested treatment for the accumulated additional amortizations
26 consistent with the Report and Order?

27 A. No. KCPL's requested treatment assigns the accumulated additional
28 amortizations to all plant accounts *other than* Iatan 2. Some of those accounts consist of

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1 property near the end of useful life and near term significant retirements are expected to occur.
2 There are approximately 4.3 years remaining in the ten year period. Under Staff's depreciation
3 studies the overall plant estimated remaining life is 30 years. Approximately 14% of the current
4 plant in service is expected to be retired during these 4.3 years.

5 Q. Is Staff's recommendation to assign the regulatory plan amortization to the Iatan 2
6 accounts consistent with the Report and Order in Case No. ER-2006-0314?

7 A. Yes. Staff's recommended treatment uses the accumulated additional
8 amortizations as a reduction in rate base for the life of Iatan 2. Both Staff and KCPL expect
9 Iatan 2 to remain in service past August 7, 2015, which is ten years after the effective date of the
10 July 28, 2005 Report and Order in Case No. EO-2005-0329.

11 Q. Is it important to be able to identify the accumulated additional amortizations in
12 the depreciation reserve?

13 A. Yes. Assignment of the additional amortizations to the Iatan 2 reserves allows
14 monitoring and identification of these funds.

15 Q. Does Staff's revised recommendation include any other modifications?

16 A. Yes. For the nuclear plant accounts the net salvage (cost of removal) has been
17 modified to remove terminal net salvage from the computation of depreciation rates. This is
18 further explained below. A table showing a comparison of the current Staff recommended
19 depreciation rates to the depreciation rates representing the Company proposal from
20 Mr. Spanos' Direct Testimony is included as Schedule AR - 2 to this testimony.

1 **IATAN 2 DEPRECIATION RATES, ESTIMATED PLANT LIFE, AND**
2 **ADDITIONAL RESERVES**

3 Q. What are the differences between Staff's revised depreciation recommendation
4 for Iatan 2 and KCPL's request?

5 A. Staff used an estimated life of 60 years to determine the adjusted remaining life
6 depreciation rates for the Iatan 2 steam production plant accounts. Mr. Spanos used an estimated
7 life of 50 years. Staff included 100% of the Regulatory Plan Additional Amortizations as
8 accumulated depreciation reserves for Iatan 2. Mr. Spanos distributed 100% of the
9 Additional Amortizations to all plant accounts except Iatan 2, which received none.

10 Q. Does Staff's revised recommendation concerning the accumulated additional
11 amortizations affect Staff's recommendation regarding the depreciation treatment for Iatan 2
12 Steam Production Plant?

13 A. Yes. Staff is recommending that Iatan 2 be treated separately to allow
14 estimation of an average service life and a remaining life for each Iatan 2 plant account separate
15 from the other steam plant accounts. These estimates were calculated using an expected life for
16 Iatan 2 of 60 years.

17 Q. What basis does Staff use for its 60 year life estimate for deprecation purposes for
18 Iatan 2.

19 A. Staff bases its 60 year life estimate on observations of the estimated lives apparent
20 for other large coal fired steam production plants currently in service in Missouri. Attached
21 Schedule AR - 3 is a table showing an average expected life of 64 years for 24 steam production
22 units currently in service in Missouri. The 60 year estimated life for Iatan 2 is reasonable in
23 comparison to the 64 year average for other Missouri plants, and is also consistent with the
24 recent decision by the Kansas Corporation Commission ("the Kansas Commission") for Iatan 2.

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1 Q Does Staff's life estimate differ from KCPL's request?

2 A. Yes. Mr. Spanos used a 50 year life as the basis for KCPL's request. Staff's
3 understanding from Mr. Spanos' testimony is that he has specified this shorter life to increase
4 depreciation expense in the early years of the plant's life. Mr. Spanos' claims a shorter initial
5 life estimate used for a new plant will increase the initial depreciation expense and tend to
6 smooth this expense over the total life of a plant that may suffer a future requirement for a major
7 modification or early retirement. Staff does not agree that the initial users of a new plant should
8 be asked to return capital to KCPL on an accelerated schedule in anticipation of speculative
9 additional demands and requirements placed on the plant in future years by future users. If
10 future users or governmental agencies place additional demands and/or restrictions resulting in
11 early retirement of plant, it should be that future party's liability, not a speculative prepayment
12 from current users. Current users already pay through depreciation rates for expected future
13 replacement of worn components, routine modifications, and upgrades. Most importantly, past
14 history which is used to estimate depreciation rates already includes these type of upgrades
15 including retirements that have occurred as a result of upgrades for changes in
16 environmental laws.

17 Q. Does Mr. Spanos offer an over-simplified example concerning KCPL's request to
18 manipulate the Iatan 2 depreciation rates to achieve faster capital recovery?

19 A. Yes. Staff views Mr. Spanos' example starting at page 20 of his rebuttal as
20 oversimplified and misleading. His example does not represent the actual practice used in
21 setting depreciation rates. This example is premised on the assumption that "no major capital
22 expenditures occur" which is inconsistent with Staff's study that recognizes the interim
23 retirements and major capital expenditures that have actually occurred, and are factored into

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1 current rates. Interim retirements resulting from past changes in demands and requirements for
2 plant are already factored into depreciation rates as calculated by Staff, although Spanos'
3 example is premised on an assumption that they are not.

4 To illustrate this point, a 50 year estimated life yields a simple 2% depreciation rate as
5 shown in Mr. Spanos' example. However, we recognize that worn parts are replaced and routine
6 modifications occur causing interim retirements - so the depreciation study takes these into
7 account by recognizing interim retirements. Included in these interim retirements are retirements
8 resulting from major modifications and upgrades caused by changes in environmental laws. For
9 KCPL and GMO these interim retirements for steam plant equipment account for an addition of
10 approximately 0.7% to the 2% rate. Staff also includes in depreciation rates an allowance for
11 future cost of removal of steam plant, which adds another 0.3% for the major accounts. Adding
12 all three components of the depreciation rate results in current rate payers paying a 3%
13 depreciation rate.³ This is 150% of the straight 2% simple rate that Mr. Spanos used in his
14 example. To ask the current rate payers to pay even more by shortening the expected life span
15 by ten years to cover a speculative additional increase in the rate of change is not reasonable.

16 Q. Does Staff agree with Mr. Spanos' characterization on page 21 line 13 that
17 ratepayers pre- and post-renovation will be paying different rates for "the same assets?"

18 A. No. The assets after a renovation of a plant are different than the assets prior to
19 the renovation - it is not at all unexpected that ratepayers enjoying the benefit of a refurbished
20 plant would pay different rates than ratepayers who did not have the benefit of the
21 refurbishments.

³ The current case for Iatan 2 shows a much lower depreciation rate because the rate has been modified to account for the regulatory plan amortizations added to reserves. These reserve additions account for approximately one third of Missouri jurisdictional cost of the Iatan 2 plant.

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1 Q. Does Staff agree with Mr. Spanos' discussion on page 22 of his
2 Rebuttal Testimony concerning comparison of older units as support for a life span of a newly
3 constructed unit?

4 A. Yes. Staff agrees that blind comparisons should not be made. Staff has used the
5 actual retirement history for KCPL to estimate the depreciation rates for the current plants in
6 service from which that history was derived. For the Hawthorn 5 rebuild, and for the new
7 supercritical steam plant, Iatan 2, Staff has recognized that additional consideration is warranted,
8 and has separated these plants for individual depreciation treatment.

9 Q. Does Staff agree with Mr. Spanos' assertion that "[m]any life spans are revised
10 over time due to changes in functionality, regulatory requirements and rulings, as well as
11 efficiency and improvements of the facility, but the proper time for these revisions is at the time
12 of the change, not when estimating the initial life span."?

13 A. Yes. Staff agrees that the proper time for revisions in depreciation rates is at the
14 time of the change, not when estimating the initial plant life and rates. This is why Staff
15 supports use of a 60 year life for calculating depreciation rates applicable to Iatan 2, as opposed
16 to KCPL's requested - foreshortened - 50 year life.

17 Q. If the Commission does not order Staff's recommended treatment of the
18 accumulated additional amortizations, or a similar treatment, does Staff recommend Iatan 2
19 depreciation rates be developed by segregating Iatan 2 from the remainder of the steam
20 generation fleet?

21 A. No. It is only necessary to segregate Iatan 2 and utilize remaining life
22 treatment in order to effectuate Staff's recommendation concerning the accumulated additional
23 amortizations.

1 **The Unrecovered General Plant Amortizations**

2 Q In Mr. Spanos' Rebuttal Testimony, regarding the adoption of the use of an
3 Amortization of General Plant method of depreciation accounting, Mr. Spanos states, starting at
4 page 14, "[t]he current rates were not established based on the type of assets that exist today in
5 the respective accounts or sub-accounts." Does Staff agree with Mr. Spanos?

6 A. Yes. Staff agrees that the plant recorded book balances of current plant in service
7 for these accounts does not properly represent KCPL's actual used and useful equipment in
8 service. These accounts contain many small or hard to track items which over time some may
9 become no longer used or useful without a retirement being recorded on the books. The apparent
10 low depreciation rates in some of KCPL's General Plant accounts reflect the results of
11 depreciation mortality studies where the retirement history is deficient.

12 Q Why does Staff believe the plant accounts are inflated?

13 A. The Company's request to switch to a General Plant Amortization method for
14 some of the general plant accounts to better represent plant in service and depreciation expense
15 shows booking of approximately \$12,025,000 in retirements and requests \$18,421,033 in
16 unrecovered plant. This is evidence that booking of additional retirements is warranted.

17 Q. Does Staff agree that KCPL should be allowed an increase depreciation expense
18 to recover a claimed deficiency in reserves in the General Plant accounts?

19 A. No. KCPL has an overall excess accumulated depreciation reserve on the order of
20 \$400,000,000. Requesting additional funds in rates for an alleged \$18,421,033 due to the book
21 retirement of property in some of the General Plant accounts which are alleged to have been
22 removed from service in years past is not reasonable. The KCPL overall excess reserves
23 (theoretical calculate minus book) are approximated as follows:

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1	Regulatory Additional Amortizations	\$169,000,000
2	Hawthorn 5 Rebuild Steam Plant	\$94,000,000
3	Wolf Creek Nuclear Plant	\$105,000,000
4	Transmission and Distribution Plant	\$40,000,000

5 Q. Why does Staff recommend staying with the current depreciation rates if Staff
6 believes the current rates do not reflect the actual consumption of current plant in service?

7 A. The current rates do reflect what is recorded on the books. A low depreciation
8 rate for an inflated plant balance produces approximately the same depreciation accrual
9 (expense) as an increased rate on a reduced plant balance.

10 Q. Why does Staff, at this time, object to KCPL's request to switch to an
11 Amortization method of depreciation accounting and booking the resultant retirements to plant
12 and reserves to fit the amortization period chosen?

13 A. There are three reasons:

- 14 1) The Company claims additional retirements need to be recorded to books
15 for some of these General Plant accounts, but has not provided an
16 inventory of plant in service to show what needs to be retired from the
17 books. Staff believes the retirement history in its current form does not
18 reasonably represent the actual consumption of plant, and is thus not
19 reliable to estimate the depreciation rate assignments for these accounts.
20 Without a reasonable retirement history record, there is insufficient
21 evidence to support the amortization periods the Company has chosen.
- 22 2) Staff also believes retirements have been taken in some of these accounts
23 which resulted from the Aquila acquisition that should be recorded to

1 synergies accomplished due to the acquisition, and not to depreciation
2 expense through early retirements in these accounts.

- 3 3) Staff does not agree with the Company request to increase depreciation
4 expense with an amortization for unrecovered plant. Staff recommends a
5 balancing of reserves by transferring excess depreciation reserves from
6 Transmission Plant to cover the deficiency in General Plant reserves.

7 Q. What does Staff recommend to the Commission?

8 A. Staff recommends the Commission order the following:

- 9 1) KCPL to conduct an inventory of the property in General account numbers
10 391, 393, 394, 395, 397, and 398 and retire equipment from the books that
11 is found to be not used and useful within six (6) months of the date of the
12 Report and Order for this case.
- 13 2) KCPL to provide a list to Staff of all items retired from these accounts,
14 transfers into or out of these accounts, starting at the date of the
15 acquisition of Aquila through December 31 2010, showing a description
16 of the item retired, the date of retirement, the date the item was placed in
17 service, and the amount of the original cost. For items found to have been
18 retired early due to the acquisition, conduct a reconciliation to the reserve
19 accounts such that the un-depreciated portion of the retirement that was
20 taken is added back into the respective reserve account. Provide this
21 information to Staff within six (6) months from the date of the Report and
22 Order for this case.

1 3) KCPL to work with Staff to determine the amount, if any, of reserves is to
2 be transferred from the Transmission Plant Reserve accounts to the
3 General Plant reserves accounts to cover any unrecovered General Plant.
4 This transfer of reserves, if any, is to be completed within nine (9) months
5 of the date of the Report and Order for this case.

6 **The Use of Terminal Net Salvage**

7 Q. Has Staff used the same depreciation computation methods for the nuclear plant
8 accounts as proposed by Mr. Spanos?

9 A. No. For the nuclear plant accounts, Staff corrected the net salvage rate used in the
10 depreciation rate computation to eliminate the inclusion of terminal net salvage. Terminal net
11 salvage is the gross salvage minus the cost of removal when a production plant is removed from
12 service and disposed of. A separate and independent collection and funding mechanism is used
13 to provide a special decommissioning fund for nuclear plants. Normal collection of net salvage
14 includes collection of funds for future cost of removal of plant when plant is retired. The net
15 salvage rate is computed as a percentage of original cost. When a retirement occurs, the gross
16 salvage minus the cost of removal for the piece of plant being retired is the net salvage. The net
17 salvage rate is simply a ratio of the net salvage to the original cost of that piece. An average of
18 the net salvage for retired pieces is applied to the total cost of plant in service and collected over
19 the life of the plant. But only a fraction of the plant in service is expected to be replaced as
20 interim retirements. When a production unit is taken out of service, a significant amount of the
21 original installed plant is included in the retirement. That portion retired which is still original
22 installed plant has had cost of removal collected as net salvage over the entire life of the plant.

1 Thus under normal depreciation collection of net salvage, a portion of the total collections over
2 the plant life remains for use as terminal net salvage (cost to dismantle the plant).

3 Q. Has Staff addressed this issue in its recommendation?

4 A. Yes, Staff modified the net salvage rates for the nuclear plant accounts to collect
5 net salvage only on the portion of plant expected to retire as interim retirements. This correction
6 is derived from the interim survivor curves which show the portion of original plant still
7 surviving at the expected retirement date. The net salvage rate Staff used for each nuclear plant
8 account is reduced from the normal net salvage rate to reflect only the net salvage (cost of
9 removal) estimate required for interim retirements. The difference in net salvage rate and in the
10 depreciation rate for the nuclear plant accounts seen in attached Schedule AR – 2 is a direct
11 result of this terminal net salvage correction by Staff. KCPL has not corrected its request for
12 this issue. A similar correction for terminal net salvage was proposed and subsequently
13 incorporated into the depreciation rates ordered by the Commission for the Callaway Nuclear
14 Plant in Union Electric Company d/b/a AmerenUE (AmerenUE) rate case ER-2010-0036.

15 **Remaining Life Depreciation Rates**

16 Q. Are there ways to address the concerns Mr. Spanos raises on page 12 of his
17 Rebuttal Testimony?

18 A. Yes. Whole life rates may be accompanied with rebalancing of reserves and/or
19 fixed amortizations to insure no more or no less depreciation expense is collected in aggregate,
20 as explained below.

1 **Balancing of Depreciation Reserves Between Accounts**

2 Q. What is Staff's response to Mr. Spanos' statement on page 12, line 15 that "[t]he
3 whole life method has no checks for full recovery, over-recovery, or under-recovery."?

4 A. Staff recommends, for some accounts, the transfer of reserves between plant
5 accounts to rebalance book reserves with theoretically calculated reserves. Mr. Spanos requests
6 the use of remaining life depreciation rates for all plant accounts, and defends this position in his
7 Rebuttal Testimony starting at page 12. Staff recognizes that the whole life method does not
8 automatically correct for over or under recovery. Staff also recognizes that the blind use of
9 remaining life may introduce other undesirable effects. Staff takes a manual approach by
10 reviewing the theoretical calculated reserves versus the book reserves, makes an informed
11 judgment as to why the over or under reserve condition exists, and recommends appropriate
12 action. In the implementation of its study in a given case, Staff may recommend to the
13 Commission a transfer of reserves from over to under accrued accounts, specific reserve
14 amortizations, or that an over or under accrual should remain in place due to expected
15 future events.

16 Q. Is Staff recommending a transfer of reserves in this case?

17 A. Staff's position in this case is that the overall KCPL plant excess in reserves
18 consists mainly of three items, 1) accident insurance for Hawthorn 5, 2) a change in life span for
19 Wolf Creek, and 3) additional amortizations collected during the regulatory plan. These three
20 large over accruals (amounts discussed in above testimony) are relatively easy to monitor and
21 track, and are used to reduce rate base and to reduce current depreciation rates through remaining
22 life depreciation rates assigned to each of these plants. The remaining over accrual for the plant
23 accounts as a whole is relatively small (about 15%) of the total and spread across many accounts.

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1 Staff recommends leaving this other 15% in the booked reserves for possible future events (such
2 as the request by the Company to correct for unrecovered plant in the General Plant accounts).
3 Staff recommends re-balancing reserves of the general Steam Production accounts, the
4 Transmission accounts, and the Distribution accounts.

5 Q. What restrictions does Staff recommend on redistributing reserves between
6 accounts for the purpose of reducing the wide variability found in over and under accruals for
7 specific accounts?

8 A. Within the rate making process, the cost of Production, Transmission,
9 Distribution and General Plant accounts are not distributed equally between the different class
10 costs of service. Generally transfers between these groups should not be conducted, with the
11 possible exception of transfers between Transmission and General Plant accounts which are
12 fairly equally distributed between different class costs of service. Also, transfers of reserves in
13 or out of accounts with special amortizations, (such as Hawthorn 5, Wolf Creek, and Iatan 2)
14 should not be conducted.

15 Q. What are the transfers of reserves recommended by Staff?

16 A. The transfers of reserves recommended by Staff are shown in the attached
17 Schedule AR - 4.

18 Q. What does the Commission need to order in this case to implement Staff's
19 depreciation recommendation?

20 A. Staff recommends the Commission include in its Report and Order the following:

- 21 1. That KCPL utilize the depreciation rates contained in Schedule AR - 1.
22 These rates are premised on:
 - 23 i. Treatment of the bulk of KCPL's steam generation fleet as a living
24 account, with mass asset, whole life depreciation rates, which include
25 an allowance for both interim and terminal net salvage.

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- ii. Provide a list to Staff of all items retired from these accounts, transfers into or out of these accounts, starting at the date of the acquisition of Aquila through December 31 2010, showing a description of the item retired, the date of retirement, the date the item was placed in service, and the amount of the original cost. For items found to have been retired early due to the acquisition, conduct a reconciliation to the reserve accounts such that the un-depreciated portion of the retirement that was taken is added back into the respective reserve account. Provide this information to Staff within six (6) months from the date of the Report and Order for this case,
- iii. Work with Staff to determine the amount, if any, of reserves is to be transferred from the Transmission Plant Reserve accounts to the General Plant reserves accounts to cover any unrecovered General Plant. This transfer of reserves, if any, is to be completed within nine (9) months of the date of the Report and Order for this case.

Q. Does this end your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of)
Kansas City Power & Light Company for)
Approval to Make Certain Changes in its) File No. ER-2010-0355
Charges for Electric Service to Continue the)
Implementation of Its Regulatory Plan)

AFFIDAVIT OF ARTHUR W. RICE, PE

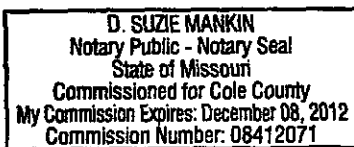
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Arthur W. Rice, PE, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 19 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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, PE

Subscribed and sworn to before me this 5th day of January 2011.



D. Suzie Mankin
Notary Public

Kansas City Power and Light Company
File No. ER-2010-0355

USOA Account	Sub Account	ASL yrs	Survivor Curve Type	Reserves As % Of Plant (Note 1)	Net Salvage %	Proposed Depreciation Rate %	
STEAM PRODUCTION PLANT				51.6			
311	Structures and Improvements	48	48-L2	52.4	(20)	2.50	
312	Boiler Plant Equipment	43	43-S0	57.0	(15)	2.68	
312.01	Unit Coal Trains	25	25-R2.5	8.6	20	3.14	
312.02	Boiler Plant AQC	49	40-S0	65.3	(15)	2.33	
314	Turbogenerator Units	47	47-R1.5	47.0	(15)	2.45	
315	Accessory Electrical Equipment	43	43-L1.5	38.5	(10)	2.56	
316	Miscellaneous Power Plant Equipment	37	37-R2	31.7	0	2.70	
Hawthorn Unit 5 rebuild							
311.02	Structures & improvements	34	90-S0.5	87.9	(20)	1.19	
312.03	Boiler Plant Equipment	31	55-R1	84.8	(15)	1.20	
315.01	Accessory Electrical Equip	31	50-L1	84.1	(10)	1.07	
316.01	Misc Power Plant Equip	32	55-L1	84.8	0	0.61	
Iatan 2 Steam Plant							
311	Structures and Improvements	Iatan 2	55	90-S0.5	36.3	(20)	1.53
312	Boiler Plant Equipment	Iatan 2	47	44-R1	36.3	(15)	1.68
314	Turbogenerator Units	Iatan 2	50	60-R1.5	36.3	(15)	1.59
315	Accessory Electrical Equipment	Iatan 2	43	50-L2	36.3	(10)	1.71
316	Miscellaneous Power Plant Equipment	Iatan 2	45	55-L1	36.3	0	1.41
Nuclear Production Plant							
321	Structures & improvements	54	90-S0.5	56.0	(1.2)	1.36	
322	Reactor Plant Equipment	49	60-R2	55.2	(2.3)	1.51	
323	Turbogenerator Units	46	50-S1.5	65.9	(7.0)	1.59	
324	Accessory Electrical Equip	46	50-S1.5	44.5	0	2.10	
325	Misc power Plant Equip	36	40-R0.5	25.5	0	2.92	
Other Production Plant							
341	Structures & improvements	60	60-R1	29.5	(5)	1.75	
342	Fuel Holder & Accessories	45	45-R2	32.3	(10)	2.44	
344	Generators	35	35-S0.5	33.6	(10)	3.15	
345	Accessory Electrical Equip	45	45-R2.5	46.0	0	2.22	
WIND PRODUCTION PLANT							
341.02	Structures and Improvements	20	20-S1	11.4	0	5.00	
344.02	Generators	20	20-S1	11.4	0	5.00	
345.02	Accessory Electrical Equip	20	20-S1	11.4	0	5.00	
TRANSMISSION PLANT				48.0			
352	Structures and Improvements	60	60-R2.5	46.7	(5)	1.75	
353	Station Equipment	60	60-R0.5	41.0	(10)	1.83	
353.03	Station Equip - Communications	30	30-S1	90.9	0	5.12	
354	Towers and Fixtures	70	70-R3	88.5	(20)	1.72	
355	Poles and Fixtures	50	50-S0.5	49.8	(40)	2.80	
356	Overhead Conductors	53	53-R2	47.6	(20)	2.26	
357	Underground Conduit	60	60-R3	75.5	0	1.67	
358	Underground Conductors	55	55-R4	92.2	0	1.82	

Kansas City Power and Light Company
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USOA Account	Sub Account	ASL yrs	Survivor Curve Type	Reserves As % Of Plant (Note 1)	Net Salvage %	Proposed Depreciation Rate %
DISTRIBUTION PLANT				34.4		
361	Structures and Improvements	50	60-S0.5	34.6	(5)	2.10
362	Station Equipment	48	48-R1.5	31.4	(5)	2.19
362.03	Station Equip - Communications	30	30-S1	75.5	0	6.66
364	Poles, Towers and Fixtures	38	38-R3	53.3	(40)	3.68
365	Overhead Conductors	45	45-R0.5	26.5	(20)	2.67
366	Underground Conduit	55	55-R2	27.1	(25)	2.27
367	Underground Conductors	50	50-R1.5	21.8	(5)	2.10
368	Line Transformers	34	34-R2	33.2	10	2.65
369	Services	48	48-R2.5	70.1	(100)	4.17
370	Meters	36	36-R1.5	37.7	0	2.78
371	Installations on Customer Prop	20	20-L1.5	35.3	(15)	5.75
373	Street Lighting, Signal Systems	25	25-L0.5	32.1	(5)	4.20
GENERAL PLANT						
390	Structures and Improvements	45	45-R1	33.4	(15)	2.56
391	Office Furniture and Equipment	*Current Ordered Rate		37.3	0	5.40
391.01	Office Furniture - Wolf Creek	*Current Ordered Rate		41.4	0	5.40
391.02	Computer Equipment	*Current Ordered Rate		8.2	0	5.40
392	Transportation Equipment					
	Autos	7	7-R2	43.8	25	10.71
	Light Trucks	8	8-R0.5	9.4	25	9.38
	Heavy Trucks	10	10-S1.5	16.8	25	7.50
	Tractors	12	12-S0	16.7	25	6.25
	Trailers	20	20-S1.5	39.2	25	3.75
393	Stores Equipment	*Current Ordered Rate		57.1	0	3.58
394	Tools, Shop & Garage Equip	*Current Ordered Rate		49.3	0	2.61
395	Laboratory Equipment	*Current Ordered Rate		50.2	0	3.37
396	Power Operated Equipment	13	12-L2	18.0	15	6.54
397	Communications Equipment	*Current Ordered Rate		9.6	0	2.50
398	Miscellaneous Equipment	*Current Ordered Rate		20.6	0	3.16
Composite Overall Plant				43.4		2.31

*Current Ordered Rate: Case ER-2005-0329)

Note 1: After transferring reserves between accounts and adding \$169 mil to latan 2 as proposed by Staff

Kansas City Power and Light Company
File No. ER-2010-0355

USOA Account	Sub Account	KCPL PROPOSAL			STAFF PROPOSAL			
		ASL Yrs	Assigned Net Salvage %	Proposed Depreciation Rate %	ASL Yrs	Assigned Net Salvage %	Proposed Depreciation Rate %	
STEAM PRODUCTION PLANT								
311	Structures and Improvements	38.0	(20)	2.78	48.0	(20)	2.50	
312	Boiler Plant Equipment	31.4	(15)	2.54	42.9	(15)	2.68	
312.01	Unit Coal Trains	25.0	20	2.90	25.5	20	3.14	
312.02	Boiler Plant AQC	38.2	(15)	0.00	49.4	(15)	2.33	
314	Turbogenerator Units	32.6	(15)	2.96	46.9	(15)	2.45	
315	Accessory Electrical Equipment	30.7	(10)	3.52	43.0	(10)	2.56	
316	Miscellaneous Power Plant Equipment	33.4	0	1.96	37.0	0	2.70	
Hawthorn Unit 5 rebuild								
311.02	Structures & Improvements	Unit 5 Rebuild	33.9	(20)	0.99	33.9	(20)	1.19
312.03	Boiler Plant Equipment	Unit 5 Rebuild	31.3	(15)	0.96	31.3	(15)	1.2
315.01	Accessory Electrical Equip	Unit 5 Rebuild	30.9	(10)	0.84	30.9	(10)	1.07
316.01	Misc Power Plant Equip	Unit 5 Rebuild	31.5	0	0.39	31.5	0	0.61
Iatan 2 Steam Plant								
311	Structures and Improvements	Iatan 2	46.9	(20)	2.56	54.8	(20)	1.53
312	Boiler Plant Equipment	Iatan 2	41.5	(15)	2.77	46.8	(15)	1.68
314	Turbogenerator Units	Iatan 2	43.6	(15)	2.64	49.6	(15)	1.59
315	Accessory Electrical Equipment	Iatan 2	39.3	(10)	2.8	43.1	(10)	1.71
316	Miscellaneous Power Plant Equipment	Iatan 2	40.8	0	2.45	45.2	0	1.41
Nuclear Production Plant								
321	Structures & improvements		54.1	(5)	1.30	54.1	(1.2)	1.36
322	Reactor Plant Equipment		48.8	(5)	1.41	48.8	(2.3)	1.51
323	Turbogenerator Units		46.4	(10)	1.49	46.4	(7.0)	1.59
324	Accessory Electrical Equip		45.7	0	1.89	45.7	0	2.10
325	Misc power Plant Equip		36.0	0	2.69	36.0	0	2.92
Other Production Plant								
341	Structures & improvements		31.8	(5)	2.74	60.0	(5)	1.75
342	Fuel Holder & Accessories		32.4	(10)	2.90	45.1	(10)	2.44
344	Generators		28.9	(10)	3.20	34.9	(10)	3.15
345	Accessory Electrical Equip		34.5	0	1.87	45.0	0	2.22
WIND PRODUCTION PLANT								
341.02	Structures and Improvements		20.0	0	4.80	20.0	0	5.00
344.02	Generators		20.0	0	4.74	20.0	0	5.00
345.02	Accessory Electrical Equip		20.0	0	5.14	20.0	0	5.00
TRANSMISSION PLANT								
352	Structures and Improvements		60.0	(5)	1.73	60.0	(5)	1.75
353	Station Equipment		59.8	(10)	1.34	60.1	(10)	1.83
353.03	Station Equip - Communications		19.5	0	28.92	19.5	0	5.12
354	Towers and Fixtures		69.8	(20)	0.72	69.8	(20)	1.72
355	Poles and Fixtures		50.0	(40)	2.20	50.0	(40)	2.80
356	Overhead Conductors		52.9	(20)	1.53	53.1	(20)	2.26
357	Underground Conduit		59.9	0	1.31	59.9	0	1.67
358	Underground Conductors		54.9	0	0.55	54.9	0	1.82

Kansas City Power and Light Company
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USOA Account	Sub Account	KCPL PROPOSAL			STAFF PROPOSAL		
		ASL Yrs	Assigned Net Salvage %	Proposed Depreciation Rate %	ASL Yrs	Assigned Net Salvage %	Proposed Depreciation Rate %
DISTRIBUTION PLANT							
361	Structures and Improvements	50.0	(5)	1.33	50.0	(5)	2.10
362	Station Equipment	48.2	(5)	1.70	47.9	(5)	2.19
362.03	Station Equip - Communications	15.0	0	27.41	15.0	0	6.66
364	Poles, Towers and Fixtures	38.0	(40)	3.00	38.0	(40)	3.68
365	Overhead Conductors	45.1	(20)	2.39	44.9	(20)	2.67
366	Underground Conduit	54.8	(25)	2.49	55.1	(25)	2.27
367	Underground Conductors	50.0	(5)	2.04	50.0	(5)	2.10
368	Line Transformers	34.0	10	1.60	34.0	10	2.65
369	Services	48.1	(100)	4.75	48.0	(100)	4.17
370	Meters	36.0	0	0.95	36.0	0	2.78
371	Installations on Customer Prop	20.0	(15)	0.81	20.0	(15)	5.75
373	Street Lighting, Signal Systems	25.0	(5)	4.16	25.0	(5)	4.20
GENERAL PLANT							
390	Structures and Improvements		(15)	2.07		(15)	2.56
391	Office Furniture and Equipment		0	5.00		0	5.40
391.01	Office Furniture - Wolf Creek		0	5.00		0	5.40
391.02	Computer Equipment		0	20.00		0	5.40
392	Transportation Equipment						
	Autos	7.0	25	6.73	7.0	25	10.71
	Light Trucks	8.0	25	8.79	8.0	25	9.38
	Heavy Trucks	10.1	25	7.53	10.1	25	7.50
	Tractors	12.0	25	5.83	12.0	25	6.25
	Trailers	20.2	25	1.84	20.2	25	3.75
393	Stores Equipment		0	4.00		0	3.58
394	Tools, Shop & Garage Equip		0	5.00		0	2.61
395	Laboratory Equipment		0	5.00		0	3.37
396	Power Operated Equipment		0	6.35		0	6.54
397	Communications Equipment		0	6.67		0	2.50
398	Miscellaneous Equipment		0	5.00		0	3.16
	Overall Composite Estimate			2.35			2.31

Kansas City Power and Light Company
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**Life Span Estimates for Missouri Coal Fired Electrical Generating Plants
Missouri PSC Staff 12/28/2010**

Company	Facility	Current Age Years	Life Span Years	Missouri Case No.
KCPL	Iatan 1	30	60	ER-2010-0355
	Hawthorn 5	41	67	
	Montrose 1	52	62	
	Montrose 2	50	50	
	Montrose 3	46	56	
	LaCyne 1	37	59	
	LaCyne 2	33	59	
	MPS	Sibley 1	50	
Sibley 2		48	58	
Sibley 3		41	61	
L&P	Lake Road 2	53	63	
	Lake Road 4	43	63	
AmerenUE	Meramec 1	57	68	ER-2010-0036
	Meramec 2	56	66	
	Meramec 3	51	63	
	Meramec 4	49	61	
	Sioux 1	43	66	
	Sioux 2	42	65	
	Labadie 1	40	72	
	Labadie 2	39	71	
	Labadie 3	38	70	
	Labadie 4	37	69	
	Rush Island 1	34	70	
	Rush Island 2	33	69	

Average All Plants	64
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Kansas City Power and Light Company
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Transfers of Reserves to Rebalance Accounts													
USOA Account	Sub Unit	Sub Account	Original Cost	Actual	Excess Reserves Used		Reserve Balancing Transfers					New % Over	New Excess
			AS OF 31-Dec-08	Dec 31 2008	Company Proposed	Net S	Percent	Move	TO	Move	From		
			31-Dec-08	Book	Calculated	Excess (+)	Over	OUT	Account	IN	Account		
				Reserve	Reserve	Reserve							
STEAM PRODUCTION PLANT													
315		Accessory Electrical Equipment											
	30	Hawthorn Common	445,873	66,506	75,554	-9,048	(12)			6,455	316	(3)	-2,593
	35	Hawthorn Unit 5	5,712,879	894,498	1,016,191	-121,693	(12)		86,812	316	(3)	(3)	-34,881
	39	Hawthorn Unit 9 (6)	7,158,754	1,866,712	2,120,674	-253,962	(12)		181,169	316	(3)	(3)	-72,793
	40	Montrose Common	1,744,970	808,472	918,458	-108,986	(12)		78,461	316	(3)	(3)	-31,525
	41	Montrose Unit 1	2,670,509	1,414,125	1,606,514	-192,389	(12)		137,244	316	(3)	(3)	-55,144
	42	Montrose Unit 2	2,504,699	1,366,845	1,552,806	-185,961	(12)		132,659	316	(3)	(3)	-53,302
	43	Montrose Unit 3	3,677,759	1,773,358	2,014,619	-241,261	(12)		172,109	316	(3)	(3)	-69,153
		Montrose Combined	10,597,937	0	0	0							
	51	Iatan Unit 1	16,961,229	5,594,927	6,356,103	-761,176	(12)		543,000	316	(3)	(3)	-218,176
	50	Iatan Common	0	0	0	0							0
	70	Lacyne Common	982,115	281,191	319,445	-38,254	(12)		27,289	316	(3)	(3)	-10,965
	71	Lacyne Unit 1	9,255,239	3,188,635	3,620,170	-433,535	(12)		309,271	316	(3)	(3)	-124,264
	72	Lacyne Unit 2	7,660,912	3,353,137	3,809,324	-456,187	(12)		325,430	316	(3)	(3)	-130,757
	99	Miscellaneous	10,773	1,038	1,180	-142	(12)		101	316	(3)	(3)	-41
		Accessory Electrical Equipment	58,785,711	20,607,446	23,411,038	-2,803,592	(12)		2,000,000	316			-803,592
316		Miscellaneous Power Plant Equipment											
									Transfer = (excess/total excess) * total transfer				
	30	Hawthorn Common	1,179,544	245,854	174,700	71,154	41	-73,024	315			(1)	-1,870
	35	Hawthorn Unit 5	3,171,562	1,637,304	1,163,443	473,861	41	-486,314	315			(1)	-12,453
	39	Hawthorn Unit 9 (6)	98,002	35,578	25,281	10,297	41	-10,567	315			(1)	-271
	40	Montrose Common	2,315,674	1,502,775	1,067,848	434,927	41	-446,357	315			(1)	-11,430
	41	Montrose Unit 1	58,411	51,830	43,539	8,291	19	-8,509	315			(1)	-218
	42	Montrose Unit 2	23,528	20,877	17,867	3,010	17	-3,089	315			(0)	-79
	43	Montrose Unit 3	32,757	29,067	24,747	4,320	17	-4,433	315			(0)	-114
		Montrose Combined	2,430,370	0	0	0							
	51	Iatan Unit 1	2,591,266	1,283,187	906,283	376,904	42	-386,809	315			(1)	-9,905
	50	Iatan Common	0	0	0	0							
	70	Lacyne Common	1,527,103	588,245	415,463	172,782	42	-177,323	315			(1)	-4,541
	71	Lacyne Unit 1	622,437	419,463	296,256	123,207	42	-126,445	315			(1)	-3,238
	72	Lacyne Unit 2	737,627	515,404	364,017	151,387	42	-155,365	315			(1)	-3,978
	99	Miscellaneous	2,596,657	403,936	285,290	118,646	42	-121,764	315			(1)	-3,118
		Total Miscellaneous Power Plant Equipment	14,954,568	6,733,519	4,784,734	1,948,785	41	-2,000,000	315			(1)	-51,215
TRANSMISSION PLANT													
352		Structures and Improvements	2,637,328	749,412	986,989	-137,557	(16)		481,853	Trans All	38.82		344,296
353		Station Equipment	67,405,463	22,901,015	13,086,857	9,814,158	75	-4,734,209	Trans All		38.82		5,079,948
353.03		Station Equip - Communications	4,320,186	290,886	2,829,532	-2,538,646	(90)		3,636,990	Trans All	38.82		1,098,344
354		Towers and Fixtures	2,233,562	1,883,419	1,289,018	594,401	46	-94,040	Trans All		38.82		500,360
355		Poles and Fixtures	57,018,757	27,181,435	20,449,849	6,731,586	33		1,206,468	Trans All	38.82		7,938,054
356		Overhead Conductors	51,423,043	23,450,381	16,166,940	7,283,441	45	-1,007,891	Trans All		38.82		6,275,549
357		Underground Conduit	1,707,329	970,188	929,197	40,991	4		319,697	Trans All	38.82		360,688
358		Underground Conductors	1,564,565	1,251,175	1,038,998	212,177	20		191,133	Trans All	38.82		403,310
		Total Transmission Plant	188,310,233	78,677,910	56,677,360	22,000,550	38.82	-5,836,141		5,836,141		38.82	22,000,550

Kansas City Power and Light Company
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USOA Account	Sub Unit	Sub Account	Original Cost	Actual	Excess Reserves Used		Reserve Balancing Transfers						
			AS OF	Dec 31 2008	Company Proposed Net S		Percent	Move	TO	Move	From	New %	New
			31-Dec-08	Book	Calculated	Excess (+)	Over	OUT	Account	IN	Account	Over	Excess
				Reserve	Reserve	Reserve	Version						
DISTRIBUTION PLANT													
								Transfer = (Theor Calc * Avg Excess %) - Excess					
361		Structures and Improvements	5,411,263	2,608,861	1,754,521	854,340	49	-734,049	Dist All			7	120,290
362		Station Equipment	88,183,336	31,108,942	25,914,541	5,194,401	20	-3,417,698	Dist All			7	1,776,703
362.03		Station Equip - Communications	2,139,834	623,115	1,511,166	-888,051	(59)			991,657	Dist All	7	103,606
364		Poles, Towers and Fixtures	127,906,795	68,475,641	63,747,615	4,728,026	7	-357,485	Dist All			7	4,370,541
365		Overhead Conductors	107,607,477	28,727,878	26,660,634	2,067,244	8	-239,389	Dist All			7	1,827,855
366		Underground Conduit	101,154,718	15,301,146	25,632,282	-10,331,116	(40)			12,088,466	Dist All	7	1,757,350
367		Underground Conductors	184,961,242	30,504,727	37,666,302	-7,161,575	(19)			9,743,980	Dist All	7	2,582,404
368		Line Transformers	136,162,481	56,775,721	42,364,615	14,411,106	34	-11,506,585	Dist All			7	2,904,521
369		Services	43,707,937	20,826,696	28,690,702	-7,864,007	(27)			9,831,044	Dist All	7	1,967,036
370		Meters	47,384,638	30,230,195	16,738,050	13,492,145	81	-12,344,583	Dist All			7	1,147,562
371		Installations on Customer Prop	7,988,266	7,485,570	2,641,892	4,843,878	183	-4,662,764	Dist All			7	181,115
373		Street Lighting, Signal Systems	8,464,645	2,106,661	2,539,930	-433,269	(17)			607,407	Dist All	7	174,138
		Total Distribution Plant	861,072,632	294,775,149	275,862,030	18,913,119	7	-33,262,553		33,262,553		7	18,913,119