Exhibit No.: GMO-26
Issue: Accumulated Depreciation
Witness: Ronald A. Klote
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
Date Testimony Prepared: December 15, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
December 2010

KCPL Exhibit No GMO26
Date 2/4/11 Reporter LMB
File No ER-2010-0356

REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2010-0356

Q: Please state your name and business address.

A: My name is Ronald A. Klote. My business address is 1200 Main Street, Kansas City, Missouri 64105.

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

A: I am employed by Kansas City Power & Light Company ("KCP&L" or the "Company") as Senior Manager, Regulatory Accounting.

Q: What are your responsibilities?

A: My responsibilities include the preparation and review of accounting exhibits and schedules associated with KCP&L and KCP&L Greater Missouri Operations Company ("GMO") regulatory filings. I also have responsibility for the completion and filing of certain regulatory reports to the Federal Energy Regulatory Commission ("FERC") and Department of Energy, among others.

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

A: In 1992, I received a Bachelor of Science Degree in Accountancy from the University of Missouri-Columbia. I am a Certified Public Accountant holding a certificate in the State of Missouri. In 1992, I joined Arthur Andersen, LLP holding various positions of increasing responsibilities in the auditing division. I conducted and led various auditing engagements of company financial statements. In 1995, I joined Water District No. 1 of Johnson County as a Senior Accountant. This position involved extensive operational and financial analysis of water operations. In 1998, I joined Overland Consulting, Inc. as a Senior Consultant. This position involved special accounting and auditing projects in the electric, gas, telecommunications and cable industries. In 2002, I joined Aquila, Inc. holding various positions within the Regulatory department until 2004 when I became Director of Regulatory Accounting Services. This position was primarily responsible for the planning and preparation of all accounting adjustments associated with regulatory filings in the electric jurisdictions. In July 2008, I began my employment with KCP&L.

Q: **Have you previously testified in a proceeding before the Missouri Public Service Commission ("MPSC" or "the Commission") or before any other utility regulatory agency?**

A: Yes. I have testified before the California Public Utilities Commission, the Public Utilities Commission of Colorado, the Kansas Corporation Commission, and the Missouri Public Service Commission.

Q: **What is the purpose of your rebuttal testimony?**

A: The purpose of my rebuttal testimony is to discuss the testimony of Ag Processing, Inc. /Sedalia Industrial Energy Users Association/Federal Executive Agencies witness Greg R. Meyer on the issue of unrecovered depreciation reserve. In addition, I discuss the omission of the unrecovered depreciation reserve amortization from Staff's accounting schedules.

Q: **Please explain what the unrecovered depreciation reserve represents.**

A: The unrecovered depreciation reserve balances are maintained on the ECORP business unit ledger in account 119300. This balance at June 30, 2010 was approximately $18.8 million which is allocated $14.1 million and $4.7 million between GMO-MPS and GMO-

L&P jurisdictions, respectively. The amounts maintained in tracking account 119300 represent depreciation rate differences between allocated corporate depreciation rates and state jurisdictional rates approved by the MPSC. Prior to July 14, 2008 which was the acquisition date of the Aquila utilities by Great Plains Energy, corporate assets were depreciated on Aquila's books using corporate depreciation rates. The depreciation expense associated with these corporate assets was allocated across the utility divisions operating in 5 states. Yet the rates supporting the corporate depreciation expense that was allocated to the MPS and L&P divisions were different than the rates approved by the MPSC for the MPS and L&P divisions. As such, on the MPS and L&P ledgers an entry was required on a monthly basis to adjust the depreciation expense to the approved MPSC depreciation rates. This difference between corporate and state jurisdictional amounts accumulated in account 119300 and has been a part of the MPS and L&P depreciation reserve calculation since 2002. In effect, the amounts reflect a historical timing difference between corporate depreciation expense and depreciation expense that has been recovered in Missouri jurisdictions, leaving an unrecovered reserve balance that the Company is requesting recovery of over a 20 year period in this case. Please see attached Schedule RAK2010-1 which provides the accumulation of the unrecovered reserve from 2002 through 2008.

Q: Have these amounts been included in rate base in past rate case filings?

A: Yes. Staff has included these reserve deficiency amounts in their accounting schedules in prior rate cases including the last rate case ER-2009-0090 for GMO-MPS and GMO-L&P jurisdictions.

Q: What was Staff's recommendation regarding this balance in the last rate case filing, ER-2009-0090?

A: In Staff's "Cost of Service Report" in case number ER-2009-0090 the recommendation for the reserve deficiencies is located on page 139. It states, "Staff recommends that the reserve deficiencies that exist specific to the books of GMO-MPS and GMO-L&P of $14,076,021 and $4,744,842, respectively, be included in the ECORP accumulated reserve for depreciation using a weighted average of each ECORP reserve account's balance as of September 30, 2008."

Q: What is the ECORP business unit?

A: The ECORP business unit is a GMO, accounting only, business unit that houses common utility assets and costs that are allocated between the GMO-MPS and GMO-L&P jurisdictions for cost of service determinations. Specific to the above recommendation, many of the common corporate GMO assets are recorded on the ECORP business unit.

Q: Why did Staff recommend moving the reserve deficiency to the ECORP accumulated reserve?

A: At the time of the acquisition of Aquila in July 2008, the balances of the reserve deficiency were maintained on the MPS and L&P jurisdictional ledgers. As such, the reserve balances were brought over on the respective ledgers in order to track each jurisdictions reserve deficiency separately. Staff's recommendation was to move the jurisdictional amounts onto the ECORP ledger where many of the corporate assets were housed after the acquisition. This was proposed to match the reserve deficiencies with the common utility assets maintained on the ECORP business unit after the July 14, 2008 acquisition.

Q: **Did the Company move the reserve deficiency amounts to the ECORP business unit?**

A: Yes. In June 2009, following Staff's recommendation, the Company moved the MPS and L&P account 119300 reserve deficiency amounts from the GMO-MPS and GMO-L&P business units to the ECORP business unit.

Q: **Did the Company include account 119300 in its direct filing in this case as it has done in all previous cases since 2002?**

A: Yes. The Company included in its GMO-MPS and GMO-L&P rate case filings the reserve deficiency amount that accumulated from 2002 through July 2008 in its direct filing.

Q: **Why is there no corporate versus state jurisdictional rate difference amount accumulated after July 2008?**

A: After the acquisition of Aquila in July 2008, the corporate assets were depreciated using the MPSC approved depreciation rates. Post acquisition, there were no longer other state jurisdictional business units that needed to be considered which was driving the need to use corporate depreciation rates on the Aquila utilities business units. Since depreciation is now being recorded using the MPSC approved depreciation rates, there is no longer depreciation rate differences to record in account 119300.

Q: **What was the Company's proposal in its direct filing to handle the reserve deficiency that has accumulated since 2002?**

A: As explained in Company witness John Weisensee's Direct Testimony in this case, Company adjustment CS-122 Amortization of Unrecovered Reserve requested a 20 year amortization of the unrecovered reserve balances that have accumulated since 2002.

Although the assets included in the general plant asset category are relatively short lived assets, the Company recommended minimizing the impact of this unrecovered reserve and amortizing the amounts over 20 years. Adjustment CS-122 calculates an annual amount of amortization for GMO-MPS of $700,374 and for GMO-L&P of $237,224.

Q: Why did the Company propose the amortization of the unrecovered reserve in this rate case proceeding?

A: The unrecovered reserve amounts have accumulated since 2002 and the tracking account is now in essence frozen with the change to jurisdictional depreciation rates at the time of the acquisition. Without specific rate action, such as the amortization that is recommended by the Company, the Company does not currently have a mechanism for recovery of this unrecovered reserve. The Company's recommendation to amortize this balance over 20 years attempts to minimize the rate impact but allow the Company recovery in a rational and systematic manner.

Q: What is the position of Ag Processing, Inc. /Sedalia Industrial Energy Users Association/Federal Executive Agencies witness Greg R. Meyer on this issue?

A: Mr. Meyer states in his direct testimony that he has concerns regarding the adjustments proposed by GMO. On page 8, lines 3 – 7, of Mr. Meyer's direct testimony, Mr. Meyer makes the assertion that as a result of the acquisition that GMO is now claiming they have an under recovered reserve issue. He goes on to state that his concern seems to center around the issue that minor unrecovered reserve amounts have been recorded to plant accounts that have no plant in service or reserve balance as of December 31, 2009. In addition, he states that the allocation of the unrecovered reserve is larger than the book depreciation reserve in some accounts. As such, he states that he has requested additional data requests from the Company on this issue, but that these relationships clearly call into question the reasonableness of these proposed adjustments. He proposes the elimination of the amortization of the unrecovered reserve, approximately $700,000 for GMO-MPS and approximately $237,000 for GMO-L&P.

Q: Do you agree with Mr. Meyer's proposed adjustments?

A: No I do not.

Q: Why not?

A: First, as I have explained above, the unrecovered reserve has accumulated year over year since 2002 and has been a part of the calculation of the GMO jurisdictional reserve balance ever since. The accumulation of the unrecovered reserve is a result of corporate asset depreciation rates that were higher than the MPSC approved rates in place since 2002 for the same assets. As such, the jurisdictional depreciation expenses were adjusted to comply with the MPSC depreciation rates. The unrecovered reserve was then tracked in various general plant accounts which included additions and retirements over the years. This is clearly a past issue and not a result of the acquisition as Mr. Meyer suggests.

At the time of the acquisition of Aquila, Inc. in July 2008, these unrecovered reserve amounts that had accumulated in account 119300 were brought over on the jurisdictional books of GMO-MPS and GMO-L&P where they had been maintained on Aquila's books and records. Subsequently, in the last GMO rate case ER-2009-0090, Staff recommended moving the unrecovered reserve amounts to the ECORP business unit and allocating the amounts across asset classes based on the weighted average of each ECORP reserve account. The Company followed Staff's recommendation and the unrecovered reserve was moved in June 2009. On ECORP's books the amounts were allocated using the weighted average of the ECORP reserve accounts as requested by Staff (See attached schedule RAK2010-2 for the weighted average allocation maintained on ECORP's books).

For presentation purposes in this rate case filing, the unrecovered reserve amounts were recorded in the Company's accounting schedules in the asset classifications in which they originated. As such, Mr. Meyer has correctly pointed out in his testimony that some asset classes have been fully retired, yet have some residual unrecovered reserve amounts recorded to them. Whether the unrecovered reserve amounts are recorded to the account they initially arose or whether they are allocated using a weighted average approach as Staff recommended, and as reflected today on the Company's ECORP business unit ledger does not remove the issue that an unrecovered reserve exists. As such, a method of recovery needs to be provided in this case. The Company has proposed a rational and systematic amortization over 20 years to appropriately address it in this rate case proceeding.

Q: Were the unrecovered reserve amounts included in GMO's depreciation study that was conducted by Company witness John Spanos?

A: Yes. The unrecovered reserve amounts were incorporated into the depreciation study that was conducted on all of GMO's assets. The depreciation study was provided in Mr. Spanos direct testimony.

Q: Was the depreciation study used by the Company in this case?

A: No. As stated in Company witness John Weisensee's direct testimony, the Company did not propose to use the overall results of the depreciation study in this case in order to minimize the rate request. The Company may propose to use the results of the study in a subsequent rate proceeding. However, the Company did propose to adopt a methodology to amortize the account 119300 unrecovered reserve in this rate proceeding.

Q: Why did the Company choose to include in this rate case filing the amortization of the unrecovered reserve even though the depreciation study was not adopted in its entirety?

A: The reasons the Company chose to include the amortization in this rate case proceeding are twofold. First, a depreciation study on the general plant assets was finally completed in which the unrecovered reserve could be included in the analysis. Secondly, this unrecovered reserve amount that has been tracked is associated with corporate assets. As assets continue to be retired on the books of ECORP, new corporate assets will replace the retired units and may be recorded on either KCP&L or GMO books. Prospectively, these new assets will be appropriately billed through common use billing procedures that are currently in place. As such, the balance concerns that Mr. Meyer has appropriately pointed out will continue to exist if the unrecovered reserve balance tracked in account 119300 is not appropriately dealt with. The Company's proposal addresses these concerns.

Q: How does Mr. Meyer's proposed adjustment impact the accumulated reserve accounts?

A. Mr. Meyer's adjustment causes the unrecovered reserve to continue to remain unamortized and unrecovered for short lived asset classes that date back to 2002. As stated above, this balance will continue to be maintained on the ECORP business unit ledger and the reserve relationship to remaining assets will continue to worsen as assets are retired, as Mr. Meyer has correctly pointed out in his direct testimony.

Q: **Did Staff include Company adjustment CS-122 in its Cost of Service Report in this rate case proceeding?**

A. No. Staff did not include the amortization of the unrecovered reserve in its cost of service. Staff did include the unrecovered reserve amounts in its calculation of the accumulated reserve in this rate case proceeding. Yet, there was no reason given in its direct filing on why adjustment CS-122 was not included.

Q: **What does the Company request of the Commission concerning the unrecovered reserve issue discussed above?**

A. The Company requests that the unrecovered reserve amount that has accumulated in account 119300 since 2002 representing past corporate versus state jurisdictional depreciation rate differences which continues to be included in rate base calculations, be amortized over a 20 year period through inclusion in GMO's cost of service in this rate case.

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

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater Missouri Operations Company to Modify Its Electric Tariffs to Effectuate a Rate Increase	)))	Docket No. ER-2010-0356

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Ronald A. Klote, being first duly sworn on his oath, states:

1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Manager, Regulatory Accounting.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of ten (10) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Ronald A. Klote
Ronald A. Klote

Subscribed and sworn before me this 15th day of December, 2010.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200

GMO ACCOUNT 119300 RESERVE
As of 09/30/2008

	Business Unit		
Year	MPS Jurisdictional Difference	SJLP Jurisdictional Difference	Grand Total
2002	2,768,993.90	964,505.23	3,733,499.13
2003	4,456,362.93	1,569,536.12	6,025,899.05
2004	835,673.22	306,398.34	1,142,071.56
2005	845,855.14	312,315.08	1,158,170.22
2006	2,463,473.12	804,591.55	3,268,064.67
2007	2,264,467.05	683,718.01	2,948,185.06
2008	441,194.99	103,416.87	544,611.86
Grand Total	14,076,020.35	4,744,481.20	18,820,501.55

Note:

Balance has not increased since the acquisition of Aquila by GPE in July 2008.

ECORP-Great Plains Energy - Aquila
119300 Account Distribution
ER-2010-0356

utility_account

company	utility_account	Sum of allocated_reserve
ECORP-Great Plains Energy - Aquila	39000-Gen-Structures & Impr-Elec	($3,884,857.21)
	39100-Gen-Office Furniture & Eq-El	($1,115,244.31)
	39102-Gen-Office Furniture-Computer	($5,124,804.12)
	39104-Gen-Office Furn-Software	($8,263,481.25)
	39400-Gen-Tools-Elec	($15,798.13)
	39700-Gen-Communication Equip-Elec	($396,882.28)
	39800-Gen-Misc Equip-Elec	($19,434.25)
ECORP-Great Plains Energy - Aquila Total		($18,820,501.55)

Source: DR27R @9/30/10

GMO ACCOUNT 119300 RESERVE
As of 09/30/2008

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119300 Account Distribution
ER-2010-0356

utility_account

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ECORP-Great Plains Energy - Aquila Total		($18,820,501.55)

Source: DR27R @9/30/10