

Exhibit No.:
Issue: Revenue Requirement
Witness: Greg R. Meyer
Type of Exhibit: Surrebuttal Testimony
Sponsoring Parties: Industrials
Case No.: ER-2010-0356
Date Testimony Prepared: January 12, 2011

**BEFORE THE PUBLIC SERVICE
COMMISSION OF THE STATE OF MISSOURI**

_____)
In the Matter of the Application of)
KCP&L Greater Missouri Operations)
Company for Approval to Make) **Case No. ER-2010-0356**
Certain Changes in its Charges for)
Electric Service)
_____)

Surrebuttal Testimony and Schedules of

Greg R. Meyer

On behalf of

Ag Processing, Inc.
Sedalia Industrial Energy Users Association
Federal Executive Agencies

January 12, 2011



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9216

**BEFORE THE PUBLIC SERVICE
COMMISSION OF THE STATE OF MISSOURI**

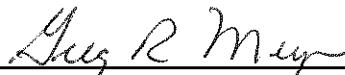
In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service))))))))))	Case No. ER-2010-0356
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STATE OF MISSOURI)	
)	SS
COUNTY OF ST. LOUIS)	

Affidavit of Greg R. Meyer

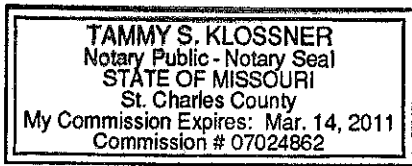
Greg R. Meyer, being first duly sworn, on his oath states:


1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Ag Processing, Inc., Sedalia Industrial Energy Users Association and Federal Executive Agencies in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony and schedules which were prepared in written form for introduction into evidence in the Missouri Public Service Commission's Case No. ER-2010-0356.
3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.



Greg R. Meyer

Subscribed and sworn to before me this 11th day of January, 2011.





Notary Public

**BEFORE THE PUBLIC SERVICE
COMMISSION OF THE STATE OF MISSOURI**

)	
In the Matter of the Application of)	
KCP&L Greater Missouri Operations)	
Company for Approval to Make)	Case No. ER-2010-0356
Certain Changes in its Charges for)	
Electric Service)	
)	

Surrebuttal Testimony of Greg R. Meyer

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q WHAT IS YOUR OCCUPATION?**

5 A I am a Senior Consultant in the field of public utility regulation with Brubaker &
6 Associates, Inc., energy, economic and regulatory consultants.

7 **Q ARE YOU THE SAME GREG R. MEYER WHO HAS PREVIOUSLY FILED**
8 **TESTIMONY IN THIS PROCEEDING?**

9 A Yes. I previously filed direct testimony in this proceeding on November 17, 2010
10 regarding revenue requirement issues.

11 **Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**
12 **THAT TESTIMONY?**

13 A Yes. This information is included in Appendix A to my direct testimony on revenue
14 requirement issues.

**Greg R. Meyer
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1 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

2 A I am appearing on behalf of Ag Processing, Inc., Sedalia Industrial Energy Users
3 Association and Federal Executive Agencies (collectively “Industrials”). These
4 customers purchase substantial amounts of electricity from KCP&L Greater Missouri
5 Operations Company (“GMO”) and the outcome of this proceeding will have an
6 impact on their cost of electricity.

7 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A I am providing surrebuttal testimony addressing the rebuttal testimony of GMO.
9 Specifically, I am addressing the testimony of GMO witness John Spanos on Iatan
10 Unit 2’s life projection. I am addressing the testimony of GMO witness Ronald Klote
11 on unrecovered depreciation reserves. I am also addressing the testimony of GMO
12 witness Melissa Hardesty on deferred taxes associated with the Crossroads units.
13 Finally, I am addressing the testimony of Tim Rush regarding the use of a
14 transmission tracker.

15 **Iatan Unit 2 Life Estimate**

16 **Q DO YOU HAVE ANY COMMENTS ON MR. SPANOS’ REBUTTAL TESTIMONY**
17 **REGARDING THE APPROPRIATE LIFE SPAN ESTIMATE FOR IATAN UNIT 2?**

18 A Yes. Mr. Spanos states that a 50-year life span is more appropriate for the “initial”
19 estimate of Iatan Unit 2 than a 60-year life span. Mr. Spanos’ support for using a
20 50-year life span for book depreciation purposes is misleading and incomplete.
21 Therefore, given other commissions are using a 60-year life for new coal-fired
22 generating stations (including Iatan Unit 2), this Commission should use a 60-year life
23 span to develop the book depreciation rates for Iatan Unit 2.

1 Q DO YOU CONCUR WITH MR. SPANOS' PROPOSED 50-YEAR LIFE SPAN AND
2 HIS RATIONAL FOR UTILIZING A 50-YEAR LIFE SPAN?

3 A No. Mr. Spanos lists five factors for determining a life span estimate, yet provides no
4 testimony which shows his position supports or contradicts any of those criteria. In
5 fact, while listing these factors, Mr. Spanos proceeds to ignore these factors in
6 developing any sort of life span analysis for Iatan Unit 2.

7 Mr. Spanos has provided various scenarios or analyses for supporting his
8 position that a 50-year life span is more appropriate than a 60-year life span. Mr.
9 Spanos' analysis primarily relies on the assumption that the Company will need to
10 expend, sometime in the future, dollars to extend the life span of Iatan Unit 2 from 50
11 years to 60 years. Mr. Spanos is supporting a position which attempts to levelize
12 depreciation expense over a 60-year period by reflecting future plant additions. In
13 substance, Mr. Spanos is advocating the notion that today's ratepayers should be
14 responsible for a portion of those future expenditures. Just so it is clear under Mr.
15 Spanos' hypothetical scenarios, those significant expenditures may not be made until
16 some 40 years into the future.

17 Mr. Spanos' analysis ignores the fact that the Commission is developing
18 depreciation rates for the investment that will be placed in service now and not some
19 expenditures that may take place some 40 to 50 years into the future. The fact is
20 simply that if the investment that is placed in service today lives for a life span of 60
21 years, today's ratepayers should pay a depreciation rate based on 60 years. A
22 reasonable analogy would be the ownership of a rental house. The owner plans to
23 rent the home for the next 30 years as a source of income. Therefore, the owner
24 plans to depreciate that house over 30 years. However, without a new roof, a new
25 air-conditioner, or some other capital outlay at some point in the future, the house

1 may not exist in 30 years. In preparing the initial life span analysis, there is an
2 assumption that normal maintenance as well as other capital improvements will be
3 made to allow that house to live for 30 years and beyond.

4 Mr. Spanos continues to ignore the fact that steam production plants in
5 Missouri currently are projected to have operating lives of 60 plus years. In fact, Mr.
6 Spanos' analysis recommends 60 years for Unit 1. Mr. Spanos also ignores
7 that utilities are recommending 60-year life spans for coal-fired units throughout the
8 country. Therefore, it is appropriate to utilize a 60-year life span for depreciating
9 Unit 2.

10 Additionally, Mr. Spanos' analysis does not reflect the return and
11 income-related taxes that are applied to the net plant or rate base that is included in
12 rates. Therefore, Mr. Spanos' analysis is incomplete.

13 **Q DID MR. SPANOS PROVIDE ANY FACTORS FOR EXTENDING THE LIFE SPAN**
14 **ESTIMATE FOR STEAM PLANTS?**

15 **A** Yes. On page 8 of his rebuttal testimony, Mr. Spanos lists five factors which should
16 be considered to estimate life spans of steam plants. I have listed the five factors
17 below:

- 18 1. Age and condition of the plant;
- 19 2. Life span estimates used by other electric generating companies;
- 20 3. Industry experience with retired steam plants and those currently in service;
- 21 4. Future major refurbishments including expenditures related to environmental
22 compliance; and
- 23 5. Design life of major components of the boiler and steam systems.

1 **Q DID MR. SPANOS DIRECTLY ADDRESS ANY OF THESE FACTORS IN HIS**
2 **REBUTTAL TESTIMONY?**

3 A No. Instead Mr. Spanos relies on various hypothetical scenarios to support his
4 recommended depreciation expense based on a 50-year life span. I have provided
5 direct testimony related to the industry experience of steam plants for units in both
6 Missouri and other regions of the United States. In addition, I have found other
7 utilities which have recently used 60 years as the life for their new steam production
8 plants.¹ This clearly demonstrates that a 60-year life span continues to be a
9 reasonable assumption.

10 **Q DO YOU HAVE ANY COMMENTS TO MAKE ON THE VARIOUS SCENARIOS**
11 **THAT MR. SPANOS RELIED ON TO DRAW HIS CONCLUSIONS?**

12 A Yes. Under Scenario 2, Mr. Spanos assumes that the unit has an initial 50-year life
13 span. However, in year 40, the unit requires \$100 million of improvements “that will
14 permit it to reach 50 years, but also allow for an additional 10 years.” (Spanos’
15 Rebuttal, page 20, lines 23-24) Thus, over the initial 40-year life, the depreciation
16 rate is 2% (1/50), or \$10 million per year. Then, in year 41 the depreciation rate
17 drops to 1.67%. However, the annual depreciation expense remains at \$10 million
18 per year because the investment increased by \$100 million to a total of \$600 million.
19 Under this scenario, the investment that is placed in service in year 40 has a
20 remaining life of 20 years and a lower depreciation rate than the investment that was
21 in service for 60 years. Mr. Spanos seems to be saying that the ratepayers in year 1

¹Xcel Energy recently executed a stipulation in Colorado in which the life span for the new Comanche 3 unit was set at 60 years. Furthermore, the Michigan and Wisconsin Commissions have recently adopted a 60-year life span for purposes of establishing a depreciation rate on the new Wisconsin Public Service Corporation’s Weston 4 generating station. Finally, the Kansas Commission has recently rejected Mr. Spanos’ recommendation and instead utilized a 60-year life span for establishing depreciation rates on this same unit.

1 should have included in their rates indirectly investment that will not be made until
2 sometime in the future. Mr. Spanos is focusing on the level of depreciation expense
3 over the asset's life and not the useful life. To reach this objective, you must include
4 the effects of unknown future investment in the depreciation rates.

5 Mr. Spanos then presents another scenario (Scenario 5) that assumes that a
6 60-year life is used and the appropriate book depreciation rate is 1.67%. This
7 produces an annual depreciation expense of approximately \$8.33 million. However,
8 similar to the example above, the Company expends \$100 million in year 40,
9 performs a new depreciation rate study and, at that time, the depreciation expense
10 increases from \$8.33 million to \$13.33 million. Mr. Spanos concludes (based on this
11 analysis) that "inter-generational inequity for ratepayers would be caused by an initial
12 life span estimate that failed to consider all the relevant factors in determining the
13 initial life span." (Spanos' Rebuttal, page 21, lines 20-22) The analysis performed by
14 Mr. Spanos is misleading and incomplete. Mr. Spanos focuses on the increased
15 depreciation expense resulting from the additional investment. However, what Mr.
16 Spanos does not mention is that the initial 60-year estimate was totally correct and
17 ratepayers paid off the initial investment over the exact time frame that they should
18 have. Also, Mr. Spanos implies that to get the proper depreciation rate, the
19 Commission needs to reflect the effects of future unknown investment in the
20 development of depreciation rates.

21 **Q IS IT APPROPRIATE TO REFLECT ESTIMATES OF FUTURE ADDITIONS IN THE**
22 **DEVELOPMENT OF DEPRECIATION RATES?**

23 **A** No. Estimates of future additions should not be used in the development of book
24 depreciation rates either directly or indirectly. This would increase the current

1 depreciation rates and require current ratepayers to pay for the estimates of future
2 additions.

3 The National Association of Regulatory Utility Commissioners (NARUC), in its
4 Public Utility Depreciation Practices manual, concurs that it is inappropriate to reflect
5 future additions in the development of depreciation rates. In its discussion regarding
6 the life span method, NARUC states the following:

7 Appropriate estimates must be made for such interim retirements;
8 however, interim additions are not considered in the depreciation base
9 or rate until they occur.²

10 It is clear from this quote from the NARUC manual that including future
11 additions in the development of production plant depreciation rates is unacceptable.
12 Customers who benefit from future capital additions should pay the cost associated
13 with those capital additions. It should be noted that the Company has included the
14 effect of future interim retirements in its depreciation rates. I am not aware of a
15 Missouri depreciation case where the depreciation rates are developed to reflect
16 some type of depreciation for future capital additions that will not be in service until
17 sometime into the future.

18 **Q HAVE YOU REVISED ANY OF MR. SPANOS' SCENARIOS TO PRESENT THE**
19 **RELEVANT FACTORS THAT SHOULD BE CONSIDERED IN DETERMINING THE**
20 **LIFE SPANS?**

21 A Yes. Mr. Spanos did not include in his analyses the rate of return and associated
22 income tax that is applied to rate base.

23 I have prepared Schedules GRM-S-1 and GRM-S-2. These schedules
24 replicate Mr. Spanos' Scenario 2 and Scenario 5 that are contained in his Schedule

²NARUC, Public Utility Depreciation Practices Manual at 142 (1996).

1 JJS2010-3, and include a provision for rate of return and income taxes. As shown in
2 Column 7 of both of the schedules, the annual revenue requirement under both
3 scenarios significantly decline over time. That is, ratepayers in the later years are
4 paying substantially less for the same plant than ratepayers are paying in the early
5 years of the life.

6 **Q WHAT IS YOUR RECOMMENDATION REGARDING THE APPROPRIATE LIFE**
7 **FOR IATAN UNIT 2?**

8 A The Commission should use a 60-year life span to develop the depreciation rates for
9 Iatan Unit 2. This is consistent with the Iatan Unit 1 life span and other life spans
10 adopted by this Commission in developing the book depreciation rates for coal-fired
11 units. Moreover, the 60-year life span is consistent with the lives used by other state
12 commissions in establishing depreciation rates for new coal-fired generating units.
13 Mr. Spanos has attempted to justify his life span estimate based on future additions
14 which levelizes the annual depreciation expense. The Commission should reject the
15 Company's argument that unknown future additions should be considered indirectly in
16 developing the appropriate life span.

17 **Unrecovered Depreciation Reserve**

18 **Q PLEASE DESCRIBE THIS ISSUE.**

19 A As described on pages 7 and 8 of my direct testimony, prior to the Great Plains
20 Energy acquisition of the MPS and L&P service territories, Aquila Inc. owned the MPS
21 and L&P electric territories. Aquila owned various corporate assets or common plants
22 which were used to provide corporate support services to several utility divisions
23 operating in different state jurisdictions. Aquila Corporate depreciated those common

1 assets utilizing depreciation rates which were greater than the Commission
2 authorized depreciation rates.

3 As a result of the acquisition by Great Plains Energy of the MPS and L&P
4 electric territories, GMO is now claiming that MPS and L&P operations have
5 under-recovered depreciation expense in rates and the depreciation reserve for MPS
6 is overstated by \$14.1 million and the depreciation reserve for L&P is overstated by
7 \$4.7 million.

8 **Q DID GMO FILE REBUTTAL TESTIMONY ADDRESSING THIS ISSUE?**

9 A Yes. GMO witness Ronald Klote filed rebuttal testimony. Mr. Klote continues to
10 argue that the unrecovered reserve must be collected from ratepayers through a
11 separate amortization.

12 **Q DO YOU CONTINUE TO HAVE CONCERNS REGARDING THIS ISSUE?**

13 A Yes. Mr. Klote states in his testimony that the allocation of the unrecovered reserve
14 was assigned to each plant account as a result of the Commission Staff's
15 recommendation. I will accept this explanation as the methodology to allocate the
16 purported unrecovered reserve.

17 Mr. Klote does not address the concerns I listed in my direct testimony
18 regarding the allocation of reserves to accounts which did not have either reserve or
19 plant balances. I continue to await an adequate description of this problem.

20 Mr. Klote also does not, however, address the concerns I listed in my direct
21 testimony regarding the allocation of reserves, which is larger than the allocated book
22 depreciation reserve and plant balance. I can only surmise that the reason this
23 occurred was due to the allocation methodology described above.

1 Q YOU TESTIFIED IN YOUR DIRECT TESTIMONY THAT YOU FILED CERTAIN
2 DATA REQUESTS. HAVE THOSE DATA REQUESTS BEEN RESPONDED TO BY
3 GMO?

4 A Yes. I received those data request responses and have reviewed those responses.
5 The responses and Mr. Klote's testimony only raise additional concerns regarding this
6 issue and reinforces my argument that this issue should be disallowed by the
7 Commission in this case and reviewed in greater detail in a future GMO rate case.

8 Q PLEASE DESCRIBE THE DATA REQUEST RESPONSE YOU REVIEWED
9 REGARDING THIS ISSUE.

10 A I submitted two data requests which I have attached as Schedules GRM-S-3.1 and
11 GRM-S-3.2. These data requests asked for the development of each of the
12 unrecovered depreciation reserves for MPS and L&P. I have included the response
13 below.

14 The reserve adjustment is related to the allocation of the reserve
15 balance recorded in account 119300. The reserve balance in account
16 119300 represents the difference between ECORP depreciation using
17 actual rates and ECORP depreciation using rates approved by the
18 Missouri Commission. The balance in reserve account 119300 was
19 accumulated over several years. The account 119300 reserve
20 balance has not increased since the merger with KCPL, as Missouri
21 Commission approved rates have been applied since then. However,
22 the plant balance has changed due to plant retirements. Please see
23 the attached Excel spreadsheet titled "DR AGP 3.1-3.4 3.6 Response".
24 The tab titled "Reserve Account 119300" contains reserve amounts by
25 year. ECORP amounts are allocated to MOPUB and SJLP as
26 reported in the tabs titled "MPSDEPR RES (ECORP alloc)-Sch5A" and
27 "LPDEPR Resv (Share ECORP)-Sch5A".

28 The response notes that the plant balances have changed due to retirements,
29 yet the unrecovered depreciation reserve has not been adjusted. Therefore, GMO is
30 requesting recognition of purportedly unrecovered depreciation reserve for plants

1 which have subsequently been retired. I do not believe this is the proper ratemaking
2 treatment for these types of assets.

3 **Q WHAT PORTION OF MR. KLOTE'S REBUTTAL TESTIMONY RAISES**
4 **ADDITIONAL CONCERNS?**

5 A Mr. Klote testifies on page 3 of his rebuttal testimony that the assets that were used
6 by corporate were allocated across the utility divisions operating in five states.

7 GMO has not provided sufficient historical data to determine how these
8 corporate assets were assigned to GMO as a result of the acquisition of Aquila. It is
9 unclear from the workpapers provided what portion of the assets have been acquired
10 by GMO and how the depreciation reserve from other state jurisdictions were treated.

11 Indeed, as mentioned, these assets were used to provide services to several
12 different jurisdictions. As such, any undepreciated reserve may be the result of lower
13 depreciation rates in any of these other jurisdictions. GMO appears to assume, since
14 Missouri was the last Aquila jurisdiction following the sale of the other services areas,
15 that Missouri ratepayers should be forced to cover this undepreciated reserve. It is
16 equally as likely that the undepreciated reserve is a result of regulatory actions in
17 other states. In such a situation, it is safe to assume that such an undepreciated
18 reserve was covered in the sale price of those service areas. As such, Missouri
19 ratepayers should not be forced to foot this bill.

20 GMO has not provided enough information regarding this adjustment,
21 especially as it pertains to assets which used to serve five jurisdictions to be able to
22 address GMO's request for an amortization.

1 Q PLEASE SUMMARIZE YOUR TESTIMONY AS IT RELATES TO THIS ISSUE.

2 A GMO continues to seek recovery for specific adjustments to depreciation reserve
3 associated with certain general plant accounts. I raised concerns in my direct
4 testimony regarding the adjustment to specific plant accounts. These concerns have
5 not been sufficiently answered.

6 GMO admits that some of the original investment that this plant applies to is
7 now retired. This suggests that GMO is seeking recovery for an unrecovered
8 depreciation reserve as a result of plant retirements.

9 The corporate assets that created this purported reserve deficiency served
10 utility divisions operating in five states. There has been insufficient information
11 provided to determine how the assignment of these corporate assets were affected
12 by the different jurisdictions.

13 Therefore, I continue to propose that this adjustment be denied by the
14 Commission. There are too many unresolved questions and no answers.

15 **Crossroads Deferred Taxes**

16 Q DO YOU AGREE WITH MS. HARDESTY'S ARGUMENT FOR NOT REFLECTING
17 THE FULL AMOUNT OF DEFERRED TAXES ASSOCIATED WITH THE
18 CROSSROADS UNITS?

19 A No. In Ms. Hardesty's rebuttal testimony she attempts to make a distinction between
20 a regulated and non-regulated subsidiary. Her testimony seems to suggest that if the
21 sale of the Crossroads units were from a regulated entity to GMO, then the deferred
22 taxes at issue here would have already been reflected in the purchase price.
23 However, because the purchase of the Crossroads units was from a non-regulated
24 entity to GMO, Ms. Hardesty argues that no deferred taxes should be recognized in

1 the purchase price. If Ms. Hardesty's proposed theory is adopted, an incentive and
2 motivation would be created for utilities to transfer assets to a non-regulated
3 subsidiary prior to the sale of those assets to another regulated entity. The decision
4 to include the deferred taxes in the purchase price should not be determined by an
5 investigation into whether the customers are regulated or non-regulated. Ultimately,
6 ratepayers would be affected even through a non-regulated subsidiary ownership.
7 Ms. Hardesty is arguing a distinction here without a purpose.

8 In addition, Ms. Hardesty is inconsistent in her arguments since GMO's
9 purchase price for the Crossroads units was at net book value. Net book value
10 equals the gross asset value less the accumulated depreciation of that unit while it
11 was in service. The purchase price that GMO paid recognized the accumulated
12 depreciation reserve associated with that unit during the time it was in the ownership
13 of the non-regulated subsidiary. Accumulated depreciation is the sum of monthly
14 depreciation charges on the asset. Given Ms. Hardesty's argument, the accumulated
15 depreciation balance should not be reflected in the sale price as non-regulated
16 customers paid the depreciation expense. However, this is not part of Ms. Hardesty's
17 argument. This is clearly an inconsistent approach.

18 **Q ARE THERE ANY COMMISSION DIRECTIVES REGARDING COST**
19 **DETERMINATION?**

20 **A** Yes. Commission Rule 4 CSR 240-20.010 prescribes the guidelines for utilities
21 engaged in Affiliate Transactions. Within those rules, fully distributed cost is defined
22 as:

23 "(F) Fully distributed cost (FDC) means a methodology that examines
24 all costs of an enterprise in relation to all the goods and services that
25 are produced. FDC requires recognition of all costs incurred directly or
26 indirectly used to produce a good or service. Costs are assigned

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1 either through a direct or allocated approach. Costs that cannot be
2 directly assigned or indirectly allocated (e.g., general and
3 administrative) must also be included in the FDC calculation through a
4 general allocation.”

5 Clearly from this definition, the inclusion of deferred taxes should be considered for
6 purposes of asset sales. The Company has failed to adhere to the Commission’s
7 affiliate transaction rules in this instance.

8 **Transmission Tracker**

9 **Q DID GMO FILE REBUTTAL TESTIMONY REGARDING REGULATORY**
10 **TREATMENT FOR TRANSMISSION EXPENSE?**

11 A Yes. GMO witness Tim Rush filed rebuttal testimony regarding transmission
12 expense. GMO continues to advocate that transmission expenses should either be
13 included in the Company’s fuel adjustment clause or recovered through the use of a
14 transmission tracker.

15 **Q WHAT IS YOUR POSITION REGARDING RECOVERY OF THESE TRANSMISSION**
16 **EXPENSES?**

17 A I continue to recommend that these expenses be included in cost of service and that
18 no alternative regulatory mechanism be established for these expenses.

19 **Q IS GMO REQUESTING THAT THE GENERAL AND ADMINISTRATIVE COSTS OF**
20 **THE SOUTHWEST POWER POOL (“SPP”) BE INCLUDED IN THE**
21 **TRANSMISSION TRACKER?**

22 A Yes. Mr. Rush is attempting to include these costs in the proposed transmission
23 tracker. Mr. Rush argues that even these costs are beyond the control of GMO.

1 **Q DO YOU AGREE WITH MR. RUSH'S ARGUMENTS?**

2 A No. I would contend that if these costs are allowed for recovery through a
3 transmission tracker, the incentive to control those costs will be lost. I am aware that
4 KCPL has representation on many committees of SPP. KCPL has the ability to
5 influence the decision on those committees just like any other utility which is a
6 member of SPP. I do not accept Mr. Rush's agreements that these costs are beyond
7 the control of GMO.

8 In its recent decision regarding Ameren's request for an interim rate increase,
9 the Commission recognized that regulatory lag has some beneficial features.
10 Specifically, it provides the utility an incentive to manage its costs and work towards
11 cost minimization. Through its current request, GMO seeks to shield all of these
12 transmission costs from regulatory lag. Necessarily then, all of GMO's incentive to
13 manage and minimize these costs will be eliminated.

14 **Q MR. RUSH ALSO TESTIFIES THAT A MAJOR FACTOR FOR THE INCREASES IN**
15 **THESE EXPENSES IS THE PUSH FOR RENEWABLE ENERGY RESOURCES IN**
16 **THE REGION AND THE NEED FOR SIGNIFICANT UPGRADES NECESSARY TO**
17 **CAPTURE THE BENEFITS OF WIND GENERATION IN THE REGION. DO YOU**
18 **HAVE ANY COMMENTS REGARDING THIS ARGUMENT BY MR. RUSH THAT**
19 **THESE EXPENSES NEED TO BE RECOVERED THROUGH A TRACKER?**

20 A Yes. I have two comments regarding this portion of Mr. Rush's testimony. First, as I
21 described in my direct testimony, these expenses are primarily related to plant
22 investment. These expenses should be captured in GMO's rates during the context
23 of a rate case when all relevant factors including the benefits from the projects can be
24 realized. It is interesting to note that in one portion of his testimony, Mr. Rush cites

1 the benefits of wind generation as a reason for the increased level of expenses. Yet
2 later on in his testimony, Mr. Rush claims that many of the benefits cannot be
3 translated into dollars. Mr. Rush appears to be arguing from opposite positions
4 depending on the context of his issue.

5 Second, Mr. Rush fails to provide any testimony regarding the time between
6 when GMO might actually know these expenses will increase and the actual time
7 those increased expenses are incurred. I contend that GMO has sufficient lead time
8 before these increases are actually incurred and thus the ability to determine if a rate
9 case should be filed to recover these increased expenses. By granting GMO a
10 tracker for these expenses, GMO will be relieved of looking at all of their total
11 operations to determine if current rates are sufficient to cover their costs.

12 **Q MR. RUSH ALSO ATTEMPTS TO COMPARE THE RECOGNITION OF PLANT IN**
13 **RATE BASE BETWEEN RATE CASES. DO YOU AGREE WITH MR. RUSH'S**
14 **COMPARISON?**

15 **A** No. I believe Mr. Rush's description may be misleading. To the extent that GMO
16 places plant in service between a rate case, GMO would be allowed to record AFUDC
17 (Allowance for Funds Used During Construction) on that plant until the plant is placed
18 in service. It should be noted that AFUDC is only applied to plant which is
19 constructed for periods greater than one year. Once plant is completed and placed in
20 service, AFUDC ceases and the Company must begin depreciating the asset. When
21 the next rate case is filed, the net book value of the asset and the annual depreciation
22 expense associated with the asset is specifically included in cost of service.

1 **Q DO YOU HAVE ANY FURTHER COMMENTS REGARDING THIS ISSUE?**

2 A Yes. It is unclear from Mr. Rush's testimony regarding the recovery of these
3 expenses as they relate to capital assets whether these assets are actually in service.
4 If the costs for these projects represent payments for construction work in progress,
5 GMO may be requesting reimbursement for capital projects which are not fully
6 operational and used for service. Counsel has indicated that this may result in a
7 violation of Missouri Statute 393.135.

8 **Q PLEASE SUMMARIZE YOUR TESTIMONY.**

9 A I continue to recommend that the Commission reject GMO's proposal to establish a
10 tracker for transmission expense. By granting a tracker, GMO will have no incentive
11 to control these expenses at SPP. Furthermore, if these expenses do indeed
12 increase from what is allowed in base rates, GMO would have sufficient time to
13 analyze the increase and determine if the increase requires GMO to file another rate
14 case when considering all relevant factors.

15 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

16 A Yes, it does.

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Mr. Spanos' Scenerio 2 Revised To Reflect Return and Income Taxes

<u>Year</u> (1)	<u>Plant</u> (2)	<u>Annual Accrual</u> (3)	<u>Book Reserve</u> (4)	<u>Rate Base</u> (5)	<u>Return & Income Taxes</u> (6)	<u>Annual Revenue Requirement</u> (7)
2010	\$500,000	\$10,000	\$0	\$500,000	\$60,000	\$70,000
2011	500,000	10,000	10,000	490,000	58,800	68,800
2012	500,000	10,000	20,000	480,000	57,600	67,600
2013	500,000	10,000	30,000	470,000	56,400	66,400
2014	500,000	10,000	40,000	460,000	55,200	65,200
2015	500,000	10,000	50,000	450,000	54,000	64,000
2016	500,000	10,000	60,000	440,000	52,800	62,800
2017	500,000	10,000	70,000	430,000	51,600	61,600
2018	500,000	10,000	80,000	420,000	50,400	60,400
2019	500,000	10,000	90,000	410,000	49,200	59,200
2020	500,000	10,000	100,000	400,000	48,000	58,000
2021	500,000	10,000	110,000	390,000	46,800	56,800
2022	500,000	10,000	120,000	380,000	45,600	55,600
2023	500,000	10,000	130,000	370,000	44,400	54,400
2024	500,000	10,000	140,000	360,000	43,200	53,200
2025	500,000	10,000	150,000	350,000	42,000	52,000
2026	500,000	10,000	160,000	340,000	40,800	50,800
2027	500,000	10,000	170,000	330,000	39,600	49,600
2028	500,000	10,000	180,000	320,000	38,400	48,400
2029	500,000	10,000	190,000	310,000	37,200	47,200
2030	500,000	10,000	200,000	300,000	36,000	46,000
2031	500,000	10,000	210,000	290,000	34,800	44,800
2032	500,000	10,000	220,000	280,000	33,600	43,600
2033	500,000	10,000	230,000	270,000	32,400	42,400
2034	500,000	10,000	240,000	260,000	31,200	41,200
2035	500,000	10,000	250,000	250,000	30,000	40,000
2036	500,000	10,000	260,000	240,000	28,800	38,800
2037	500,000	10,000	270,000	230,000	27,600	37,600
2038	500,000	10,000	280,000	220,000	26,400	36,400
2039	500,000	10,000	290,000	210,000	25,200	35,200
2040	500,000	10,000	300,000	200,000	24,000	34,000
2041	500,000	10,000	310,000	190,000	22,800	32,800
2042	500,000	10,000	320,000	180,000	21,600	31,600
2043	500,000	10,000	330,000	170,000	20,400	30,400
2044	500,000	10,000	340,000	160,000	19,200	29,200
2045	500,000	10,000	350,000	150,000	18,000	28,000
2046	500,000	10,000	360,000	140,000	16,800	26,800
2047	500,000	10,000	370,000	130,000	15,600	25,600
2048	500,000	10,000	380,000	120,000	14,400	24,400
2049	500,000	10,000	390,000	110,000	13,200	23,200
2050	500,000	10,000	400,000	100,000	12,000	22,000
2051	600,000	10,000	410,000	190,000	22,800	32,800
2052	600,000	10,000	420,000	180,000	21,600	31,600
2053	600,000	10,000	430,000	170,000	20,400	30,400
2054	600,000	10,000	440,000	160,000	19,200	29,200
2055	600,000	10,000	450,000	150,000	18,000	28,000
2056	600,000	10,000	460,000	140,000	16,800	26,800
2057	600,000	10,000	470,000	130,000	15,600	25,600
2058	600,000	10,000	480,000	120,000	14,400	24,400
2059	600,000	10,000	490,000	110,000	13,200	23,200
2060	600,000	10,000	500,000	100,000	12,000	22,000
2061	600,000	10,000	510,000	90,000	10,800	20,800
2062	600,000	10,000	520,000	80,000	9,600	19,600
2063	600,000	10,000	530,000	70,000	8,400	18,400
2064	600,000	10,000	540,000	60,000	7,200	17,200
2065	600,000	10,000	550,000	50,000	6,000	16,000
2066	600,000	10,000	560,000	40,000	4,800	14,800
2067	600,000	10,000	570,000	30,000	3,600	13,600
2068	600,000	10,000	580,000	20,000	2,400	12,400
2069	600,000	10,000	590,000	10,000	1,200	11,200
2070	600,000		600,000	0	0	0

Assumption:

Rate of Reurn & Income Taxes 12%

Mr. Spanos' Scenerio 5 Revised To Reflect Return and Income Taxes

<u>Year</u> <u>(1)</u>	<u>Plant</u> <u>(2)</u>	<u>Annual</u> <u>Accrual</u> <u>(3)</u>	<u>Book</u> <u>Reserve</u> <u>(4)</u>	<u>Rate</u> <u>Base</u> <u>(5)</u>	<u>Return &</u> <u>Income Taxes</u> <u>(6)</u>	<u>Annual</u> <u>Revenue</u> <u>Requirement</u> <u>(7)</u>
2010	\$500,000	\$8,333	\$0	\$500,000	\$60,000	\$68,333
2011	500,000	8,333	8,333	491,667	59,000	67,333
2012	500,000	8,333	16,667	483,333	58,000	66,333
2013	500,000	8,333	25,000	475,000	57,000	65,333
2014	500,000	8,333	33,333	466,667	56,000	64,333
2015	500,000	8,333	41,667	458,333	55,000	63,333
2016	500,000	8,333	50,000	450,000	54,000	62,333
2017	500,000	8,333	58,333	441,667	53,000	61,333
2018	500,000	8,333	66,667	433,333	52,000	60,333
2019	500,000	8,333	75,000	425,000	51,000	59,333
2020	500,000	8,333	83,333	416,667	50,000	58,333
2021	500,000	8,333	91,667	408,333	49,000	57,333
2022	500,000	8,333	100,000	400,000	48,000	56,333
2023	500,000	8,333	108,333	391,667	47,000	55,333
2024	500,000	8,333	116,667	383,333	46,000	54,333
2025	500,000	8,333	125,000	375,000	45,000	53,333
2026	500,000	8,333	133,333	366,667	44,000	52,333
2027	500,000	8,333	141,667	358,333	43,000	51,333
2028	500,000	8,333	150,000	350,000	42,000	50,333
2029	500,000	8,333	158,333	341,667	41,000	49,333
2030	500,000	8,333	166,667	333,333	40,000	48,333
2031	500,000	8,333	175,000	325,000	39,000	47,333
2032	500,000	8,333	183,333	316,667	38,000	46,333
2033	500,000	8,333	191,667	308,333	37,000	45,333
2034	500,000	8,333	200,000	300,000	36,000	44,333
2035	500,000	8,333	208,333	291,667	35,000	43,333
2036	500,000	8,333	216,667	283,333	34,000	42,333
2037	500,000	8,333	225,000	275,000	33,000	41,333
2038	500,000	8,333	233,333	266,667	32,000	40,333
2039	500,000	8,333	241,667	258,333	31,000	39,333
2040	500,000	8,333	250,000	250,000	30,000	38,333
2041	500,000	8,333	258,333	241,667	29,000	37,333
2042	500,000	8,333	266,667	233,333	28,000	36,333
2043	500,000	8,333	275,000	225,000	27,000	35,333
2044	500,000	8,333	283,333	216,667	26,000	34,333
2045	500,000	8,333	291,667	208,333	25,000	33,333
2046	500,000	8,333	300,000	200,000	24,000	32,333
2047	500,000	8,333	308,333	191,667	23,000	31,333
2048	500,000	8,333	316,667	183,333	22,000	30,333
2049	500,000	8,333	325,000	175,000	21,000	29,333
2050	500,000	13,333	333,333	166,667	20,000	33,333
2051	600,000	13,333	346,667	253,333	30,400	43,733
2052	600,000	13,333	360,000	240,000	28,800	42,133
2053	600,000	13,333	373,333	226,667	27,200	40,533
2054	600,000	13,333	386,667	213,333	25,600	38,933
2055	600,000	13,333	400,000	200,000	24,000	37,333
2056	600,000	13,333	413,333	186,667	22,400	35,733
2057	600,000	13,333	426,667	173,333	20,800	34,133
2058	600,000	13,333	440,000	160,000	19,200	32,533
2059	600,000	13,333	453,333	146,667	17,600	30,933
2060	600,000	13,333	466,667	133,333	16,000	29,333
2061	600,000	13,333	480,000	120,000	14,400	27,733
2062	600,000	13,333	493,333	106,667	12,800	26,133
2063	600,000	13,333	506,667	93,333	11,200	24,533
2064	600,000	13,333	520,000	80,000	9,600	22,933
2065	600,000	13,333	533,333	66,667	8,000	21,333
2066	600,000	13,333	546,667	53,333	6,400	19,733
2067	600,000	13,333	560,000	40,000	4,800	18,133
2068	600,000	13,333	573,333	26,667	3,200	16,533
2069	600,000	13,333	586,667	13,333	1,600	14,933
2070	600,000		600,000	0	0	0

Assumption:

Rate of Return & Income Taxes 12%

Company Name: GMO Electric
Case Description: 2010 GMO Elec Rate Case
Case: ER-2010-0356

Response to Woodsmall David Interrogatories – Set AGP_201011102
Date of Response: 11/22/2010

Question No. :3.1

In Column G of Schedule 5a – Depreciation Reserve (MPS Share of ECORP) shows a reduction to the depreciation reserve of \$14.076 million. Please provide the workpapers showing the development of the reduction shown for each FERC account.

RESPONSE:

The reserve adjustment is related to the allocation of the reserve balance recorded in account 119300. The reserve balance in account 119300 represents the difference between ECORP depreciation using actual rates and ECORP depreciation using rates approved by the Missouri Commission. The balance in reserve account 119300 was accumulated over several years. The account 119300 reserve balance has not increased since the merger with KCPL, as Missouri Commission approved rates have been applied since then. However, the plant balance has changed due to plant retirements. Please see the attached Excel spreadsheet titled “DR AGP 3.1-3.4 3.6 Response”. The tab titled “Reserve Account 119300” contains reserve amounts by year. ECORP amounts are allocated to MOPUB and SJLP as reported in the tabs titled “MPSDEPR RES (ECORP alloc)-Sch5A” and “LPDEPR Resv (Share ECORP)-Sch5A”.

Response Prepared by: Frank Lambert and Larry Mulligan

Attachments:

DR AGP 3.1-3.4 3.6 Response.xls
Q3.1 GMO Verification.pdf

Company Name: GMO Electric
Case Description: 2010 GMO Elec Rate Case
Case: ER-2010-0356

Response to Woodsmall David Interrogatories – Set AGP_201011102
Date of Response: 11/22/2010

Question No. :3.2

Schedule 5a – Depreciation Reserve (L&P Share of ECORP) shows a reduction to the depreciation reserve of \$4.744 million in the column titled “ECORP 119300 Reduction to MPSC.” Please provide the workpapers showing the development of the reduction shown for each FERC account.

RESPONSE:

The reserve adjustment is related to the allocation of the reserve balance recorded in account 119300. The reserve balance in account 119300 represents the difference between ECORP depreciation using actual rates and ECORP depreciation using rates approved by the Missouri Commission. The balance in reserve account 119300 was accumulated over several years. The account 119300 reserve balance has not increased since the merger with KCPL, as Missouri Commission approved rates have been applied since then. However, the plant balance has changed due to plant retirements. Please see the attached Excel spreadsheet titled “DR AGP 3.1-3.4 3.6 Response”. The tab titled “Reserve Account 119300” contains reserve amounts by year. ECORP amounts are allocated to MOPUB and SJLP as reported in the tabs titled “MPSDEPR RES (ECORP alloc)-Sch5A” and “LPDEPR Resv (Share ECORP)-Sch5A”.

Response Prepared by: Frank Lambert and Larry Mulligan

Attachments:

DR AGP 3.1-3.4 3.6 Response.xls

Q3.2 GMO Verification.pdf