

*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:* September 12, 2012

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES**

**REBUTTAL TESTIMONY**

**OF**

**ARTHUR W. RICE, PE**

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

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

**Jefferson City, Missouri  
September 2012**

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**ARTHUR W. RICE, PE**  
**KCP&L – GREATER MISSOURI OPERATIONS**  
**Great Plains Energy, Inc.**  
**CASE NO. ER-2012-0175**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **ARTHUR W. RICE, PE**

4 **KCP&L – GREATER MISSOURI OPERATIONS**

5 **Great Plains Energy, Inc**

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

7  
8 Q. Please state your name and business address?

9 A. My name is Arthur W. Rice and my business address is Missouri Public Service  
10 Commission, P.O. Box 360, Jefferson City, MO 65102.

11 Q. What is your position with the Staff (“Staff”) of the Missouri Public Service  
12 Commission (“Commission”)?

13 A. I am a Utility Regulatory Engineer I in the Engineering and Management Services  
14 Unit of the Utility Services Department.

15 Q. Are you the same Arthur W. Rice that previously filed testimony in  
16 this proceeding?

17 A. Yes, I am. I filed testimony on August 2, 2012 contributing to Staff’s Cost of  
18 Service Reports in the Kansas City Power & Light Company (“KCPL”) rate case in Case No.  
19 ER-2012-0174 and on August 9, 2012 in the KCP&L Greater Missouri Operations  
20 Company (“GMO”) rate case in Case No. ER-2012-0175, and also Rebuttal testimony on  
21 September 6, 2012 in the KCPL rate case in Case No. ER-2012-0175.

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

23 Q. Do you have corrections or omissions to your section of the Staff Cost of Service  
24 Report filed on August 9, 2012, in this case?

1           A.     Yes. On page 179 there is an error in the upper table. The center summary line  
2 labeled “Amortized Accts Under-Recovery” have the numbers for MPS and L&P reversed. This  
3 created other errors for MPS and L&P in this table. There are no corrections to dollar amounts  
4 stated throughout the testimony because only the GMO totals were quoted and they are  
5 unchanged by this MPS and L&P transposition error in the table. The corrected table follows:

Breakdown of GMO Unrecovered Reserves in General Plant

A positive number is an under-recovery in this table.

	GMO \$	ECORP \$	MPS \$	L&P \$
Total				
Acct 390 only (2008)				
Stopped Depreciation	0	0	0	0
Depreciation Mismatch	6,109,870	3,226,639	1,826,733	1,056,498
Acquisition by Great Plains	807	(319,533)	250,957	69,383
Acct 390 Under-Recovery	6,110,677	2,907,106	2,077,690	1,125,881
Amortized Accts Only (2011)				
Stopped Depreciation	4,221,178	0	3,175,592	1,045,586
Depreciation Mismatch	(2,434,175)	1,524,753	(4,803,003)	844,075
Acquisition by Great Plains	20,675,553	18,748,037	1,417,963	509,553
Amortized Accts Under-Recovery	22,462,556	20,272,790	(209,448)	2,399,214
Total Amortized + Acct 390				
Stopped Depreciation	4,221,178	0	3,175,592	1,045,586
Depreciation Mismatch	3,675,695	4,751,392	(2,976,270)	1,900,573
Acquisition by Great Plains	20,676,360	18,428,504	1,668,920	578,936
General Plant Under-Recovery	28,573,233	23,179,896	1,868,242	3,525,095

6

7           Q.     Do you have any other clarifications to that report?

8           A.     Yes. Staff recommendation number 6 at page 190 reads as follows:

9                     Staff recommends the Commission direct GMO to complete by June 30,  
10                     2013 the studies described in Paragraph 10 of the *Nonunanimous*  
11                     *Stipulation and Agreement Regarding Depreciation and Accumulated*  
12                     *Additional Amortizations the Commission approved and ordered in Case*  
13                     *No. ER-2010-0355 and ER-2010-0356, (“Depreciation Stipulation”)* and  
14                     provide the results as described in the Depreciation Stipulation. Staff

1 requests the Commission direct Staff as to whether it should file a  
2 complaint against GMO for its failure to provide study results as described  
3 in the Depreciation Stipulation.

4 Staff was made aware in a technical conference with GMO on August 23, 2012 that KCPL and  
5 GMO submitted via email on July 28, 2011 a report that they purport to be a report of the study  
6 results required by paragraph 10 of the stipulation. Staff overlooked that report in July of 2011.  
7 Staff's review, subsequent to the Cost of Service testimony, of the July 2011 emailed report does  
8 not change Staff's recommendation. Staff did not find within the July 2011 email a study or  
9 report that includes results that meet what Staff interprets as the requirements in paragraph 10 of  
10 the Depreciation Stipulation.

11 Q. Is there anything else in the report that you feel needs to be clarified, changed  
12 or corrected?

13 A. Yes. After reading Darrin Ives' KCPL Rebuttal Testimony, I realized that my use  
14 of the words "acquisition detriment" in my testimony conveyed a meaning that I did not intend.  
15 At page 195 lines 27 and 28, of the Cost of Service Report, and again in Appendix 3, Schedule  
16 AWR-1 – Page 11, within the phrase "therefore, this portion of the shortfall should be treated as  
17 an acquisition detriment" the words "acquisition detriment" should be replaced with the words  
18 "transition costs" to better convey my intent.

19 **PURPOSE AND SUMMARY**

20 Q. What is the purpose of this testimony?

21 A. The purpose of this testimony is to address the Direct Testimony of John  
22 Weisensee with respect to the prior rate case Depreciation Stipulation and Agreement.

23 Q. Do you agree with Mr. Weisensee's Direct Testimony on page 50 at lines 22 and  
24 23 that GMO has complied in all respects with the provisions of the Depreciation S&A?

1           A.     No, I do not agree that GMO complied with paragraph 5d on page 5, or paragraph  
2 10 on page 8.

3           Q.     What action was required for GMO to fulfill the requirements of paragraph 5d  
4 and paragraph 8?

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

9                   Specifically, Paragraph 5d of the Depreciation Stipulation provides:

10                           If KCPL or GMO seek to continue use of the Amortization Method as  
11                           specified in this Agreement in the next rate case, they must submit testimony  
12                           in that rate case showing why the Amortization Method should be continued.

13                   Specifically, Paragraph 10 of the Depreciation Stipulation provides:

14                           KCPL and GMO shall complete a thorough study regarding retirement of  
15                           property from the General plant accounts due to KCPL’s operation of Aquila  
16                           in conjunction with Great Plains Energy’s acquisition of Aquila. KCPL shall  
17                           complete a similar study regarding KCPL’s recent corporate office  
18                           relocations. These studies must include accounts where (1) depreciation was  
19                           halted or (2) unauthorized rates were used and (3) the retirements from the  
20                           acquisition or relocations that occurred as addressed in Staff witness Rosella  
21                           Schad’s surrebuttal testimony in GMO Case No. ER-2009-0090. KCPL and  
22                           GMO shall discuss the scope and the approach of the review for the studies  
23                           with Staff prior to conducting the studies. The studies shall be completed and  
24                           submitted to Staff, the Office of the Public Counsel, and the Industrials by the  
25                           end of July 2011. KCPL shall not transfer reserve to or from the General plant  
26                           accounts before the foregoing studies are submitted to Staff, the Office of the  
27                           Public Counsel, and the Industrials. Upon satisfactory presentation of the  
28                           results of these studies, the Signatories agree to pursue in good faith  
29                           resolution of the GMO Account 119300 unrecovered reserve issue, as  
30                           described by KCPL witness Ron Klote in his rebuttal testimony filed in File  
31                           No. ER-2010-0356, including support of a reasonable request by GMO for an  
32                           Accounting Authority Order from this Commission which will be  
33                           permanently resolve this issue by balancing reserves through a transfer of  
34                           depreciation reserves from Transmission plant to General plant.

1 Q. As required by paragraph 5d, did Staff find GMO submitted testimony in this rate  
2 case showing why the Amortization Method should be continued?

3 A. No. Staff did not find any testimony showing why the Amortization Method  
4 should be continued. What Staff found is a request by GMO to continue without justification.  
5 Mr. Weisensee's direct testimony at page 50, lines 19 through 21, is the extent of GMO's  
6 testimony on this matter. That testimony follows:

7 Q: Does the Company believe that this accounting practice should be  
8 continued on a permanent basis?

9 A: Yes, KCP&L [(GMO)] recommends that this accounting practice be  
10 made a permanent practice.

11 Q. As required by paragraph 10 of the Depreciation Stipulation, did GMO, submit a  
12 study regarding under recoveries or retirements due to relocations or acquisitions?

13 A. No. In a technical conference with KCPL and GMO on August 23, 2012, KCPL  
14 personnel stated they sent the study to Staff by e-mail on July 28, 2012. Staff did receive a  
15 report from them via email on July 28, 2011. That report consists of a list and brief descriptions  
16 of emails, meetings, and data responses related to General Plant reserves, but this July 28,  
17 2011 email and attachments did not include the results of a "thorough study regarding retirement  
18 of property from the General plant accounts due to KCPL's operation of Aquila in conjunction  
19 with Great Plains Energy's acquisition of Aquila," (Operation of Aquila Study), nor did it  
20 include the results of a "similar study regarding KCPL's recent corporate office relocations.",  
21 (Office Relocation Study).

22 Q. Paragraph 10 also states "KCPL and GMO shall discuss the scope and the  
23 approach of the review for the studies with Staff prior to conducting the studies." Did KCPL or  
24 GMO discuss the scope and the approach of the review for the studies with Staff prior to their  
25 claim to have conducted a study?

1           A.     No. Neither KCPL nor GMO provided a scope and approach to either of the  
2 Aquila acquisition-related study or the KCPL relocations study. Staff does not recall a  
3 discussion with KCPL or GMO that Staff would agree was an overall study scope definition or  
4 general approach offered by the Company. Staff was still in a discovery phase of discussions  
5 with KCPL and GMO on July 28, 2011 as to the definition of a reasonable study scope and  
6 approach.

7           Q.     Did KCPL or GMO explain why neither performed a study to identify specific  
8 reasons for any under-recovery or over-recovery in each of the General Plant accounts, including  
9 those for GMO?

10          A.     Yes. In the July 2011 email item C 2. The reason stated follows:

11                         As discussed in response to question 1 above under-recovered or  
12 over-recovered reserve can be attributed to activity which has occurred over  
13 time, such as changes in depreciation rates, asset retirement, and cost of  
14 removal and salvage transactions. While the total amount of the difference is  
15 known, identifying each specific component that makes up the difference is  
16 not possible. To do so would require the re-creation of every transaction that  
17 has occurred since the beginning of time for the specific asset account.

18          Q.     Was Staff able to study these items?

19          A.     Yes. As described in Appendix 3, Schedule AWR-1 of Staff's Cost of Service  
20 Report, Staff studied these items. Staff concluded that there are only three possible reasons that  
21 regulatory depreciation reserves may become deficient. They are:

- 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, and
- 26                         3) unexpected events occurred resulting in retirements earlier than  
27 forecast.

28          A study defined to evaluate these three reasons satisfies the goal of one of the stipulated  
29 studies—evaluation of depreciation reserves “regarding retirement of property from the General



1 plant accounts due to KCPL's operation of Aquila in conjunction with Great Plains Energy's  
2 acquisition of Aquila." Evaluation of the effect of consolidations, relocations and office moves  
3 over a time period where these unexpected events occurred satisfies the stipulated study goals of  
4 both the Operation of Aquila Study and the Office Relocation Study.

5 For the period of 2007 through 2011, Staff compared the observed retirement rate for all  
6 recorded GMO retirements in the targeted General Plant accounts and compared each retirement  
7 to the expected retirement rate for its associated plant account. Staff used the depreciation study  
8 submitted by GMO in Case No. ER-2010-0356, which used retirement data up to the end of  
9 2008 to define the expected retirement rate. The difference found from Staff's comparison is  
10 the \$20,674,360 reported on page 189 of the Staff Cost of Service Report recommendation  
11 number 3, as attributable to the GPE acquisition of Aquila.

12 Staff completed the study by evaluation of the other two causes of possible reserve  
13 variance. Staff found a failure to properly record depreciation of plant still in service. This is the  
14 premature stopping of depreciation accruals in the amount of \$4,221,178 that was initially  
15 reported in Case No. ER-2009-0090. No adjustment to the reserves has occurred to address this  
16 premature stopping of depreciation. Thus, the attribution to *GMO failing to properly record*  
17 *depreciation of plant still in service* is estimated as a \$4,221,178 deficiency in reserves. This  
18 only leaves one other possible cause for under-recovery, which is that *the depreciation analysis*  
19 *or record of retirement history used for projections was in some way defective*. The estimate of  
20 the defect is simply whatever variance is left after subtracting the other two, and is the  
21 \$3,675,695 reported on page 189 of the Staff Cost of Service Report recommendation number 3,  
22 as attributable to "every other transaction that has occurred since the beginning of time."

1 Q. Was there another reason KCPL and GMO claimed in the July 2011 email that  
2 they could not conduct the Operation of Aquila Study defined in paragraph 10 of the Stipulation  
3 by reviewing regulatory depreciation reserves?

4 A. Yes. KCPL and GMO claimed in item C 5 of the July 2011 email that a  
5 depreciation study would be required to compute the theoretical reserves as part of the evaluation  
6 of over- or under-recovered amounts required to satisfy the stipulated study. Staff does not  
7 agree. The accounts in question are mainly the vintage amortized accounts, plus structures  
8 account 390. The theoretical depreciation reserves at any point in time for an account using the  
9 vintage amortization method is simply a sum of the vintage amortizations. This is similar to any  
10 amortization; the total amount of amortizations that should have been recorded at any point in  
11 time can be computed as the initial amount multiplied by the ratio of the time since start to the  
12 total amortization period. In fact, this sum of amortizations (theoretical reserves) was  
13 conducted by GMO in January 2011 when the Company computed the amount to use for the  
14 monthly depreciation accrual booking for the amortized accounts going forward in 2011. Below  
15 is what the Company claimed in item C 5 of the July 2011 email study report as a reason the  
16 study could not be completed.

17 KCPL/GMO does not believe the Stipulation requires a depreciation study to  
18 be performed nor does KCPL or GMO believe it is prudent to spend the cost  
19 to update the study at this time. The study will be updated during the next  
20 rate case or within the 5 year time frame as required by Missouri statute.  
21 KCPL in Case ER-2010-0355 and GMO in Case ER-2010-0356 provided  
22 depreciation data which covered the period ending December 31, 2008. This  
23 same data was used in discussions with Staff concerning general plant  
24 amortization and how under-recovered and over-recovered reserve amounts  
25 were developed. See response to C 1 above. The same methodology will be  
26 applied in the next depreciation study.

27 Only the structures account 390 would require a depreciation study to complete the Office  
28 relocation Study. But the 2008 study provided theoretical reserves for this account which could

1 be used. This is especially true for this structures account because the sales or transfers of these  
2 large items, (whole facilities and office buildings) are few and easily studied on an individual  
3 facility basis as to the relation to the acquisition and the effect on accumulated reserves. Staff  
4 did review the transactions recorded to plant and reserves for transfers and sales of service  
5 facilities and office buildings for the study period. Staff found the accounting methods used by  
6 the Company for these type activities did not create a reserve deficit or deficiency.

7 Q. Are there additional reasons Staff rejects the Company claim it has complied with  
8 the Depreciation Stipulation?

9 A. Yes. The KCPL/GMO stated conclusion at the end of the July 2011 email report  
10 is erroneous and misleading. That stated conclusion follows:

11 KCPL/GMO believes this report documents the study required by the  
12 Stipulation and provides the additional information requested by Mr. Rice.  
13 As mentioned in the Stipulation the satisfactorily presentation of the study  
14 will result in the parties pursuing in good faith the resolution of GMO account  
15 119300 and a request by GMO for an Accounting Authority Order to  
16 permanently resolve the issue by transferring depreciation reserves from  
17 Transmission plant to General plant.

18 This infers three things Staff can show are incorrect:

- 19 1. That only GMO, and not KCPL, has deficient reserves in the General  
20 Plant accounts attributable to the GPE acquisition of Aquila.
- 21 2. That account 119.300 is a cause of any under- or over-recovery in the  
22 GMO General Plant accounts.
- 23 3. That the amounts in account 119.300 are a definition of over- or under-  
24 recovery of plant in the GMO General Plant accounts.

25 Q. What is account 119.300?

26 A. The FERC USOA definition of account 119 is: "This account shall include the  
27 accumulated provision for depreciation and amortization applicable to utility property other than  
28 electric plant."

29 Q. What is the time period over which accruals occurred in GMO account 119.300?

30 A. Accruals started around 1999 and continued until the July 2008 Great Plains  
31 Energy acquisition of Aquila. No accruals have occurred since then.

1 Q. Has Staff reviewed the contents and origin of GMO account 119.300?

2 A. Yes. Staff conducted a detailed review of entries made to General Plant  
3 subaccounts within account 119.300 for the years from 1999 through 2008 containing 28,000  
4 records.

5 Q. What is Staff's assessment of the contents the amounts recorded in GMO account  
6 119.300?

7 A. The amounts recorded in GMO account 119.300 for the various General Plant  
8 accounts is simply an adjustment used to obtain the correct Missouri jurisdictional reserves.  
9 When the Company was operated under the Utilicorp United and Aquila names, "corporate"  
10 depreciation rates were used to record monthly depreciation accruals to the corporate books. The  
11 "corporate" depreciations rates were different, and generally higher, than the Missouri  
12 Commission-ordered depreciation rates. The Missouri versus "corporate" difference in the  
13 computed monthly accruals for Missouri jurisdiction assets was recorded and accumulated to  
14 account 119.300.

15 Q. What is the current status of GMO account 119.300?

16 A. Account 119.300 still exists. It is the sum of approximately twelve General Plant  
17 accounts and subaccounts shown in the Staff accounting schedules for MPS and L&P under the  
18 heading UCU Common General Plant. These General Plant accounts have no Plant In Service  
19 associated with them, but show negative numbers in the Accumulated Depreciation Reserves  
20 section of the Staff accounting schedules. Since these General Plant reserve accounts contain  
21 negative amounts these balances result in reduction to the reserve causing the GMO rate base to  
22 be higher.

23 Q. What is the effect of GMO account 119.300 account listings as UCU Common  
24 General Plant accounts on the Staff's accounting schedules for GMO?

25 A. The correct GMO Missouri jurisdictional accumulated depreciation reserves  
26 for many of the General Plant Accounts are derived by correcting (reducing) the amounts  
27 listed by the amounts shown in the UCU Common General Plant section of the Staff  
28 accounting schedules.

1 Q. Why does the UCU Common General Plant (Account 119.300) amount end up in  
2 the KCPL/GMO Stipulated Study Conclusion statement as the amount to transfer between  
3 General Plant accounts and the Transmission accounts, as a solution to the under-recovery in the  
4 General Plant accounts, and infer that this amount satisfies either the Operation of Aquila Study  
5 or the Office Relocation Study for KCPL or GMO?

6 A. I do not know. There is no link between the Operation of Aquila Study or the  
7 Office Relocation Study for KCPL or GMO and account 119.300. The amount in account  
8 119.300 is simply a surrogate account used to properly track Missouri accumulated reserves.  
9 There is no basis to claim this amount is the result of inadequate depreciation accruals for  
10 Missouri assets before or after Great Plains Energy's acquisition of Aquila. The Company-  
11 provided depreciation study conducted using retirement data through 2008 (the period of  
12 accumulation of the amounts in account 119.300 which is prior to Great Plains Energy's  
13 acquisition of Aquila), shows retirement rates for the General Plant accounts for KCPL, and the  
14 GMO rate districts closely match the Commission-ordered rates for that period.

15 Q. Would there be any reason why the amounts in account 119.300 could be an  
16 appropriate amount to satisfy the Stipulated study defined as, "KCPL and GMO shall complete a  
17 thorough study regarding retirement of property from the General plant accounts due to KCPL's  
18 operation of Aquila in conjunction with Great Plains Energy's acquisition of Aquila. *And*, KCPL  
19 shall complete a similar study regarding KCPL's recent corporate office relocations.?"

20 A. No. This Stipulated study refers to activities as a result of and subsequent to the  
21 acquisition date, that is, after accruals to account 119.300 were stopped. All of the accruals to  
22 account 119.300 occurred prior to the operation of Aquila in conjunction with Great Plains  
23 Energy's acquisition of Aquila.

24 Q. How can accruals to reserves that occurred years prior to the Great Plains  
25 Energy acquisition of Aquila be an answer to the effects of any activities that occurred after  
26 this acquisition?

Rebuttal Testimony of  
Arthur W. Rice

1           A.     They cannot be.

2           Q.     Does this end your testimony?

3           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 )

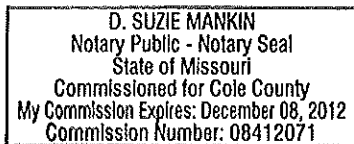
AFFIDAVIT OF ARTHUR W. RICE, PE


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 Rebuttal Testimony in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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 11<sup>th</sup> day of September, 2012.



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