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**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES**

**SURREBUTTAL TESTIMONY**

**OF**

**ARTHUR W. RICE, PE**

**KANSAS CITY POWER & LIGHT COMPANY  
Great Plains Energy, Inc.**

**CASE NO. ER-2012-0174**

Jefferson City, Missouri  
October 2012

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**ARTHUR W. RICE, PE**

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Surrebuttal Testimony of  
Arthur W. Rice

1 A. Yes. After reading Darrin Ives' Rebuttal Testimony, I realized that my use  
2 of the word "detriment" in my testimony conveyed a meaning that I did not intend.  
3 At page 182, lines 11 and 12, of the Staff Cost of Service Report, the sentence  
4 "Staff recommends that this portion of under-recovery be reinstated to reserves as a  
5 detriment due to the acquisition of Aquila" be replaced with "Staff recommends that this  
6 portion of under-recovery be charged to Aquila acquisition transition cost." to better convey  
7 my intent.

8 Q. Have you discovered any errors in the study you attached as an appendix to  
9 the Staff Cost of Service Report?

10 A. Yes. Due to a mathematical error, the number I provided for my estimate of  
11 KCPL's deficiency in General Plant reserves attributable to consolidations and relocations  
12 due to KCPL's operation of Aquila in conjunction with Great Plains Energy's ("GPE")  
13 acquisition of Aquila were overstated by approximately 20 percent. Corrections to the Staff  
14 Cost of Service Report table on page 183 are provided below:  
15

<u>Breakdown of KCPL Unrecovered Reserves in General Plant</u>	
	KCPL \$
Act 390 only (2008)	
Stopped Depreciation	0
Depreciation Mismatch	(6,431,861)
Aquila Acquisition	806,861
<hr/>	<hr/>
Account 390 Under-Recovery	(5,625,000)
Amortized Accts Only (2011)	
Stopped Depreciation	0
Depreciation Mismatch	9,040,064
Aquila Acquisition	3,068,342
<hr/>	<hr/>
Amortized Accounts Under-Recovery	12,108,406
Total Amortized + Act 390	
Summary	
Stopped Depreciation	0
Depreciation Mismatch	2,608,203
Aquila Acquisition	3,875,203
<hr/>	<hr/>
General Plant Under-Recovery	6,483,406

Surrebuttal Testimony of  
Arthur W. Rice

1 Resultant changes in my direct testimony in the Staff Cost of Service Report are:

2 Page 178, line 25, replace the \$4,844,004 with \$3,875,203.

3 Page 178, line 29, replace the \$1,639,402 with \$2,608,406.

4 Page 181, lines 23 and line 26, replace the \$4,844,004 with  
5 \$3,875,203.

6 Page 182, line 7, replace the \$4,844,004 with \$3,875,203.

7 Page 182, lines 13 and 14, replace the \$1,008,575 with \$806,861,  
8 replace the \$3,835,428 with \$3,068,342, and the \$4,844,004 with  
9 \$3,875,203.

10 Page 184, lines 2 and 3, replace the \$4,844,004 with \$3,875,203, and  
11 replace the \$1,639,402 with \$2,608,406.

12 Page 185, line 25, replace the \$(6,633,575) with \$(6,431,861),  
13 replace the \$8,272,978 with \$9,040,064, and replace the \$1,639,402  
14 with \$2,608,406

15 **PURPOSE AND SUMMARY**

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

17 A. The purpose of this testimony is to address the Rebuttal Testimonies of  
18 Darrin Ives, John Weisensee, and John Spanos, with respect to the use of the General Plant  
19 Vintage Amortization Method and resultant stranded deficiency in KCPL and GMO General  
20 Plant reserves.

21 Q. What is your response to Mr. Ives' Rebuttal Testimony at pages 14  
22 through 17 regarding the appropriate accounting treatment for under-recoveries of  
23 General Plant reserves attributable to closures and consolidations associated with the  
24 integration of KCPL and Aquila (GMO) subsequent to the GPE acquisition of Aquila?

25 A. As indicated above, my use of the word "detriment" in my testimony  
26 conveyed a meaning that I did not intend. Mr. Ives' Rebuttal Testimony pages 14

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Arthur W. Rice

1 through 17 addresses my characterization of this under-recovery as a detriment, which  
2 I have corrected.

3 Q. The above table titled "Breakdown of KCPL Unrecovered Reserves in General  
4 Plant" breaks out a portion of the unrecovered reserves as assignable to "Aquila Acquisition".  
5 This Aquila Acquisition portion is an estimate of deficiency in accumulated reserves  
6 attributable to facility closures and consolidations associated with the integration of KCPL  
7 and Aquila (GMO) subsequent to the GPE acquisition of Aquila. Is this portion of the  
8 reserves deficiency an additional cost to KCPL that would be includable in an amortization  
9 of transition costs?

10 A. No, this is not includable as an amortizable transition cost, because there is  
11 no additional cost to KCPL. KCPL does not incur a cash cost or expense due to a retirement  
12 of plant earlier than expected.

13 Q. Are the KCPL and GMO General Plant reserves deficient?

14 A. Yes. The accumulated reserves in the General Plant accounts are deficient,  
15 which results in KCPL receiving a return on elevated rate base. This deficiency has  
16 continued, in large part, because there is no plant in service associated with approximately  
17 \$3.9 million of this deficiency. For the portion of this deficiency that is not related to plant  
18 still in service, KCPL does not record depreciation accruals, which would otherwise reduce  
19 the magnitude of the deficiency over time.

20 Q. Does KCPL's use of the General Plant Vintage Amortization method of  
21 computing depreciation accruals exacerbate this reserve deficiency?

22 A. Yes. Because KCPL's switch to the General Plant Vintage Amortization  
23 method of computing depreciation accruals was not accompanied with an appropriate

1 alignment of reserves to the surviving plant balances for each account, the total reserve  
2 deficiency in these accounts became stranded in the reserves. Because the deficiency is  
3 stranded in reserves, the reserves will never grow large enough to offset the presence of  
4 the associated plant in rate base. These reserves will remain stranded so long as KCPL  
5 continues the General Plant Vintage Amortization method, unless the Commission orders  
6 corrective action.

7 **EXISTING RESERVE DEFICIENCIES**

8 Q. Did KCPL agree to study the causes of the deficiencies in the KCPL and  
9 GMO General Plant accounts?

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

15 Q. Staff recommended in the Cost of Service Report that the experimental  
16 switch of select general plant accounts to a vintage amortization method allowed in prior  
17 rate Case No. ER-2010-0355 not be allowed to be put in place on a permanent basis. Did  
18 Mr. Spanos in his Rebuttal testimony address the main reason Staff opposes the continuation  
19 of the use of general plant amortization at this time?

20 A. No. The main reason Staff opposes the continuation is that one of the steps  
21 in the process of switching to general plant vintage amortization has not been completed or  
22 satisfactorily addressed. Mr. Spanos in his Rebuttal Testimony at page 7, lines 2 and 3,  
23 discusses rebalancing of general plant reserves. He states “Once the reserve is aligned to the

Surrebuttal Testimony of  
Arthur W. Rice

1 surviving plant balance, then full recovery will occur in conjunction with the time the assets  
2 are on the books.”

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

4 A. No. This alignment is basically a two step process. Only the first step has  
5 been completed.

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

7 A. The retirement of all plant on the books with an age (vintage) exceeding the  
8 assigned amortization period for each account. For example, if the assigned amortization  
9 period for the account is 20 years, then all plant on the books exceeding that age is retired.

10 Q. Do these retirements change net rate base?

11 A. No. Retirements do not change net rate base because the original cost is  
12 removed from both the plant in service balance and the accumulated depreciation reserves.

13 Q. Do these retirements change depreciation expense?

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

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

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

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

5           A.     No.

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

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

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

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

13          Q.     What makes this reserve balance inappropriate?

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

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

20          A.     The appropriate accumulated reserve balance is the sum of all vintage  
21 amortizations to date for plant currently in service in the account. An amortization returns  
22 no more and no less than the original cost of the plant placed into the amortization. Thus, a  
23 discrepancy in reserves associated with any prior retired plant or accrual rate becomes

1 stranded, and becomes a static contributor to rate base if this discrepancy is not addressed  
2 elsewhere. Any difference in the book reserve amount to the sum of current plant  
3 amortizations must be addressed separately.

4 Q. Was this stranded accumulated reserves appropriately addressed when KCPL  
5 switched to the trial General Plant Vintage Amortization method?

6 A. No.

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

9 A. Yes. Because KCPL expected to be allowed to amortize the under-recovery  
10 of reserves in the General Plant accounts under a separate amortization within the cost  
11 of service.

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

13 A. No.

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

16 A. Staff opposes the continuation of the use of general plant amortization until  
17 this inappropriate reserves balance is resolved among all parties. For KCPL, Staff estimates  
18 the stranded amount is a deficiency in reserves of \$12,108,406 as of December, 2011, for the  
19 vintage amortized accounts, as reported by Staff in its Cost Of Service Report – Staff's  
20 Stipulated Study report. Staff's Stipulated Study report suggests a combination of reserves  
21 transfers from other plant accounts that have an over-collection of reserves. Staff's concern  
22 here is the same as testified above. Unless this difference in amortizations to date for  
23 current plant (theoretical reserves) to actual reserves is addressed, the difference (overall

1 deficiency for KCPL) acts as if it were permanent rate base associated with plant no longer  
2 in service.

3 **STIPULATED STUDY**

4 Q. Did KCPL agree to study the causes of the depreciation reserve deficiencies?

5 A. Yes. Pursuant to the Depreciation Stipulation in Case Nos. ER-2010-0355  
6 and ER-2010-0356 KCPL and GMO were required to perform a study regarding, among other  
7 things, the under-recovered general plant accounts.

8 Specifically, Paragraph 10 of the Depreciation Stipulation provides:

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

33 Q. Did KCPL and GMO complete this study?

34 A. No. not in Staff's opinion. KCPL submitted, via email, on July 28, 2011,  
35 a document that KCPL purports to be a report of the study required by paragraph 10 of the

1 stipulation. Staff does not agree that this July 2011 email fulfilled the intent of the study as  
2 described in the Depreciation Stipulation. Staff conducted its own study using information  
3 provided by KCPL. Staff summarized its study in Staff's Cost of Service Report in this case,  
4 and Staff submitted its study report in Appendix 3 of that Cost of Service Report.

5 Q. Mr. Weisensee, in his Rebuttal Testimony starting on page 11, at line 21  
6 describes his understanding of the purpose of Paragraph 10 of the stipulation to be to  
7 provide Staff detailed information as to assets retirements. Does Staff agree with his  
8 understanding?

9 A. No. The very first line of Paragraph 10 reads "KCPL and GMO shall  
10 complete a thorough study regarding retirements...". KCPL providing detailed information  
11 so Staff could do the study is not the same as KCPL and GMO doing the study.

12 Q. Mr. Weisensee states at page 15, starting at line 4, states, in his rebuttal  
13 testimony the following: "Yes, KCPL is always willing to talk. Staff should let KCPL know  
14 exactly what is needed...". What is Staff's response?

15 A. Staff did not know exactly what was needed to complete the study prior to  
16 July 28, 2011, when KCPL submitted what it purports to be the study complying with  
17 Paragraph 10. KCPL and Staff had met multiple times discussing issues related to the study.  
18 Paragraph 10 includes the sentence "KCPL and GMO shall discuss the scope and the approach  
19 of the review for the studies with Staff prior to conducting the studies". Prior to July 28, 2011,  
20 KCPL had presented reasons why various approaches could not be done, such as "the re-creation  
21 of every transaction that has occurred since the beginning of time," but no reasonable scope and  
22 approach to complete the study was offered. While Staff has and will continue to work with  
23 KCPL on resolving this and other issues, Staff cannot conclusively tell KCPL what results  
24 KCPL needs to provide to a study where the scope of study was not yet agreed upon.

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Arthur W. Rice

1 Q. What does KCPL need to do to satisfy the Stipulated Study requirement?

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

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

8 A. The three causes are as follows:

- 9 1) the Company failing to properly record depreciation of plant  
10 still in service,  
11 2) the depreciation analysis or record of retirement history used  
12 for projections was in some way defective, or  
13 3) unexpected events occur resulting in retirements earlier than  
14 forecast.

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

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

18 To satisfy cause 1) above, Staff's study included reviewing the  
19 methods used by KCPL and GMO in booking sales and  
20 transfers to non utility or other than Missouri utilities. Staff's  
21 also reviewed retirement methods. Staff did not find any  
22 evidence to support that the current KCPL Missouri  
23 jurisdictional accumulated depreciation reserves are not  
24 correctly recorded for use in Missouri rate cases. Staff's study  
25 consisted of estimating cause 3) above, which facilitated  
26 determining the value of the remaining item.

27 Q. Mr. Weisensee states at page 15, lines 15 through 18, of his rebuttal  
28 testimony that, "a proposal was sent to Staff to resolve General Plan(t) under-recovery  
29 issues on March 2, 2012, six months ago and that "KCP&L has not received a response."  
30 Is this accurate?

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Arthur W. Rice

1 A. No. Staff recalls responding verbally to KCPL that KCPL's proposal was not  
2 acceptable, twice in separate phone conversations with Mr. Weisensee. Once by phone with  
3 Cary Featherstone and Art Rice, (date not recalled) and the other during a meeting between  
4 Staff and KCPL at the KCPL Front and Manchester service center on May 30, 2012, where  
5 Mr. Weisensee participated by phone.

6 **VINTAGE AMORTIZATION METHOD**

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

9 A. No.

10 Q. Did KCPL stop recording actual physical retirements in these accounts in  
11 conjunction with the initiation of the trial period for General Plant Vintage Amortization?

12 A. Yes.

13 Q. Do you agree with Mr. Spanos Rebuttal Testimony page 6 line 14 where he  
14 answers the question "Do you lose a degree of accuracy with your general plant asset  
15 recovery?" with respect to the use of the general plant vintage amortization?

16 A. Yes, I agree with his answer of, "Not necessarily", including his qualifier to  
17 his answer of "if your useful life is properly established".

18 Q. Have KCPL's useful lives been properly established for the vintage  
19 amortized accounts?

20 A. No one knows. KCPL is not recording the information necessary to  
21 determine whether the lives KCPL is using are reasonable matches to KCPL's actual  
22 retirement experience.

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

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Arthur W. Rice

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

12           Q.     Did Mr. Spanos provide an answer in his Rebuttal Testimony addressing the  
13 monitoring or verification of the amortization periods for a general plant amortized account?

14           A.     Yes, at page 5, lines 14 through 20 he states, "Yes. General plant assets are  
15 high volume, low dollar and mobile. General plant assets represent approximately 2% of  
16 total plant assets. The mobility of these assets makes it difficult and time consuming to  
17 inventory. The number of man-hours to track general plant assets is disproportionate to  
18 generation, transmission and distribution assets. In other words, fixed asset accounting and  
19 field operations could spend the same amount of time or more to track general plant assets  
20 as it would for the remaining 98% of assets."

21           Q.     Is Mr. Spanos' justification accurate?

22           A.     I don't know. Staff did not conduct a review to evaluate cost savings due to  
23 record keeping changes related to switching to General Plant Vintage Amortization. Staff

1 did review the current plant in service records and found deficiencies in the recorded  
2 retirements as reported in the Cost of Service Report for this rate case. Staff's conclusion  
3 from this review is that KCPL is currently not providing sufficient resources to maintain an  
4 accurate retirement history in the General Plant accounts for general office and service  
5 centers, where a major portion of the common (General Plant) is assigned.

6 **TREATMENT OF DEFICIENCIES**

7 Q. Mr. Ives Rebuttal Testimony at page 17 lines 3 through 15 discusses looking  
8 at the General Plant reserve deficiencies as merger transition costs. Does Staff agree that the  
9 Staff estimated \$3.9 million of the General Plant reserve deficiency for KCPL is attributable  
10 to premature retirements as a result of consolidations and relocations associated with  
11 KCPL's operation of Aquila in conjunction with Great Plains Energy's acquisition of Aquila?

12 A. Yes.

13 Q. Mr. Ives Rebuttal Testimony at page 17 lines 8 through 10 suggests that as  
14 merger transition costs, the \$3.9 million would be eligible to be recovered over five years as  
15 a transition cost amortization. Does Staff agree an amortization is appropriate?

16 A. No. I reported an overall excess accumulated depreciation reserves in excess  
17 of \$400 million in the last KCPL rate case, Case No. ER-2010-0355.

18 Q. With an overall excess in accumulated depreciation reserves, (over collection  
19 from customers), of approximately \$400 million, does Staff recommend an amortization to  
20 collect additional funds from customers to address a deficiency of \$3.9 million in the  
21 General Plant accumulated reserves?

22 A. No. It is not appropriate to create a special amortization to deal with an  
23 under-recovery when there is an offsetting over-recovery that is 100 times its magnitude.

1 Q. The 2010 rate case Depreciation Stipulation suggest a transfer of excess  
2 reserves from Transmission plant accounts to the General Plant accounts to remedy the  
3 shortfall in the General Plant accounts. Is this a reasonable option for KCPL?

4 A. Yes. The depreciation study presented in the 2010 rate case shows  
5 approximately \$32 million excess reserves for the KCPL Transmission accounts.

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

9 A. No. The under-accrual of depreciation in the General Plant accounts does not  
10 go away. The switch in depreciation method would result in a different computation method  
11 to estimate the amount the deficiency. The numbers would change, but the magnitude of the  
12 under-accruals in these specific accounts is expected to remain at approximately  
13 \$12 million.

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

16 A. Yes. However, it is important to keep in mind that these "retirements" have  
17 not been recorded to KCPL's books. They are currently maintained as adjustments to the  
18 Company books while awaiting the outcome of the determination in this rate case as to  
19 whether the vintage amortization method will be made permanent.

20 Q. Has KCPL recorded to the plant and reserve accounts the actual retirements  
21 that have occurred since the initiation of vintage amortization?

22 A. No.

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

3 A. Yes, it should, but KCPL reports the retirements for this period are  
4 not known.

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

7 A. An increase in Missouri jurisdictional plant in service by about \$3.2 million  
8 due to reversal of expired vintage retirements, with a recording of actual retirements for the  
9 trial period offsetting this \$3.2 million. Any offset is expected to be a small fraction of the  
10 \$3.2 million. Retirements do not result in a change in rate base. Reversing these retirements  
11 would add approximately \$150,000 per year to depreciation expense.

12 Q. If the General Plant Vintage Amortization method is halted, and the  
13 depreciation method is returned to the prior method, what changes would be expected to  
14 occur in the Staff accounting Schedules submitted with the Cost of Service Report?

15 A. Adjustments P-255, P-257, P-263, P-264, P-265, P-267, and P-270, parts 1  
16 and 2 for all, referencing vintage retirements, listed in the Adjustments to Plant in Service  
17 Schedule 4 would be removed. Adjustments R-217, R-252, R-255, R-256, R-257, R-263,  
18 R-264, R-265, R-267, R-268, R-269, and R-270, parts 1, 2 and 3 for all, referencing vintage  
19 retirements and rebalancing of reserves listed in the Adjustment for Depreciation Reserves  
20 Schedule 7 would be removed.

21 Q. Why would the adjustments to depreciation reserves referencing  
22 rebalancing of reserves within general plant resulting from the Stipulated Study in Case No.  
23 ER-2010-0355 be removed?

1           A.     Because the change to General Plant Vintage Amortization created a stranded  
2 reserve deficiency resulting in a permanent component to rate base. The creation of that  
3 stranded reserve is Staff's primary reason for opposing the continuation of the General Plant  
4 Amortization Method. If KCPL resumes normal depreciation practices, the reserve  
5 deficiency would be addressed in the due course of the next depreciation study and setting of  
6 depreciation rates.

7 **SUMMARY**

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

11          A.     None.

12          Q.     If the Commission does not adopt Staff's recommendation to discontinue the  
13 experimental use of General Plant Vintage Amortization, what adjustments does Staff  
14 recommend the Commission order KCPL to perform?

15          A.     The following adjustments are recommended:

16                 1.     Booking \$4,003,058 (Missouri jurisdictional) of  
17 retirements to reflect retirement of General Plant in the vintage amortized  
18 accounts where vintages have exceeded stated vintage lives. The  
19 individual account adjustments are shown in Staff's August 2012 Cost Of  
20 Service Report Schedule 4.

21                 2.     Transfer \$6,483,406 of excess accumulated depreciation  
22 reserves from Transmission Plant account 353 (Station Equipment) to the  
23 General Plant accounts, and transfer \$5,625,00 of excess accumulated  
24 reserves from General Plant account 390 (general plant structures) to the  
25 reserves of the vintage amortized accounts to cover an under-recovery in  
26 the vintage amortized accounts of \$12,108,406. The amounts to transfer

1 to each vintage amortized account reserve is shown in Staff's August 2012  
2 Cost Of Service Report Schedule 7 for accounts 391, 391.1, 391.2, 393,  
3 394, 395, 397, 397.1, 397.2, and 398.

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

8 A. Yes, approximately \$1.1 million the reserve deficiency attributable to  
9 transition costs incurred after the true-up cutoff date of Case No. ER-2010-0355 should  
10 be included in the transfer from the Transmission Reserves, which are significantly  
11 over-accrued, to cover this reserve deficiency.

12 Q. Is the Aquila acquisition portion of the reserves deficiency an additional cost  
13 to KCPL that would be includable in an amortization of transition costs?

14 A. No, this is not includable as an amortizable acquisition transition cost,  
15 because there is no additional cost to KCPL. KCPL does not incur a cash cost or expense  
16 due to a retirement of plant.

17 Q. Does this end your testimony?

18 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power & Light )  
Company's Request for Authority to ) Case No. ER-2012-0174  
Implement A 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 18 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  
Arthur W. Rice

Subscribed and sworn to before me this 5<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

D. Suzie Mankin  
Notary Public