Exhibit No.:	
Issue:	Accounting Adjustments
Witness:	Ronald A. Klote
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	HR-2009-0092
Date Testimony Prepared:	March 13, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: HR-2009-0092

REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
March 2009

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Q: Are you the same Ronald A. Klote who submitted Direct Testimony in this case on behalf of KCP&L Greater Missouri Operations Company ("GMO" or "Company") on or about September 5, 2008?

A: Yes, I am.

Q: What is the purpose of your Rebuttal Testimony?

A: The purpose of my Rebuttal Testimony is to respond to various issues identified in the Missouri Public Service Commission Staff's ("Staff") Cost of Service Report. The following issues will be discussed in my rebuttal testimony, as shown in the Table of Contents to this testimony.

<u>Depreciation Rates and Depreciation Reserve</u>

Q: Please list the recommendations that Staff Witness Rosella L. Schad included in Staff's Cost of Service Report concerning depreciation rates and depreciation reserves.

A: The recommendations included:

- Recommends the Commission order the depreciation rates derived from Staff's depreciation study.
- Recommends imputing a depreciation accrual of approximately $4.2 million and adding it back to reserves.

- Recommends that reserve deficiencies of approximately $4 million for the retirement of plant be added back to the respective reserve balances.
- Recommends that the reserve deficiencies that exist specific to the books of GMO-L&P be included in the ECORP's (the business unit which includes GMO's assets not directly assigned to GMO-MPS and GMO-L&P) accumulated reserve using a weighted average of the ECORP reserve account's balance as of September 30, 2008.
- Recommends both GMO-L&P keep separate accounting of their amounts accrued for recovery of their initial investment in plant from the amounts accrued for the cost of removal.

Q. Does the Company have a response to each of these recommendations?

A. Yes. I will respond to each of these recommendations.

Q. What is the Company's position in regard to the depreciation rates recommended by Staff?

A. It is the Company's position that the depreciation rates recommended by Staff should not be used in this rate case filing. In his rebuttal testimony, Company witness Ron White will discuss the merits of these depreciation rates that have been derived from a depreciation study conducted by Staff. Based on the position discussed in Mr. White's rebuttal testimony and as I have previously stated in my direct testimony, the Company recommends using the depreciation rates that were approved in GMO-Steam's (formerly Aquila, Inc.) prior rate case, Case No. HR-2005-0450. It is anticipated that associated with the completion of the significant capital project of the building of Iatan 2 Coal fired generation facility there will be a system wide depreciation study conducted on all Kansas City Power & Light Company ("KCP&L") and GMO assets. Depreciation rates from this comprehensive system wide study should be used as the basis for computing depreciation expense on a going forward basis.

Q. Please respond to the recommendation of imputing a depreciation accrual of approximately $4.2 million and including it in accumulated depreciation reserves.

A. Staff witness Schad has recommended imputing depreciation expense for the ECORP plant accounts listed below:

- Acct. 391.02 Computer Hardware $7,142
- Acct. 391.05 Computer Systems Development $4,168,503
- Acct. 394.00 Tools, Shop and Garage Equipment $11,497
- Acct. 398.00 Miscellaneous Equipment $34,036

Q. Why is Staff recommending additional depreciation expense to be recorded for these plant accounts?

A. During 2007**,** the asset classes listed above became fully depreciated on the books of GMO. As such, the depreciation expense was stopped in order to not over accrue accumulated reserve on these plant accounts. It is Staff's claim that this should not have been done by GMO and depreciation expense should have been continued on these plant accounts until the Missouri Public Service Commission ("Commission") granted a 0% depreciation rate.

Q. Why did the Company stop depreciating these plant accounts?

A. These corporate plant accounts had become fully depreciated. For the assets contained in Acct 391.05, there was not expected to be any additional capital additions. In addition, the depreciation accrual net salvage rate was zero for these plant accounts. As such, once the asset had become fully depreciated, the depreciation rate was set to zero in order to not over accrue the depreciation reserve for these plant accounts.

Q. In Staff's Cost of Service Report what was the depreciation rate recommended for these plant accounts?

A. Staff witness Schad has recommended a 0% depreciation rate for plant accounts 39105, 39400 and 39800.

Q. Is this the rate that Company used once the assets became fully depreciated?

A. Yes. It appears that Staff's contention is that the Company did not come to the Commission and request the 0% depreciation rate prior to stopping the depreciation accrual.

Q. Does the Company acknowledge that it did not formally request a change in the depreciation rate?

A. Yes. The Company acknowledges this fact. For the specific plant accounts in question, stopping the depreciation expense when the assets became fully depreciated was appropriate and rational. At the time of the decision to stop the depreciation expense, there were no expectations of adding any assets to plant account 39105. Thus, the Company felt it was appropriate to stop the depreciation calculation.

Q. What are you relying on that would allow you to stop depreciation on fully depreciated assets?

A. Missouri regulations in 4 CSR 240-20.030 adopted the Code of Federal Regulations (18 CFR Part 101), which provides instructions for recording financial information about electric utilities. Part 101, General Instruction 22 "Depreciation Accounting" states "Utilities must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property." It continues, "Utilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property to the service life of the property." The Company believes it used a rational manner of depreciation and depreciated the asset fully over its service life. Continuing depreciation of these assets would only result in a negative net asset value in plant accounts no longer being utilized. This treatment did not make sense and is not appropriate. Expecting no more additions, the depreciation rate was set to 0%.

Q. Please respond to the recommendation that approximately $4 million be added back to reserve accounts for retirements that were characterized as a detriment to ratepayers.

A. In Staff's Cost of Service Report, Staff witness Schad and Staff witness Hyneman take issue with the accounting for retirements that took place for computer hardware and computer software that occurred after the acquisition of Aquila, Inc. by Great Plains Energy. The witnesses contend that both the accounting for the retirements and the ratemaking proposal chosen has created an acquisition detriment and is inconsistent with the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts for plant accounting.

Q. Do the retirements cause an acquisition detriment as asserted by Staff?

A. No, they do not. The cost to be recovered from ratepayers as a result of the Company's accounting for the retirements is the same as the cost that would have been recovered from ratepayers had the acquisition not occurred and the assets not retired. This issue is further discussed in the rebuttal testimony of Company witness Darrin Ives.

Q. Does the Company believe the retirement process used was in error?

A. No. The Company believes that it has followed the retirement of electric plant process described in the Code of Federal Regulations 18 CFR part 101 Electric Plant Instruction 10 which describes the accounting for asset retirements. Instruction 10 describes that the book cost of the retirement unit is to be charged to the accumulated reserve for the property. This was the process used to retire the computer hardware and computer software in question. This is standard accounting under the FERC guidelines to retire electric plant in service, whether fully depreciated at the time of retirement or not.

Q: Should Staff prevail on this issue, how would you propose that the adjustment be reflected?

A: In the event the Staff prevails, I would recommend that the amounts at issue be considered transition costs, to be treated using the methodology described in the direct testimony of Company witness Darrin Ives.

Q. Please respond to the recommendation that reserve deficiencies existing on GMO-MPS and GMO-L&P should be included in the ECORP accumulated reserve accounts.

A. The Company agrees with this recommendation from Staff. The amounts referred to in this recommendation from Staff include the tracking of depreciation differences between corporate and state jurisdictional depreciation rates. The reserve amounts at the time of the acquisition of Aquila, Inc. by Great Plains Energy were brought over on the financial books of each of the respective jurisdictional business units. Yet, the tracking amounts are associated with the corporate assets that are maintained on the financial books of the ECORP business unit on a going forward basis. They were simply maintained in the

GMO-MPS and GMO-L&P business units for identification purposes to each jurisdiction.

Q. Since the acquisition of Aquila, Inc., are the corporate assets maintained on the ECORP ledger depreciated for GMO-MPS and GMO-L&P jurisdictions using the state jurisdictional depreciation rates?

A. Yes. Since the acquisition, there is no longer a difference between corporate depreciation rates and state jurisdictional rates. ECORP assets are depreciated at state jurisdictional rates and allocated to the GMO-MPS and GMO-L&P jurisdictions. Therefore, tracking corporate versus state jurisdictional depreciation rates is no longer necessary.

Q. Do you agree with Staff Witness Schad's proposal to allocate the reserve amounts using a weighted average approach?

A. Yes. This is a reasonable method to allocate the reserve across the ECORP asset classifications.

Q. Please respond to the final depreciation recommendation that separate accounting must be maintained of amounts accrued for recovery of their initial investment in plant from the amounts accrued for cost of removal.

A. The Company agrees with this recommendation. In fact, this tracking is already taking place and the Company is in compliance with this recommendation.

Q. How is this tracking taking place?

A. The Continuing Property Records are maintained by GMO in an accounting system titled PowerPlant. Within this system, there is a tracking of the depreciation reserve accruals associated with the initial investment in plant and a separate tracking of the accrual for cost of removal amounts.

Q. When did this tracking begin?

A In 2004, the Company began tracking the amounts associated with cost of removal amounts accrued to reserve.

<u>Overtime Costs</u>

Q. Please discuss the overtime issue embedded in the payroll annualization calculation.

A. Included in the Company's payroll annualization calculation is a component representing overtime costs incurred. The Company in its direct filing requested test year amounts to be included as GMO-L&P overtime costs.

Q. What did Staff witness Keith Majors include in the payroll annualization for overtime costs?

A. Mr. Majors calculated a 3 year average of straight overtime dollars based on the 3 year period of 2005-2007. Staff did not include a calculation expressing the overtime dollars in equivalent 2007 payroll dollars.

Q. Does the Company agree with this methodology?

A. No. The Company believes that not using 2007 equivalent dollars is inconsistent with the methodology used by the Staff and the Company to annualize base labor costs. If you are going to average payroll costs from the 2005 and 2006 time period, an equivalent 2007 payroll cost should be applied. In order to do this the Company applied a 6.5% wage increase to 2005 overtime costs and a 3.25% wage increase to 2006 overtime costs. This is consistent with the methodology used by KCP&L in its direct filing in Case No. ER-2009-0089. The result would include the 3 year average for overtime on 2007 equivalent payroll dollars.

Q. What is the impact on Staff's 3 year average for overtime costs of applying the 2007 equivalent payroll dollars?

A. This would be an increase to Staff's payroll annualization of $3,302 for GMO-Steam.

<u>Short Term Incentive</u>

Q. Please describe the adjustment Staff witness Keith Majors has made to GMO short term incentive compensation?

A. Mr. Majors has eliminated all incentive compensation from the GMO cost of service filings. The reason provided was that the programs were discontinued for former Aquila, Inc employees as a result of the acquisition by Great Plains Energy.

Q. Are employees whose payroll costs are charged to GMO operations post acquisition covered under a short term incentive compensation plan?

A. Yes. Mr. Majors acknowledges that all KCP&L employees including the former Aquila, Inc. employees are covered under KCP&L's short term incentive programs.

Q. Why did Mr. Majors not include an amount for short term incentive compensation in GMO's cost of service for this rate case filing?

A. He notes that in Case No. ER-2009-0089, which is KCP&L's Missouri jurisdictional rate case filing, Staff has removed from the test year the cost of short term incentive programs. As such, he has concluded a similar adjustment is warranted in this GMO case and thus no short term incentive cost amounts should be allowed in GMO's cost of service filing.

Q. Do you agree with this position?

A. No, I do not.

Q. Why not?

A. Short term incentive compensation is a part of the employees' overall compensation cost. In KCP&L's rate case filing in ER-2009-0089, KCP&L has requested a three year average of short term incentive compensation to be included in its cost of service filing. As Mr. Majors has acknowledged, all employees supporting GMO operations are now considered to be KCP&L employees. The payroll costs of the employees supporting the operations of GMO and included in Mr. Majors payroll annualization are directly assigned or allocated to GMO-L&P from KCP&L. As such, an amount of short term incentive compensation should be included in cost of service.

Q. Who has provided rebuttal testimony in this rate case filing regarding the merits of the short term incentive plans?

A. Please see the rebuttal testimony of Company witness Barbara Curry for further explanation of the short term incentive plan and its merits for inclusion in this cost of service filing.

Q. How should the short term incentive compensation adjustment be computed for this cost of service filing?

A. KCP&L's short term incentive compensation costs include a 3-year average of the 2005 – 2007 calendar years. These cost levels are prior to the addition of Aquila, Inc. employees who are now currently KCP&L employees and covered under the short term incentive compensation program. As such, in order to obtain the short term incentive amounts for GMO's cost of service filing, KCP&L's short term incentive 3-year average cost was divided by KCP&L's payroll allocation as supported by Mr. Majors. This total was then multiplied by the same actual payroll cost allocations used by Mr. Majors to obtain the short term incentive cost adjustment to be used in this cost of service filing.

Q. What is the annual amount of short term incentive compensation computed for GMO-Steam?

A. The annual amount of short term incentive compensation is $38,454 for GMO-Steam.

<u>Impact of Accounts Receivable Sale Program on Cash Working Capital</u>

Q. Please explain what Staff witness Karen Herrington has computed for the Cash Working Capital calculation in regard to the Staff's position for imputation of an accounts receivable sale program?

A. Ms. Herrington has stated that Staff intends to impute an accounts receivable sale program for the GMO Steam jurisdiction, although the Staff Accounting Schedules supplied to the Company do not reflect any impact in the Cash Working Capital calculation. The impact of such a program has the effect of reducing the revenue lag days associated with the Cash Working Capital calculation.

Q. Do you agree with this calculation?

A. No. The Company has disagreed with this calculation for the last 3 electric rate case filings, ER-2004-0034, ER-2005-0436 and ER-2007-0004. The Staff continues to try to impute an accounts receivable program on the GMO jurisdictions that has not been used by GMO jurisdictions since November 2002, over six years ago.

Q. Do the GMO jurisdictions participate in an accounts receivable sale program?

A. No. Currently and continuing through the true-up date in this rate case proceeding, the GMO jurisdictions are not participating in an accounts receivable program. Yet, Ms. Herrington states in the Staff Cost of Service Report that "KCPL currently sells approximately 57% of its accounts receivables, which include the account receivables of GMO and L&P." It is unclear exactly what she is trying to imply here, but it should be made clear that GMO-Steam receivables are currently not part of an accounts receivable sale program similar to KCP&L's program and will not be through the true-up of this rate case proceeding. The only arrangement associated with GMO-MPS and GMO-L&P receivables is that a portion of GMO's accounts receivable have been pledged as collateral in return for a lower cost line of credit. Please see the rebuttal testimony of Company witness Michael Cline for further discussion of this issue.

Q. What is the Company's recommendation regarding Staff's imputed accounts receivable sale program?

A. The Company recommends that the Commission eliminate this imputation of an accounts receivable sale program from the Cash Working Capital calculation. In addition, the Company recommends that the cost of service associated with the accounts receivable bank fees be eliminated. In this way, the Cash Working Capital calculation will reflect more accurately the current day to day operations of the Company. The imputation of a hypothetical accounts receivable program that has not been in place in over six years does not represent reasonable ratemaking treatment for the Company.

<u>Staff's Accounting Schedules</u>

Q: Did you review Staff's Accounting Schedules provided as part of their direct filing?

A: Yes

Q. Did you discover any errors that were included in those schedules?

A. Yes. During our review of the Accounting Schedules we discovered various errors. In addition, Staff discovered errors as well.

Q: Has Staff corrected these errors?

A: Yes, Staff has corrected these errors and prepared revised Staff Accounting Schedules. The Company requested a copy of these schedules through a data request. Attached to this testimony as Schedule RAK-6 is a copy of these schedules.

Q. Do these schedules reflect all errors of which you are aware at this time?

A. Yes. The schedules reflect all significant errors identified at this time The Company will continue to review the Staff Accounting Schedules during the course of this proceeding.

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 Aquila, Inc. dba KCP&L Greater Missouri Operations Company to Modify Its Steam Tariffs to Effectuate a Rate Increase	)))	Case No. HR-2009-0092

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 thirteen (13) pages and Schedule(s) RAK - 6 ~~through~~ ____-____, all of which 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 13th day of March 2009.

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