Exhibit No.:
Issue: General Plant Amortization
Witness: John J. Spanos
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2012-0174
Date Testimony Prepared: September 5, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

REBUTTAL TESTIMONY

OF

JOHN J. SPANOS

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
September 2012

REBUTTAL TESTIMONY

OF

JOHN J. SPANOS

Case No. ER-2012-0174

Q. Please state your name and business address.

A. John J. Spanos, 207 Senate Avenue, Camp Hill, Pennsylvania, 17011.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of Kansas City Power & Light Company ("KCP&L" or the "Company").

Q. Please state your educational background and describe your professional training and experience.

A. I have Bachelor of Science degrees in Industrial Management and Mathematics from Carnegie-Mellon University and a Master of Business Administration from York College of Pennsylvania.

Q. By whom and in what capacity have you been employed?

A. I am employed by Gannett Fleming as Senior Vice President of the Valuation and Rate Division, which provides depreciation consulting services to utility companies in the United States and Canada. I am responsible for conducting depreciation, valuation and original cost studies, determining service life and salvage estimates, conducting field reviews, presenting recommended depreciation rates to clients, and supporting such rates before state and federal regulatory agencies. I have been associated with the firm since college graduation in 1986.

Q. Do you belong to any professional societies?

A. Yes. I am a member and current President of the Society of Depreciation Professionals and the American Gas Association/Edison Electric Institute Industry Accounting Committee.

Q. Do you hold any special certification as a depreciation expert?

A. Yes. The Society of Depreciation Professionals has established national standards for depreciation professionals. The Society administers an examination to become certified in this field. I passed the certification exam in September 1997, and was recertified in August 2003 and February 2008.

Q. Can you outline your experience in the field of depreciation?

A. Yes. A synopsis of my depreciation experience is set forth in Appendix A.

Q. Have you received any additional education relating to utility plant depreciation?

A. Yes. I have completed the following courses conducted by Depreciation Programs, Inc.: "Techniques of Life Analysis," "Techniques of Salvage and Depreciation Analysis," "Forecasting Life and Salvage," "Modeling and Life Analysis Using Simulation" and "Managing a Depreciation Study." I have also completed the "Introduction to Public Utility Accounting" program conducted by the American Gas Association.

Q. Have you previously testified on public utility ratemaking matters?

A. Yes. I have submitted testimony to the Pennsylvania Public Utility Commission; the Commonwealth of Kentucky Public Service Commission; the Public Utilities Commission of Ohio; the Nevada Public Utility Commission; the Public Utilities Board of New Jersey; the Missouri Public Service Commission; the Massachusetts

Department of Telecommunications and Energy; the Alberta Energy & Utility Board; the Idaho Public Utility Commission; the Louisiana Public Service Commission; the State Corporation Commission of Kansas; the Oklahoma Corporate Commission; the Public Service Commission of South Carolina; the Railroad Commission of Texas – Gas Services Division; the New York Public Service Commission; the Illinois Commerce Commission; the Indiana Utility Regulatory Commission; the California Public Utilities Commission; the Federal Energy Regulatory Commission ("FERC"); the Arkansas Public Service Commission; the Public Utility Commission of Texas; the Maryland Public Service Commission; the Washington Utilities and Transportation Commission; the Tennessee Regulatory Commission; the District of Columbia Public Service Commission; the Mississippi Public Service Commission; the Regulatory Commission of Alaska; Delaware Public Service Commission; Virginia State Corporation Commission; Colorado Public Utility Commission; Oregon Public Utility Commission;` Wisconsin Public Service Commission; and the North Carolina Utilities Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to rebut the Missouri Public Service Commission ("MPSC") Staff ("Staff"), specifically Arthur W. Rice's, recommendations to reverse general plant amortization vintage accounting and to conduct physical inventories of non-production general plant assets.

Q. Is General Plant Amortization a new technique?

A. No. The concept of amortization for General Plant was advanced by the Florida Public Service Commission (FPSC) in 1987 when it initiated a study of retirement units for electric utilities. As a result of this study, the FPSC established a $500

capitalization criteria in 1987 (FPS Rule 25 – 6.0142 Uniform Retirement Units for Electric Utilities) and established 5- and 7-year amortization periods for most general plant in 1991 (FPS Rule 25 – 6.04361 Subcategorization of Electric Plant for Depreciation Studies and Rate Design).

Q. Has the Federal Energy Regulatory Commission ("FERC") approved of General Plant Amortization?

A. Yes. In 1997 FERC established Accounting Release No. 15 (AR-15) to specifically address the merits of amortization accounting for certain general plant accounts.

Q. Has the General Plant Amortization method been implemented in other jurisdictions?

A. Yes. General Plant Amortization is utilized in some form by almost every other jurisdiction in the United States and every province in Canada. The attached Schedule JJS-1 is a sample of other utilities which have implemented general plant amortization. The list includes electric, gas, water and wastewater utilities; some regulated by state jurisdictions and other also regulated by FERC.

Q. What are the benefits of general plant amortization?

A. There are many benefits of the general plant amortization as follows:

- Depreciation rates and associated depreciation expense for each asset class will be stable over time.
- Once the method is implemented with an approved amortization period, the recovery of these assets will not change.
- Once the accumulated depreciation is aligned with the amortization method, there will be no need for any further rebalancing and will not require additional ratemaking treatment.
- Ensures that only the exact cost of the asset will be recovered.
- Eliminates the need for extensive record keeping for a class of assets which are high volume and low dollar.

Q. Does the general plant amortization method ensure that assets are retired at the end of their assigned life?

A. Yes. As an example, if an asset has an amortization life of 20 years it will automatically be retired once the asset reaches age 20.

Q. Does the general plant amortization method result in recovery of the exact cost of the asset?

A. Yes. The general plant amortization method ensures that only the exact cost of the asset will be recovered. If an asset cost $ 1,000 then only $ 1,000 will be recovered. This occurs because the asset will automatically be retired at the end of its amortizable life.

Q. Will the recommendation by MPSC Staff to eliminate general plant amortization and conduct physical inventories result in extensive record keeping and require excessive man-hours to track?

A. Yes. General plant assets are high volume, low dollar and mobile. General plant assets represent approximately 2% of total plant assets. The mobility of these assets makes it difficult and time consuming to inventory. The number of man-hours to track general plant assets is disproportionate to generation, transmission and distribution assets. In other words, fixed asset accounting and field operations could spend the same amount of time or more to track general plant assets as it would for the remaining 98% of assets.

Q. Can you explain how the amortization method is implemented?

A. Yes. First, an average service life or useful life is established for each asset class. The useful life is determined based on the type of asset, the functionality of the asset and the expected period of time the asset can reliably render service. An example of

this would be desktop computers. A reasonable useful life is 5 years. Second, all assets are booked by dollar amount and year of installation. Third, each asset or vintage (year of installation) is retired after it has been in service for the full amortization period. In the example of desktop computers, that would be 5 years. This means the assets will be depreciated for 5 years or at a 20% rate. Once the asset (vintage) has reached its 5-year useful life and has been fully depreciated, it is retired off the books. It is understood and accepted in this methodology that some desktop computers will actually survive longer than 5 years and some will not stay in service for 5 years. However, the effort to actually inventory all desktop computers each year in order to determine if the 5-year life is precise and then to revise the depreciation rate accordingly to represent the actual dispersion pattern is not warranted. The fluctuation in rates is not justified for the percentage of plant in service for all KCP&L assets. Additionally, the stable 20% rate is fair to all ratepayers.

Q. Do you lose a degree of accuracy with your general plant asset recovery?

A. Not necessarily. If your useful life is properly established, then the recovery patterns will resemble the useful life in theory. Plus, the practice prior to amortization accounting represented many assets on the books longer than truly utilized, as confirmed by Mr. Rice in his direct testimony, and dispersion patterns that were unrealistic.

Q. Are you aware of any jurisdictions that have found the use of amortization for general plant harmful?

A. No, not at all. I am not aware of any utility that has implemented general plant amortization and since gone back to depreciation, nor am I aware of any regulatory body that has required the reversal of general plant amortization.

Q. Will general plant amortization require a periodic reserve rebalancing?

A. No. Once the reserve is aligned to the surviving plant balance, then full recovery will occur in conjunction with the time the assets are on the books.

Q. Do all asset classes have the same amortization period and associated rate?

A. No. Each asset class has an established useful life or amortization period that best represents the assets in the account.

Q. Are the amortization periods utilized by KCP&L, as agreed in the last rate case, similar to others in the industry?

A. Yes, with the exception of those that were modified through the case. The table below sets forth the industry ranges of amortization periods for the asset classes KCP&L currently has in service:

Account	Amortization Period (Industry Range)
391	15-20
391.1	15-20
391.2	4-7
393	20-25
394	20-25
395	15-20
397	10-15
398	15-25

Q. Are you aware of any utilities which conduct a physical inventory of their general plant assets, as recommended by Mr. Rice?

A. No.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2012-0174

AFFIDAVIT OF JOHN J. SPANOS

COMMONWEALTH OF PENNSYLVANIA)
) **ss**
COUNTY OF CUMBERLAND)

John J. Spanos, being first duly sworn on his oath, states:

1. My name is John J. Spanos. I am employed by Gannett Fleming as Senior Vice President of the Valuation and Rate Division. My services have been retained by Kansas City Power & Light Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of Seven (7) 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.

John J. Spanos
John J. Spanos

Subscribed and sworn before me this 3rd day of August, 2012.

Notary Public

My commission expires: February 20, 2015

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2015
MEMBER, PENNSYLVANIA ASSOCIATION OF NOTARIES

SCHEDULE JJS-1

SCHEDULE JJS-1

Alaska Electric Light and Power
Allegheny Energy - Monongahela Power Co.
Allegheny Energy - Potomac Edison Company
Allegheny Energy Supply, Inc.
Allete
Alliant Energy - Wisconsin Power & Light
Alliant Energy - Illinois
Alliant Energy - Iowa
Alliant Energy - Minnesota
Alliant Energy - Wisconsin Power & Light
Altagas Utilities, Inc.
Altalink LP
Ameren CILCO
Ameren CIPS
Ameren LP
AmerenUE
American Electric Power- Texas Central
American Electric Power- Texas North
American Transmission Company
Anchorage Municipal Light and Power
Anchorage- Municipal Water and Wastewater
Arizona Public Service Company
Atco Gas
Atlantic City Electric Company
Atmos Energy Corporation - Illinois
Atmos Energy Corporation - Missouri
Atmos Energy- Shared Services
Atmos Texas Pipeline
Atmos West Texas
Avista Corporation
Baltimore Gas and Electric
Bangor Hydro - Electric Company
BC Gas Utility, Ltd.
Black Hills Colorado Electric Utility Company, LP
Bonneville Power Administration
Calgary Electric System , City of
Cap Rock Energy
Carolina Gas Transmission Corporation
CCPS Transportation LLC

Centerpoint Energy - Arkansas
Centerpoint Energy - Houston Electric LLC
Centerpoint Energy Arkla - General
Centerpoint Energy Arkla - Louisiana
Centerpoint Energy Arkla - Services
Centerpoint Energy Entex - Texas Division
Centerpoint Houston- Gas
Centerpoint Shared Services
Centerpoint South Texas
Centra Gas Alberta, Inc.
Centra Gas British Columbia Inc.
Centra Gas Manitoba Inc.
Central Hudson Gas and Electric
Central Vermont Public Service Corporation
Chugach Electric Association, Inc
Cincinnati Gas and Electric Company - Electric
Cincinnati Gas and Electric Company - Gas
Citizens Energy Group
Cleco
Colorado, Public Service of- Electric
Colorado, Public Service of- Gas
Columbia Gas of Kentucky
Columbia Gas of Maryland
Columbia Gas of Massachusetts, Inc.
Columbia Gas of Ohio
Columbia Gas of Pennsylvania
Columbia Gas of Virginia
Commonwealth Edison
Consumers Electric
Consumers Gas
Delmarva Power & Light
Detroit Energy
Dominion - Virginia Power
Dominion Cove Point - LNG, LP
Dominion East Ohio
Duke Energy Carolinas
Duke Energy Indiana
Duke Energy Kentucky - Electric
Duke Energy Kentucky - Gas
Duke Energy Ohio - Electric
Duke Energy Ohio Gas

Duke Power Company
Duquesne Light Company
East Kentucky Power Cooperative
El Paso Electric Company
Elizabethtown Gas Company
Elkton Gas
Enbridge Gas Distribution, Inc.
Enbridge Pipelines (Southern Lights) LLC
Enmax Power Corporation
Entergy Arkansas, Inc.
Entergy Gulf States Louisiana, LLC
Entergy Louisiana, LLC
Entergy Mississippi, Inc.
Entergy Texas, Inc.
Equitable Gas Company
Exelon Generation Company
First Energy Corp - West Penn Power Company
Florida Gas Transmission
Florida Power & Light Company
Florida Power Company
FortisAlberta, Inc.
FortisBC Inc.
Gaz Metro
Gazifere
Grand Trunk Corp.
Granite State Gas Transmission, Inc.
Greater Missouri Operations - Ecorp
Greater Missouri Operations - L&P Jurisdiction
Greater Missouri Operations - MPS Jurisdiction
Heritage Gas Limited
Houston Lighting and Power Company
Idaho Power Company
Indiana American Water Company
Inland Corp.
Inner Passage Electric Cooperative
Jackson Energy Cooperative Corporation
Kansas City Power and Light Company – Kansas Jurisdiction
Kansas City Power and Light Company – Missouri Jurisdiction
Kentucky American Water Company
Kentucky Utilities
Kinder Morgan - Trans Mountain Pipe Lines

Kokomo Gas and Fuel Company
Laclede Gas Company
Lawrenceburg Gas Company
Lethbridge Electrical Utility, The City of
Louisville Gas and Electric Company - Electric
Louisville Gas and Electric Company - Gas
Madison Gas and Electric Company
Maine Public Service Company
Manitoba Hydro
Maritime Electric Company
Maui Electric Company
Metropolitan Edison Company
Michigan Electric Transmission Company
Michigan Gas Utilities
MidAmerican Energy Company - Electric
MidAmerican Energy Company - Gas
Minnesota Energy Resources Corporation
Missouri-American Water Company
National Fuel Gas Distribution - NY Division
National Fuel Gas Distribution - Pa Division
NB Power
Nevada Power Company
Newfoundland and Labrador Hydro
Newfoundland Light and Power Inc.
Nolin Rural Electric Cooperative Corp.
North Carolina, Public Service Company of
North Penn Gas Company
North Shore Gas Company
Northern Indiana Fuel and Light Company, Inc.
Northern Indiana Public Service Co. - Electric
Northern Indiana Public Service Co. - Gas
Northern States Power
Northland Utilities (NWT) Limited
Northland Utilities (Yellowknife) Ltd
Northwest Natural Gas
Northwest Territories Power Corporation
Nova Gas Transmission Ltd
Nova Scotia Power, Inc.
NSTAR - Electric
NSTAR Electric & Gas Company – Commonwealth Electric Company
NSTAR Electric & Gas Company - Gas

Ohio American Water Company
Oklahoma Gas and Electric
Oklahoma Gas and Electric (Holding Company Assets)
Oklahoma Natural Gas
Oklahoma, Public Service of
Oncor Electric Delivery
Otter Tail Power Company

Owen Electric Cooperative
Pacific Gas & Electric Company - Electric
Pacific Gas & Electric Company - Gas
Pacific Northern Gas Ltd.
PacificCorp
Penn Fuel Gas Company
Pennsylvania Electric Company
Pennsylvania Suburban Water Company
Pennsylvania-American Water Company
Peoples Gas Light and Coke Company
Peoples Natural Gas LLC
Philadelphia Suburban Water Company
Phillips Gas and Oil Co., T.W.
Piedmont Natural Gas - Carolinas
Piedmont Natural Gas - Tennessee
PMI Services North America, Inc.
Portland General Electric
Potomac Electric Power Company
PPL Electric Utilities Corporation
PPL Gas Utilities Corporation
Progress Energy- Florida
PSI Energy, Inc.
Puget Sound Energy - Electric
Puget Sound Energy - Gas
Questar Gas Company
Qulliq Energy Corporation
Red Deer Electric System, The City of
Reliant Energy
River Gas Company
Roaring Creek Water Company
San Diego Gas and Electric
SaskEnergy Incorporated
Shenango Valley Water Company

Sierra Pacific Power Company - Electric
Sierra Pacific Power Company - Gas
South Carolina Electric & Gas Company – Electric
South Carolina Electric & Gas Company - Gas
South Jersey Gas Company
Southern California Edison
Southwest Gas Corporation - Northern Division
Southwest Gas Corporation - Southern Division
Southwestern Electric Power Company
Southwestern Public Service- Texas
Tennessee American Water Company
Terasen Gas, Inc.
Texas New Mexico Power
TransCanada Pipelines Limited
TransCanada Pipelines Limited – Canadian Mainline
UGI Central Penn Gas, Inc.
UGI Penn Natural Gas, Inc.
UGI Utilities, Inc. - Electric Division
UGI Utilities, Inc. - Gas Division
Union Light Heat and Power Company
United Water Arkansas
Upper Peninsula Power
Virginia American Water Company
Virginia Gas Distribution Company
Virginia Gas Pipeline Company
Virginia Gas Storage Company
Virginia Natural Gas, Inc.
WE Power
West Chester Area Municipal Authority
Westar Energy, Inc. - North
Westar Energy, Inc. - South
Wisconsin Power and Light Company - Electric
Wisconsin Power and Light Company - Gas
Wisconsin Public Service Corporation - Electric
Wisconsin Public Service Corporation - Gas
York Water Company, The
Yukon Electrical Company Limited

JOHN SPANOS

DEPRECIATION EXPERIENCE

In June, 1986, I was employed by Gannett Fleming Valuation and Rate Consultants, Inc. as a Depreciation Analyst. During the period from June, 1986 through December, 1995, I assisted in the preparation of numerous depreciation and original cost studies for utility companies in various industries. I helped perform depreciation studies for the following telephone companies: United Telephone of Pennsylvania, United Telephone of New Jersey and Anchorage Telephone Utility. I helped perform depreciation studies for the following companies in the railroad industry: Union Pacific Railroad, Burlington Northern Railroad and Wisconsin Central Transportation Corporation.

I assisted in the preparation of depreciation studies for the following organizations in the electric industry: Chugach Electric Association, The Cincinnati Gas & Electric Company

(CG&E), The Union Light, Heat and Power Company (ULH&P), Northwest Territories Power Corporation and the City of Calgary - Electric System.

I assisted in the preparation of depreciation studies for the following pipeline companies: TransCanada Pipelines Limited, Trans Mountain Pipe Line Company Ltd., Interprovincial Pipe Line Inc., Nova Gas Transmission Limited and Lakehead Pipeline Company.

I assisted in the preparation of depreciation studies for the following gas companies: Columbia Gas of Pennsylvania, Columbia Gas of Maryland, The Peoples Natural Gas Company, T. W. Phillips Gas & Oil Company, CG&E, ULH&P, Lawrenceburg Gas Company and Penn Fuel Gas, Inc.

I assisted in the preparation of depreciation studies for the following water companies: Indiana-American Water Company, Consumers Pennsylvania Water Company and The York Water Company; and depreciation and original cost studies for Philadelphia Suburban Water Company and Pennsylvania-American Water Company.

In each of the above studies, I assembled and analyzed historical and simulated data, performed field reviews, developed preliminary estimates of service life and net salvage, calculated annual depreciation, and prepared reports for submission to state Public Utility Commissions or federal regulatory agencies. I performed these studies under the general direction of William M. Stout, P.E.

In January, 1996, I was assigned to the position of Supervisor of Depreciation Studies. In July, 1999, I was promoted to the position of Manager, Depreciation and Valuation Studies. In December, 2000, I was promoted to the position of Vice-President of Gannett Fleming Valuation and Rate Consultants, Inc. and in April 2012, I was promoted to my present position as Senior Vice President of the Valuation and Rate Division of Gannett Fleming, Inc. In my current

position, I am responsible for conducting all depreciation, valuation and original cost studies, including the preparation of final exhibits and responses to data requests for submission to the appropriate regulatory bodies.

Since January 1996, I have conducted depreciation studies similar to those previously listed, including assignments for Pennsylvania-American Water Company; Aqua Pennsylvania; Kentucky-American Water Company; Virginia-American Water Company; Indiana-American Water Company; Hampton Water Works Company; Omaha Public Power District; Enbridge Pipe Line Company; Inc.; Columbia Gas of Virginia, Inc.; Virginia Natural Gas Company; National Fuel Gas Distribution Corporation - New York and Pennsylvania Divisions; The City of Bethlehem - Bureau of Water; The City of Coatesville Authority; The City of Lancaster - Bureau of Water; Peoples Energy Corporation; The York Water Company; Public Service Company of Colorado; Enbridge Pipelines; Enbridge Gas Distribution, Inc.; Reliant Energy-HLP; Massachusetts-American Water Company; St. Louis County Water Company; Missouri-American Water Company; Chugach Electric Association; Alliant Energy; Oklahoma Gas & Electric Company; Nevada Power Company; Dominion Virginia Power; NUI - Virginia Gas Companies; Pacific Gas & Electric Company; PSI Energy; NUI -Elizabethtown Gas Company; Cinergy Corporation - CG&E; Cinergy Corporation – ULH&P; Columbia Gas of Kentucky; South Carolina Electric & Gas Company; Idaho Power Company; El Paso Electric Company; Central Hudson Gas & Electric; Centennial Pipeline Company; CenterPoint Energy-Arkansas; CenterPoint Energy – Oklahoma; CenterPoint Energy – Entex; CenterPoint Energy - Louisiana; NSTAR – Boston Edison Company; Westar Energy, Inc.; United Water Pennsylvania; PPL Electric Utilities; PPL Gas Utilities; Wisconsin Power & Light Company; TransAlaska Pipeline; Avista Corporation; Northwest Natural Gas; Allegheny Energy Supply, Inc.; Public Service

Company of North Carolina; South Jersey Gas Company; Duquesne Light Company; MidAmerican Energy Company; Laclede Gas; Duke Energy Company; E.ON U.S. Services Inc.; Elkton Gas Services; Anchorage Water and Wastewater Utility; Kansas City Power and Light; Duke Energy North Carolina; Duke Energy South Carolina; Duke Energy Ohio Gas; Duke Energy Kentucky; Duke Energy Indiana; Northern Indiana Public Service Company; Tennessee-American Water Company; Columbia Gas of Maryland; Bonneville Power Administration; NSTAR Electric and Gas Company; EPCOR Distribution, Inc.; B. C. Gas Utility, Ltd; Entergy Arkansas; Entergy Texas; Entergy Mississippi; Entergy Louisiana, Entergy Gulf States Louisiana, the Borough of Hanover, Madison Gas and Electric, Atlantic City Electric and Greater Missouri Operations. My additional duties include determining final life and salvage estimates, conducting field reviews, presenting recommended depreciation rates to management for its consideration and supporting such rates before regulatory bodies.