

*Exhibit No.:*  
*Issue:* Depreciation  
*Witness:* Arthur W. Rice  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Rebuttal Testimony  
*Case No.:* ER-2012-0175  
*Date Testimony Prepared:* October 10, 2012

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES**

**SURREBUTTAL TESTIMONY**

**OF**

**ARTHUR W. RICE, PE**

**KCP&L GREATER MISSOURI OPERATIONS  
Great Plains Energy, Inc.**

**CASE NO. ER-2012-0175**

*Jefferson City, Missouri  
October 2012*

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11

**TABLE OF CONTENTS**  
**OF THE SURREBUTTAL TESTIMONY OF**  
**ARTHUR W. RICE, PE**  
**KCP&L GREATER MISSOURI OPERATIONS**  
**Great Plains Energy, Inc.**  
**CASE NO. ER-2012-0175**

CORRECTIONS TO DEPRECIATION SECTION OF COST OF SERVICE REPORT ..... 2  
PURPOSE AND SUMMARY ..... 2  
EXISTING RESERVE DEFICIENCIES ..... 4  
SUMMARY..... 19



1 **CORRECTIONS TO DEPRECIATION SECTION OF COST OF SERVICE REPORT**

2 Q. Is there anything in your section of the Staff Cost of Service Report that you feel  
3 needs to be clarified, changed or corrected?

4 A. No. Corrections and clarifications to Staff's Cost of Service Report were  
5 addressed in Rebuttal Testimony.

6 **PURPOSE AND SUMMARY**

7 Q. What is the purpose of this surrebuttal testimony?

8 A. The purpose of this testimony is to address the Rebuttal Testimony of  
9 John Weisensee with respect to stopped depreciation accruals under Aquila, and the Rebuttal  
10 Testimonies of John Weisensee, Darrin Ives, and John Spanos with respect to the use of the  
11 General Plant Vintage Amortization Method and resultant stranded deficiency in KCPL and  
12 GMO General Plant reserves.

13 **Stopped Depreciation Accruals**

14 Q. Depreciation accruals were halted on specific General Plant equipment in 2006  
15 through 2008 by Aquila. Do you agree with Mr. Weisensee's Rebuttal Testimony, page 13,  
16 lines 5 and 6 where he states "Continuing depreciation on these assets would have resulted in a  
17 negative net asset value in asset classes no longer being utilized?"

18 A. No. To say that these assets were no longer being utilized is misleading. All of  
19 the \$4,221,178 in depreciation accruals that GMO failed to record to book reserves were  
20 computed over a time span from 2006 to 2008 when the plant in question was still recorded as  
21 plant in service. These plant items were not retired and removed from service for many months  
22 after GMO stopped accruing depreciation.

1 Q. Mr. Weisensee's rebuttal Testimony continues on page 13, lines 6 and 7 that  
2 Staff's recommendation does not make sense and is not appropriate." Does Mr. Weisensee's  
3 statement rely on an inappropriate assumption?

4 A. Yes. Mr. Weisensee's statement is premised on an apparent belief that there is  
5 something inappropriate with an asset having a net negative asset value. For regulatory  
6 depreciation there is nothing inappropriate with an asset having a net negative asset value.  
7 Depreciation rates are set by the Commission during a rate case for classes of property in a  
8 systematic and rational manner that is expected to collect from customers the original installed  
9 cost over the average service life of the equipment in that class. The key word here is "average".  
10 This means half of the property is expected to live longer than the average, and subsequently  
11 about half of all items placed in service would be expected to show a net negative asset value in  
12 the later part of their life, which does make sense and is appropriate.

13 Q. Mr. Weisensee continues on page 13, lines 7 and 8 with the statement: "Expecting  
14 no more additions, the depreciation rate was set to zero." Is this an accurate characterization of  
15 the history of the rates for the General Plant account?

16 A. No. GMO cannot change depreciation rates without Commission authorization.  
17 There was no change in the Commission-ordered rate for this account during this time frame.  
18 The Company does not have the authority to set depreciation rates for regulated Missouri  
19 jurisdictional plant. Only the Commission has this authority. The Company is required to record  
20 depreciation expense on plant still in service as a credit to the accumulated reserves. The  
21 Company cannot stop recording these amounts the customers paid for consumption of plant in  
22 service and take these amounts to company income, as GMO did from 2006 - 2008.

1 Q. On page 12, lines 1 through 8, Mr. Weisensee refers to Staff witness Schad  
2 recommending a 0% depreciation rate for these plant accounts where depreciation was halted by  
3 the Company. Is this at all relevant to GMO stopping the recording of depreciation in 2006 thru  
4 2008 for these assets?

5 A. No. The issue is whether or not GMO prematurely halting depreciation accruals,  
6 which it did. Mr. Weisensee's reference is to a 2009 rate case that is subsequent not only to  
7 GMO prematurely stopping depreciation accruals, but to the actual retirement of the equipment  
8 in question. There is no question of the *Commission's* authority to change depreciation rates in  
9 an appropriate order, as Ms. Schad recommended in Case No. ER-2009-0090. Further,  
10 Ms. Schad's recommendation was not adopted in that rate case.

11 **EXISTING RESERVE DEFICIENCIES**

12 Q. What is your response to Mr. Ives' GMO Rebuttal Testimony pages 14 through  
13 17 regarding the \$20.7 million in under recovery of General Plant reserves attributable to  
14 closures and consolidations associated with the integration of KCPL and Aquila (GMO)  
15 subsequent to the GPE acquisition of Aquila?

16 A. As corrected in my Rebuttal testimony, my use of the word "detriment" in prior  
17 testimony conveyed a meaning that I did not intend. Under recovery of General Plant reserves  
18 attributable to closures and consolidations is more appropriately addressed as a transition cost.  
19 Mr. Ives' Rebuttal Testimony pages 14 through 17 addresses my characterization of this  
20 under-recovery as a detriment, which I have corrected.

21 Q. If the Commission does not adopt Staff's recommendation to discontinue the  
22 experimental use of General Plant Vintage Amortization, would under recovery of General Plant  
23 reserves attributable to closures and consolidations associated with the integration of KCPL and

1 Aquila (GMO) subsequent to the GPE acquisition of Aquila be amortizable as additional funds  
2 provided by rate payers to cover an additional expense by GMO for this type of a transition cost?

3 A. No. This is not includable as an amortizable transition cost, because there is no  
4 additional cost to GMO. GMO does not incur a cash cost or expense due to a retirement of plant  
5 earlier than expected. Any additional amortization for an under-recovery would be treated as  
6 depreciation expense and recorded to reserves to cover that deficiency, and not go to the  
7 Company to cover an additional expense incurred by the Company.

8 Q. Are the General Plant reserves deficient?

9 A. Yes. The accumulated reserves in the General Plant accounts are deficient, which  
10 results in GMO receiving a return on elevated rate base. This deficiency has continued, in large  
11 part, because there is no plant in service associated with approximately \$20 million of this  
12 deficiency. For the portion of this deficiency that is not related to plant still in service, GMO  
13 does not record depreciation accruals, which would otherwise reduce the magnitude of the  
14 deficiency over time.

15 Q. Does GMO's use of the General Plant Vintage Amortization method of  
16 computing depreciation accruals exacerbate this reserve deficiency?

17 A. Yes. Because GMO's switch to the General Plant Vintage Amortization method  
18 of computing depreciation accruals was not accompanied with an appropriate alignment of  
19 reserves to the surviving plant balances for each account, the total reserve deficiency in these  
20 accounts became stranded in the reserves. Because the deficiency is stranded in reserves, the  
21 reserves will never grow large enough to offset the presence of the associated plant in rate base.  
22 These reserves will remain stranded so long as GMO continues the General Plant Vintage  
23 Amortization method, unless the Commission orders corrective action.

1 Q. Did GMO agree to study the causes of deficiencies in the General Plant accounts?

2 A. Yes. Pursuant to the *NonUnanimous Stipulation and Agreement Regarding*  
3 *Depreciation and Accumulated Additional Amortizations* (“Depreciation Stipulation”) in  
4 Case Nos. ER-2010-0355 and ER-2010-0356 KCPL and GMO were required to perform a study  
5 regarding, among other things, the under recovered general plant accounts (“Stipulated Study”).

6 Q. Staff recommended in the Cost of Service Report that the experimental switch of  
7 select general plant accounts to a vintage amortization method allowed in prior rate Case No.  
8 ER-2010-0356 not be allowed to be put in place on a permanent basis. Did Mr. Spanos Rebuttal  
9 testimony address the main reason Staff opposes the continuation of the use of general plant  
10 amortization at this time?

11 A. No. The main reason Staff opposes the continuation is that one of the steps in the  
12 process of switching to general plant vintage amortization has not been completed or  
13 satisfactorily addressed. Mr. Spanos Rebuttal Testimony page 7, lines 2 and 3, discusses  
14 rebalancing of general plant reserves. He states “Once the reserve is aligned to the surviving  
15 plant balance, then full recovery will occur in conjunction with the time the assets are on the  
16 books.”

17 Q. Has the reserve been aligned to the surviving plant balance?

18 A. No. This alignment is basically a two step process. Only the first step has been  
19 conducted.

20 Q. What is this first step that was completed?

21 A. The retirement of all plant on the books with an age (vintage) exceeding the  
22 assigned amortization period for each account. Example: If the assigned amortization period for  
23 the account is 20 years, then all plant on the books exceeding that age is retired.



1 Q. Do these retirements change net rate base?

2 A. No. Retirements do not change net rate base because the original cost is removed  
3 from both the plant and the accumulated depreciation reserves.

4 Q. Do these retirements change depreciation expense?

5 A. Yes. At the initiation of this vintage method, the plant in service balance is  
6 reduced, thus the depreciation accruals based on plant in service is reduced. As time (years)  
7 progress, the property within the account which would have been expected to retire due to it  
8 representing the shorted lived half in the average service live will stay on the books until the end  
9 of the amortization period. Thus, slowly the initial reduction in depreciation expense is reversed.

10 Q. What is the second step required to complete the alignment of accumulated  
11 reserves for the use of the vintage amortization method?

12 A. The second step is to address the resultant over or under accumulated reserves for  
13 each account switched to vintage amortization by a rebalancing of reserves with other accounts  
14 or setting up a separate amortization.

15 Q. Was this second step completed or satisfactorily addressed?

16 A. No.

17 Q. What creates an over or under accumulation of reserves in these accounts?

18 A. Most of the items in these accounts do not retire at the projected average service  
19 life for the account. The creation of an over or under accumulation occurs for many reasons over  
20 time. The purpose of the Stipulated Study was to identify the causes.

21 Q. Is the failure to address this reserve variance a concern?

22 A. Yes. A reserve balance that is inappropriate for this method of depreciation  
23 accruals has been created.

1 Q. What makes this reserve balance inappropriate?

2 A. A reserve variance becomes stranded in the sense that the variance amount will  
3 not be factored into depreciation accruals going forward. The result is basically ignoring any  
4 past discrepancies in returning of original cost to investors for the consumption of plant, and  
5 leaving a permanent component of rate base that is not addressed in depreciation accruals.

6 Q. What is an appropriate accumulated reserve balance for these accounts?

7 A. The appropriate accumulated reserve balance is the sum of all vintage  
8 amortizations to date for plant currently in service in the account. An amortization returns no  
9 more and no less than the original cost of the plant placed into the amortization. Thus, a  
10 discrepancy in reserves associated with any prior retired plant or accrual rate becomes stranded,  
11 and becomes a static contributor to rate base if this discrepancy is not addressed elsewhere. Any  
12 difference in the book reserve amount to the sum of current plant amortizations must be  
13 addressed separately.

14 Q. Was this stranded accumulated reserves appropriately addressed when GMO  
15 switched to the trial General Plant Vintage Amortization method?

16 A. No.

17 Q. Is it reasonable to reduce the General Plant portion of depreciation expense in cost  
18 of service as a result of switching to the vintage amortization method?

19 A. Yes. Because GMO expected to be allowed to amortize the under recovery of  
20 reserves in the General Plant accounts under a separate amortization within the cost of service.

21 Q. Was this separate amortization allowed in the last rate case?

22 A. No.

1 Q. What is Staff's position regarding the inappropriate reserve balances in the  
2 General Plant accounts that have been switched to vintage amortization?

3 A. Staff opposes the continuation of the use of general plant amortization until this  
4 inappropriate reserves balance is resolved among all parties. For GMO, Staff estimates the  
5 stranded amount is a deficiency in reserves of \$20.7 million as of December, 2011, for the  
6 vintage amortized accounts, as reported by Staff in the Cost Of Service Report – Staff's  
7 Stipulated Study report. Staff's Stipulated Study report suggests a combination of reserves  
8 transfers from other plant accounts that have over collection of reserves. Staff's concern here is  
9 the same as in testimony above. Unless this difference in amortizations to date for current plant  
10 (theoretical reserves) to actual reserves is addressed, the difference (overall deficiency for GMO)  
11 acts as if it were permanent rate base associated with plant no longer in service.

12 **STIPULATED STUDY**

13 Q. Did GMO agree to study the causes of the deficiencies?

14 A. Yes. Pursuant to the *NonUnanimous Stipulation and Agreement Regarding*  
15 *Depreciation and Accumulated Additional Amortizations* ("Depreciation Stipulation") in  
16 Case Nos. ER-2010-0355 and ER-2010-0356 KCPL and GMO were required to perform a study  
17 regarding, among other things, the under recovered general plant accounts ("Stipulated study").

18 Specifically, Paragraph 10 of the Depreciation Stipulation provides:

19 KCPL and GMO shall complete a thorough study regarding retirement of  
20 property from the General plant accounts due to KCPL's operation of Aquila  
21 in conjunction with Great Plains Energy's acquisition of Aquila. KCPL shall  
22 complete a similar study regarding KCPL's recent corporate office  
23 relocations. These studies must include accounts where (1) depreciation was  
24 halted or (2) unauthorized rates were used and (3) the retirements from the  
25 acquisition or relocations that occurred as addressed in Staff witness Rosella  
26 Schad's surrebuttal testimony in GMO Case No. ER-2009-0090. KCPL and  
27 GMO shall discuss the scope and the approach of the review for the studies  
28 with Staff prior to conducting the studies. The studies shall be completed and

1 submitted to Staff, the Office of the Public Counsel, and the Industrials by the  
2 end of July 2011. KCPL shall not transfer reserve to or from the General plant  
3 accounts before the foregoing studies are submitted to Staff, the Office of the  
4 Public Counsel, and the Industrials. Upon satisfactory presentation of the  
5 results of these studies, the Signatories agree to pursue in good faith  
6 resolution of the GMO Account 119300 unrecovered reserve issue, as  
7 described by KCPL witness Ron Klote in his rebuttal testimony filed in File  
8 No. ER-2010-0356, including support of a reasonable request by GMO for an  
9 Accounting Authority Order from this Commission which will be  
10 permanently resolve this issue by balancing reserves through a transfer of  
11 depreciation reserves from Transmission plant to General plant.

12 Q. Did KCPL and GMO complete this study?

13 A. No. Not in Staff's opinion. KCPL submitted via email on July 28, 2011 a report  
14 that KCPL/GMO purports to be a report of the study required by paragraph 10 of the stipulation.  
15 At that time, Staff did not recognize the Company July 28, 2011 email from Aron Branson as a  
16 report of this study. In August of 2012, when Staff was redirected to this email, Staff did not  
17 find the July 2011 email as fulfilling the intent of the study as described in the Depreciation  
18 Stipulation. Subsequent to Aron Branson's July 2011 email, Staff conducted its own study using  
19 information provided by KCPL and GMO. Staff summarized its study in Staff's Cost of Service  
20 Reports in the KCP&L Greater Missouri Operations rate case in Case No. ER-2012-0175, and  
21 Staff submitted its study report in Appendix 3 of this Cost of Service Report.

22 Q. Mr. Weisensee's Rebuttal Testimony at page 14, starting at line 5, describes his  
23 understanding of the purpose of Paragraph 10. Does Staff agree with his understanding?

24 A. No. On lines 6 and 7 of Mr. Weisensee's page 14, he states "...the purpose of this  
25 section was to provide Staff detailed information as to assets retirements..." Staff disagrees with  
26 this statement. The very first line of Paragraph 10 reads "KCPL and GMO shall complete a  
27 thorough study regarding retirements..." Staff's position is that KCPL providing detailed  
28 information so Staff could do the study is not the same as KCPL and GMO doing the study.

1 Q. Mr. Weisensee's Rebuttal Testimony at page 17, starting at line 8, states, "Yes,  
2 the Company is always willing to talk. Staff should let GMO know exactly what is needed...".  
3 What is problematic about this statement?

4 A. Staff does not know exactly what is needed. Prior to July 28, 2011, when KCPL  
5 submitted what it purports to be the study complying with Paragraph 10 for KCPL and GMO, the  
6 Companies and Staff had met multiple times discussing issues related to the study. Paragraph 10  
7 includes the sentence "KCPL and GMO shall discuss the scope and the approach of the review for  
8 the studies with Staff prior to conducting the studies". Prior to July 28, 2011, KCPL had presented  
9 reasons why various approaches could not be done, such as "the re-creation of every transaction that  
10 has occurred since the beginning of time", but no reasonable scope and approach to complete the  
11 study was offered. While Staff has and will continue to work with GMO on resolving this and other  
12 issues, Staff cannot conclusively tell GMO what results GMO needs to provide to a study that GMO  
13 has yet to define a scope of study.

14 Q. What would satisfy the Stipulated Study?

15 A. In about March of 2012, Staff recognized that there are only three ways or  
16 causes that contribute to under-recovery of accumulated depreciation reserves. Evaluating the  
17 portion of the overall under-recovery that is assignable to each of these causes is what KCPL  
18 needs to do.

19 Q. What are the three ways or causes that contribute to under-recovery of  
20 accumulated depreciation reserves?

21 A. The three causes are as follows:

- 22 1) the Company failing to properly record depreciation of plant still in  
23 service,
- 24 2) the depreciation analysis or record of retirement history used for  
25 projections was in some way defective, or

1                   3)       unexpected events occur resulting in retirements earlier than  
2                               forecast.

3                   The number 2) cause above includes all normally expected deviations in the  
4 reserve accumulation versus actual retirements caused by normal drifting of the type of  
5 assets, net salvage rates, and retirement patterns expected in any plant account.

6                   Q.     Did Staff conduct a study to estimate the amounts of the General Plant  
7 under-recovery assignable to each cause?

8                   A.     Yes. Staff's study is included in Staff's Cost of Service Report Appendix 3.

9                               To satisfy cause 1) above, Staff's study included reviewing the  
10 methods used by KCPL and GMO in booking sales and transfers to  
11 non utility or other than Missouri utilities. Staff's also reviewed  
12 retirement methods. Staff did find evidence to support that the  
13 current GMO Missouri jurisdictional accumulated depreciation  
14 reserves are not correctly recorded for use in Missouri rate cases.  
15 The recording error is the failure to record depreciation expense of  
16 approximately \$4.2 million of plant still in service as described in  
17 the Stopped Depreciation Accruals section of this testimony. Staff's  
18 study consisted of estimating cause 3) above, which facilitated  
19 determining the value of the remaining item.

20 **VINTAGE AMORTIZATION METHOD**

21                   Q.     Do you disagree with the list of benefits of the general plant amortization method  
22 Mr. Spanos lists on page 4 of his testimony?

23                   A.     No.

24                   Q.     Have GMO's useful lives been properly established for the vintage amortized  
25 accounts?

26                   A.     No one knows. If so, it is coincidental. GMO is not recording the information  
27 necessary to determine whether the lives GMO is using are reasonable matches to GMO's actual  
28 retirement experience.

1 Q. What is necessary at this point to determine proper useful lives?

2 A. A physical inventory of items in these accounts would be necessary to determine  
3 whether the lives KCPL/GMO is using are reasonable matches to KCPL/GMO's actual  
4 retirement experience. The determination of useful life is established by verifying actual  
5 retirement rate. At the meetings between Staff and the Company regarding the Stipulated Study,  
6 the general plant amortization method was usually a topic that was also discussed. GMO stated  
7 in these meetings that GMO is no longer recording retirements for accounts switched to the  
8 general plant amortization method. Staff expressed its concern, and inquired of how the  
9 Company intended to monitor or verify or change the amortization periods to insure that  
10 the amortizations periods continued to realistically represent actual service life if there was  
11 no retirement record to review for these accounts. KCPL/GMO was consistent in their  
12 response - they would deal with it in future cases.

13 Q. If the Commission does not adopt Staff's recommendation to discontinue the  
14 experimental use of General Plant Vintage Amortization, does Mr. Spanos provide an answer in  
15 his Rebuttal Testimony addressing how monitoring or verification of the amortization periods for  
16 a general plant amortized account would be accomplished?

17 A. No. At page 5, lines 11 through 20 he avoids this concern by inferring that it is  
18 too costly to monitor for verification, with the following statements, " General plant assets are  
19 high volume, low dollar and mobile. General plant assets represent approximately 2% of total  
20 plant assets. The mobility of these assets makes it difficult and time consuming to inventory. The  
21 number of man-hours to track general plant assets is disproportionate to generation, transmission  
22 and distribution assets. In other words, fixed asset accounting and field operations could spend

1 the same amount of time or more to track general plant assets as it would for the remaining 98%  
2 of assets.”

3 Q. Is Mr. Spanos’ justification accurate?

4 A. I don’t know. Staff did not conduct a review to evaluate cost savings due to record  
5 keeping changes related to switching to General Plant Vintage Amortization. Staff did review the  
6 current plant in service records and found deficiencies in the recorded retirements as reported in  
7 the Cost of Service Report for this case. Staff’s conclusion from this review is that GMO is  
8 currently not providing sufficient resources to maintain an accurate retirement history in the  
9 General Plant accounts for general office and service centers, where a major portion of the  
10 common (General Plant) is assigned.

11 **TREATMENT OF DEFICIENCIES**

12 Q. Would the General Plant accounts continue to have a deficiency of reserves if the  
13 Commission does adopt Staff’s recommendation to discontinue the experimental use of General  
14 Plant Vintage Amortization?

15 A. Yes.

16 Q. Would it be necessary to address the deficiency in this rate case if General Plant  
17 Vintage Amortization was not in use?

18 A. No. It would be addressed in due course within the next scheduled depreciation  
19 study.

20 Q. If the Commission does not adopt Staff’s recommendation to discontinue the  
21 experimental use of General Plant Vintage Amortization, what is the deficiency in General Plant  
22 that should be addressed in this rate case?



1           A.     A \$22.7 million deficiency in General Plant reserves, of which Staff attributes  
2 \$20.7 to retirement of property from the General plant accounts due to KCPL's operation of Aquila  
3 in conjunction with Great Plains Energy's acquisition of Aquila as reported by Staff in the Cost Of  
4 Service Report – Staff's Stipulated Study report.

5           Q.     Mr. Ives Rebuttal Testimony at page 17 lines 3 through 15 suggests that as merger  
6 transition costs, this \$20.7 million as merger transition cost would be eligible to be recovered  
7 over five years as a transition cost amortization. Does Staff agree an amortization as a transition  
8 cost is appropriate?

9           A.     No. This is not an amortizable transition cost. GMO did not incur any additional  
10 cost of operation as a result of retiring plant earlier than its expected life that generally was not  
11 fully accrued for depreciation. There is no cost to the Company unless the Company adds  
12 additional funds to the plant reserves in addition to normal depreciation expense.

13          Q.     Does Staff agree that the under-recovery of reserves in the General Plant accounts  
14 should receive any amortization treatment?

15          A.     No. I reported an overall excess accumulated depreciation reserves of  
16 \$167 million in the last GMO rate case, Case No. ER-2010-0356. It would not be appropriate  
17 to collect additional funds from rate payers when an over collection of depreciation accruals  
18 exists for GMO that far exceeds this \$20.7 million. As reported in the prior GMO rate case,  
19 Case No. ER-2010-0356, an overall excess accumulated depreciation reserves on the order of  
20 \$167,000,000 is associated with the MPS and L&P rate districts. If the Commission does not  
21 adopt Staff's recommendation to discontinue the experimental use of General Plant Vintage  
22 Amortization, an appropriate resolution is for the Commission to order the transferring of reserve

1 amounts from accounts that are over collected to cover the deficiency in the General Plant  
2 accounts. This is the use of dollars already over collected from rate payers.

3 Q. With an overall excess in accumulated depreciation reserves, (over collection  
4 from customers), of approximately \$167 million, does Staff recommend an amortization to  
5 collect additional funds from customers to address a deficiency of \$20.7 million in the General  
6 Plant accumulated reserves?

7 A. No. It is not appropriate to create a special amortization to deal with an  
8 under-recovery when there is an offsetting over-recovery that is 8 times its magnitude.

9 Q. Does Staff have any reason to believe that the excess reserves for the MPS and  
10 L&P rate districts have reduced in magnitude since the last depreciation study?

11 A. No.

12 Q. The 2010 rate case Depreciation Stipulation suggest a transfer of excess reserves  
13 from Transmission plant accounts to the General Plant accounts to remedy the shortfall in the  
14 General Plant accounts. Is this a reasonable option for MPS?

15 A. No. The depreciation study presented in the 2010 rate case shows an insufficient  
16 amount, (approximately \$10 million), excess reserves for the MPS Transmission accounts for the  
17 MPS rate district. In addition to the Transmission accounts for MPS, Staff recommends  
18 transferring excess reserves from account 311 (Production Plant Structures) with approximately  
19 \$12 million in excess reserves.

20 Q. If the General Plant Vintage Amortization is halted, and the computation of  
21 depreciation is restored to a percentage of actual plant in service, does the General Plant reserve  
22 deficiency go away?

1           A.     No. The under accruals of depreciation in the General Plant accounts does not go  
2 away. The switch in depreciation method would result in a different computation method to  
3 estimate the amount the deficiency. The numbers would change, but the magnitude of the under  
4 accruals in these specific accounts is expected to remain at approximately \$20 million.

5           Q.     Would the retirements of all plant exceeding the amortization period, and the  
6 vintage retirements taken since the trial began be restored as plant in service?

7           A.     Yes. However, it is important to keep in mind that these “retirements” have not  
8 been recorded to MPS’ or L&P’s’ books, they are currently maintained as adjustments to the  
9 Company books while awaiting the outcome of the determination in this rate case as to whether  
10 the vintage amortization method will be made permanent.

11          Q.     Has GMO recorded to the plant and reserve accounts the actual retirements that  
12 have occurred since the initiation of vintage amortization?

13          A.     No.

14          Q.     Would halting of the amortization method result in the recording of actual  
15 retirements that have occurred since the trial began?

16          A.     Yes, it should, but GMO reports the retirements for this period are not known.

17          Q.     What would be the effect of stopping the trial General Plant Vintage amortization  
18 on plant, accumulated depreciation and rate base for GMO?

19          A.     An increase in Missouri jurisdictional plant in service by about \$16 million due to  
20 reversal of expired vintage retirements, with a recording of actual retirements for the trial period  
21 offsetting this \$16 million. Any offset is expected to be a small fraction of the \$16 million.  
22 Retirements do not result in a change in rate base. Reversing these retirements would add  
23 approximately \$1,600,000 per year to depreciation expense.

1 Q. If the General Plant Vintage Amortization method is halted, and the depreciation  
2 method is returned to the prior method, what changes would be expected to occur in the Staff  
3 accounting Schedules submitted with the Cost of Service Reports for MPS and L&P?

4 A. For MPS the following plant adjustments referencing retirements as per  
5 Stipulation and Agreement by Lyons on Schedule 4 would be removed: P-155.2, P-156.1,  
6 P-157.1, P-163.2, P-164.2, P-165.2, P-167.2, P-168.2, P-178.1, P-180.1, and P-182.1. Also for  
7 MPS, the following reserve adjustments referencing retirements as per Stipulation and  
8 Agreement by Lyons on Schedule 7 would be removed: R-155.2, R-156.1, R-157.1, R-163.1,  
9 R-164.1, R-165.1, R-167.1, R-168.1, R-178.1, R-180.1, R-182.1 and R-182.1.

10 For L&P the following plant adjustments referencing retirements as per Stipulation and  
11 Agreement by Lyons on Schedule 4 would be removed: P-103.1, P-104.1, P-109.1, P-110.1,  
12 P-111.1, P-113.1, P-114.1, P-120.1, P-156.1, P-158.1, and P-160.1. Also for L&P, the following  
13 reserve adjustments referencing retirements as per Stipulation and Agreement by Lyons on  
14 Schedule 7 would be removed: R-103.1, R-104.1, R-109.1, R-110.1, R-111.1, R-113.1, R-114.1,  
15 R-120.1, R-156.1, R-158.1, and R-160.1.

16 Q. What depreciation reserve adjustments would remain and become individually  
17 stated adjustments for the premature stopping of depreciation under Aquila?

18 A. Adjustments to reflect increasing MPS and L&P rate district reserves by the  
19 amounts shown in the table below. How to distribute the amounts to ECORP plant within the  
20 MPS and L&P rate districts is not specified.

21  
22  
23 *continued on next page*

1

<i>Stopped Depreciation</i>		
<b>Account</b>	<b>MPS \$</b>	<b>L&amp;P \$</b>
391.02	5,373	1,769
391.05	3,135,965	1,032,538
394	8,649	2,848
398	25,605	8,431
Sum	3,175,592	1,045,586
GMO Total	4,221,178	

2

3 **SUMMARY**

4 Q. Regardless of whether the Commission does or does not adopt Staff's  
5 recommendation to discontinue the experimental use of General Plant Vintage Amortization,  
6 what adjustments does Staff recommend the Commission order GMO to perform?

7 A. Adjusting the General Plant reserves to increase reserves by \$4,221,178 to  
8 compensate for the Company's failure to properly record depreciation accruals as shown in the  
9 Stopped Depreciation table above.

10 Q. If the Commission does adopt Staff's recommendation to discontinue the  
11 experimental use of General Plant Vintage Amortization, what adjustments to the accumulated  
12 reserve accounts are recommended?

13 A. Only those shown in the above table associated with the stopped depreciation  
14 under Aquila

15 Q. If the Commission does not adopt Staff's recommendation to discontinue the  
16 experimental use of General Plant Vintage Amortization, what adjustments does Staff  
17 recommend the Commission order GMO to perform?

18 A. The following adjustments are recommended:

19 1. Booking approximately \$16,000,000 (Missouri jurisdictional)  
20 of retirements to reflect retirement of General Plant in the vintage  
21 amortized accounts where vintages have exceeded stated vintage lives.

1                           The individual account adjustments are shown in Staff's accounting  
2                           schedule 4.

3                           2.     Transfer approximately \$24,000,000 of excess accumulated  
4                           depreciation reserves from Transmission Plant accounts, and  
5                           Production Plant account 311 (Structures), to the General Plant  
6                           accounts.

7                   Q.     If the Commission does not adopt Staff's recommendation discussed by  
8     Keith Majors to cease recovery of transition costs, and also does not adopt Staff's  
9     recommendation you discuss to cease the experimental use of General Plant Amortizations, are  
10    adjustments to the depreciation reserve appropriate.

11                  A.     Yes, approximately \$4.2 million the reserve deficiency attributable to transition  
12    costs incurred after the true-up cutoff date of Case No. ER-2010-0355 should be included in the  
13    transfer from the Transmission Accounts and Account 311 Reserves, which are significantly  
14    over-accrued, to cover this reserve deficiency.

15                  Q.     Is the Aquila acquisition portion of the reserves deficiency an additional cost to  
16    GMO that would be includable in an amortization of transition costs?

17                  A.     No, this is not includable as an amortizable acquisition transition cost, because  
18    there is no additional cost to GMO.  GMO does not incur a cash cost or expense due to a  
19    retirement of plant.

20                  Q.     Does this end your testimony?

21                  A.     Yes.

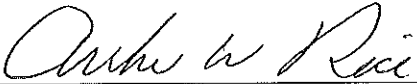
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of KCP&L Greater Missouri )  
Operations Company's Request for Authority )           Case No. ER-2012-0175  
to Implement General Rate Increase for )  
Electric Service )

AFFIDAVIT OF ARTHUR W. RICE, PE

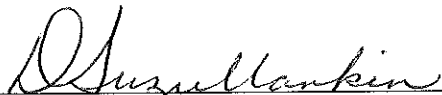
STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Arthur W. Rice, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 20 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Arthur W. Rice

Subscribed and sworn to before me this 10<sup>th</sup> day of October, 2012.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 08, 2012 Commission Number: 08412071
--

  
\_\_\_\_\_  
Notary Public