

Exhibit No.:
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**

REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2010-0356

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

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

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

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

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

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

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

14 A: In 1992, I received a Bachelor of Science Degree in Accountancy from the University of
15 Missouri-Columbia. I am a Certified Public Accountant holding a certificate in the State
16 of Missouri. In 1992, I joined Arthur Andersen, LLP holding various positions of
17 increasing responsibilities in the auditing division. I conducted and led various auditing
18 engagements of company financial statements. In 1995, I joined Water District No. 1 of
19 Johnson County as a Senior Accountant. This position involved extensive operational

1 and financial analysis of water operations. In 1998, I joined Overland Consulting, Inc. as
2 a Senior Consultant. This position involved special accounting and auditing projects in
3 the electric, gas, telecommunications and cable industries. In 2002, I joined Aquila, Inc.
4 holding various positions within the Regulatory department until 2004 when I became
5 Director of Regulatory Accounting Services. This position was primarily responsible for
6 the planning and preparation of all accounting adjustments associated with regulatory
7 filings in the electric jurisdictions. In July 2008, I began my employment with KCP&L.

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

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

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

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

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

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

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

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

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

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

3 A: In Staff’s “Cost of Service Report” in case number ER-2009-0090 the recommendation
4 for the reserve deficiencies is located on page 139. It states, “Staff recommends that the
5 reserve deficiencies that exist specific to the books of GMO-MPS and GMO-L&P of
6 \$14,076,021 and \$4,744,842, respectively, be included in the ECORP accumulated
7 reserve for depreciation using a weighted average of each ECORP reserve account’s
8 balance as of September 30, 2008.”

9 **Q: What is the ECORP business unit?**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 A: Mr. Meyer states in his direct testimony that he has concerns regarding the adjustments
17 proposed by GMO. On page 8, lines 3 – 7, of Mr. Meyer's direct testimony, Mr. Meyer
18 makes the assertion that as a result of the acquisition that GMO is now claiming they
19 have an under recovered reserve issue. He goes on to state that his concern seems to
20 center around the issue that minor unrecovered reserve amounts have been recorded to
21 plant accounts that have no plant in service or reserve balance as of December 31, 2009.
22 In addition, he states that the allocation of the unrecovered reserve is larger than the book
23 depreciation reserve in some accounts. As such, he states that he has requested additional

1 data requests from the Company on this issue, but that these relationships clearly call into
2 question the reasonableness of these proposed adjustments. He proposes the elimination
3 of the amortization of the unrecovered reserve, approximately \$700,000 for GMO-MPS
4 and approximately \$237,000 for GMO-L&P.

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

6 A: No I do not.

7 **Q: Why not?**

8 A: First, as I have explained above, the unrecovered reserve has accumulated year over year
9 since 2002 and has been a part of the calculation of the GMO jurisdictional reserve
10 balance ever since. The accumulation of the unrecovered reserve is a result of corporate
11 asset depreciation rates that were higher than the MPSC approved rates in place since
12 2002 for the same assets. As such, the jurisdictional depreciation expenses were adjusted
13 to comply with the MPSC depreciation rates. The unrecovered reserve was then tracked
14 in various general plant accounts which included additions and retirements over the
15 years. This is clearly a past issue and not a result of the acquisition as Mr. Meyer
16 suggests.

17 At the time of the acquisition of Aquila, Inc. in July 2008, these unrecovered
18 reserve amounts that had accumulated in account 119300 were brought over on the
19 jurisdictional books of GMO-MPS and GMO-L&P where they had been maintained on
20 Aquila's books and records. Subsequently, in the last GMO rate case ER-2009-0090,
21 Staff recommended moving the unrecovered reserve amounts to the ECORP business
22 unit and allocating the amounts across asset classes based on the weighted average of
23 each ECORP reserve account. The Company followed Staff's recommendation and the

1 unrecovered reserve was moved in June 2009. On ECORP's books the amounts were
2 allocated using the weighted average of the ECORP reserve accounts as requested by
3 Staff (See attached schedule RAK2010-2 for the weighted average allocation maintained
4 on ECORP's books).

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

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

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

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

22 A: No. As stated in Company witness John Weisensee's direct testimony, the Company did
23 not propose to use the overall results of the depreciation study in this case in order to

1 minimize the rate request. The Company may propose to use the results of the study in a
2 subsequent rate proceeding. However, the Company did propose to adopt a methodology
3 to amortize the account 119300 unrecovered reserve in this rate proceeding.

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

7 A: The reasons the Company chose to include the amortization in this rate case proceeding
8 are twofold. First, a depreciation study on the general plant assets was finally completed
9 in which the unrecovered reserve could be included in the analysis. Secondly, this
10 unrecovered reserve amount that has been tracked is associated with corporate assets. As
11 assets continue to be retired on the books of ECORP, new corporate assets will replace
12 the retired units and may be recorded on either KCP&L or GMO books. Prospectively,
13 these new assets will be appropriately billed through common use billing procedures that
14 are currently in place. As such, the balance concerns that Mr. Meyer has appropriately
15 pointed out will continue to exist if the unrecovered reserve balance tracked in account
16 119300 is not appropriately dealt with. The Company's proposal addresses these
17 concerns.

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

20 A. Mr. Meyer's adjustment causes the unrecovered reserve to continue to remain
21 unamortized and unrecovered for short lived asset classes that date back to 2002. As
22 stated above, this balance will continue to be maintained on the ECORP business unit

1 ledger and the reserve relationship to remaining assets will continue to worsen as assets
2 are retired, as Mr. Meyer has correctly pointed out in his direct testimony.

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

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

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

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

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

17 A: Yes, it does.

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-EI	(\$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