Exhibit No.:
Issue: Depreciation
Witness: John J. Spanos
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
Date Testimony Prepared: January 12, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

SURREBUTTAL TESTIMONY

OF

JOHN J. SPANOS

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
January 2011

SURREBUTTAL TESTIMONY

OF

JOHN J. SPANOS

Case No. ER-2010-0356

Q: Please state your name and business address.

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

Q: Are you the same John J. Spanos who prefiled direct and rebuttal testimony in this matter?

A: Yes.

Q: What is the purpose of your surrebuttal testimony?

A: The purpose of my surrebuttal testimony is to address the rebuttal testimony of Missouri Public Service Commission Staff witness, Arthur W. Rice. The specific issues relate to the utilization of the life span methodology for production accounts, the most reasonable and fair approach to the regulatory depreciation amortization and the implementation of General Plant amortization.

Life Span Methodology for Production Plant

Q: Does the use of the life span methodology best represent the life characteristics of production plants?

A: Yes, it does. The use of an interim survivor curve combined with a probable retirement date for each facility matches the complete life characteristics of a production facility. The interim survivor curve represents the dispersion patterns of the assets which are replaced each year during the life span of the facility. The probable retirement date sets forth the best estimate of the date of concurrent final retirement of the facility.

Q: Does the methodology of the MPSC Staff properly represent the life characteristics of production facilities?

A: No, it does not. Each production facility will not have life characteristics similar to a mass property account, such as poles. A production facility will not be able to operate with small percentages of assets being retired each year until there is nothing left. There is a point in time for a production plant when it is no longer efficient or used and useful which requires a large percentage of survivors to be retired concurrently. In the manner in which the MPSC Staff has decided to represent the life characteristics, there is no concurrent final date of retirement. Thus, MPSC Staff assumes that small percentages of surviving plant will be retired at each age until zero percent is remaining. This is not reasonable.

Q: Are there other states that realize the life span methodology?

A: Yes. The life characteristics of generation units are represented by the life span methodology in the other 49 states as well as in the Canadian provinces. Additionally, in the recent AmerenUE case, the Missouri Commission approved the utilization of the life span methodology.

Q: Has a recent survey supporting the life span methodology been presented to the Missouri Commission?

A: Yes. In the AmerenUE case, Concentric Energy Advisors conducted a survey which sets forth the various examples of other states utilizing the life span methodology. There are some states that currently have non-regulated generation, so past experiences of Gannett Fleming depreciation studies or other depreciation consultants can support the use of the life span approach.

Q: Has the MPSC Staff recognized that the life span methodology has been approved by the Missouri Commission?

A: Yes. In Mr. Rice's rebuttal testimony, pages 6 and 7, he discusses his opinion of an appropriate life span for Iatan Unit 2. Although I do not agree with his support of Mr. Meyer's life span of 60 for the initial life span of Iatan Unit 2, this is recognition that the life span methodology has been recently approved in Missouri.

Q: Is it appropriate to compare Iatan Unit 1's currently proposed life span to Iatan Unit 2's initial life span?

A: No. The proper methodology for establishing the most appropriate life span is more than just comparing to existing facilities that have been operational for many years. The determination of a life span must consider regulatory constraints, operational efficiencies and future demands.

Q: Is the initial 50 year life span for Iatan Unit 2 a manipulation to collect higher depreciation expense in the early years?

A: Absolutely not. The 50 year life span is the most appropriate expectation of the life characteristics of the Iatan Unit 2 based on all the available information to date.

Q: Can you address Mr. Rice's inaccurate example on page 5 of his rebuttal testimony?

A: Yes. On page 5, line 4 through 12, Mr. Rice attempts to illustrate an increased rate that current ratepayers must pay for a shorter life span, however, all the example truly does is explain how a proper depreciation accrual rate is calculated. First, a depreciation rate is determined based on the life characteristic and the net salvage percent. In the example that Mr. Rice has set forth that includes a life span of 50 years, an interim retirement component and a net salvage accrual. Therefore, his statement that the simple rate is 2% is not accurate at all because that only includes one component of the developed rate.

The full life component of the rate must include the interim retirement portion because that reflects the life characteristics of the account. Second, the net salvage percent must be assigned systematically and rationally over the life of the asset so attempting to state that the initial ratepayers should not pay for that is an intergenerational inequity. Therefore, Mr. Rice's claim that current ratepayers should not be paying for future activity at the facility or that the demands on a base load unit are not consistent from year to year are just inaccurate. Consequently, if we are using Mr. Rice's example on page 5 of his rebuttal testimony, then the 3% rate is appropriate for all ratepayers in order to recover the full service value of the facility over the life of the facility.

Q: Can you elaborate on why the life span for Iatan Unit 2 is best represented by 50 years?

A: First, Mr. Meyer performs a comparison of units that have been in service for many years and their current life span is quite different than their initial life span. Each of the units described in Mr. Meyer's examples have had many major upgrades which has allowed those units to establish a new life span beyond 40 or 50 years. Therefore, the initial life span for Iatan Unit 1 was actually shorter than the proposed life span to Iatan Unit 2 as implied by Mr. Meyer and Mr. Rice.

Q: Can you supply examples of life spans for comparable units recently constructed?

A: There are five units that have recently been placed in service that I have a good understanding of all the factors included in establishing the appropriate life span. Below is the list of units, their initial date of operation and the currently approved life span date.

Unit	Initial Date of Operation	Life Span Date
Nebraska City Unit 2	2009	2069
Spurlock Unit 3	2005	2045
Trimble County Unit 2	2008	2063
Council Bluffs Unit 4	2005	2049
Weston Unit 4	2008	2046

The aggregate life span of these five units is 47.4 years and the composite depreciation rate for each of these units is higher than that recommended by Staff for Iatan Unit 2. This was a factor when recommending 50 years for Iatan Unit 2. The life spans for each of these units were determined based on physical life, efficiency, energy demands and the current regulatory arena which considers potential future environmental regulations. Each of these factors were discussed with Company engineering to determine the appropriate life span for Iatan Unit 2.

Depreciation Reserves and Amortization Period

Q: Do you agree with Mr. Rice's proposal to add a reserve amortization in addition to the depreciation rate?

A: No. There are numerous flaws to this proposal. First, Mr. Rice attempts to adjust the actual book reserve to a theoretical reserve that we know cannot be more accurate for past recovery than the actual book reserve. The theoretical reserve assumes that the same life and salvage parameters were in place since the initial year of installation. We know that depreciation rates, service lives and net salvage percents have changed over time particularly as the type of asset changes. Second, an unnecessary separate reserve amortization to be implemented now is not equitable to all ratepayers over the life of the assets. Any theoretical reserve adjustment will be a component of the rate, if the

remaining life method is utilized. Thus, all ratepayers treated fairly over the remaining life of the assets. Third, Mr. Rice does not even establish a period of time that his unnecessary reserve amortization would apply. Fourth, Mr. Rice's proposal does not take into consideration the appropriate net salvage accrual rate. In summary, Mr. Rice's proposal creates more intergenerational inequities without solid bases all for the purpose of avoiding the remaining life method which is designed to properly recover the remaining future accruals over the remaining life of the assets fairly.

Amortization of General Plant

Q: Is General Plant amortization widely utilized across the United States and Canada by other utilities?

A: Yes. Almost all the other states and Canadian provinces have widely accepted the use of amortization accounting for General Plant since the early 1990s.

Q: Has the Federal Energy Regulatory Commission (FERC) approved the use of general plant amortization?

A: Yes. The FERC established Accounting Release No. 15 in April 1997 to address general plant amortization for utility companies. Thus, in addition to the state commissions, the FERC has approved of the merits of amortization accounting.

Q: Has the MPSC Staff set forth some concerns with your recommendations?

A: Yes, however each of the concerns will be eliminated with the proper implementation of general plant amortization over time. Thus, Staff's reasons for not implementing general plant amortization are addressed throughout this proceeding, such as; the concern for appropriate plant balances as of December 31, 2008; the concern for not consistently following Rule 4 CSR240-20.030; and the concern that assets are not properly recorded

in the correct accounts. The discussion below addresses each of these concerns and eliminates Staff's continual opposition to the commonly used accounting of amortization for certain general plant accounts.

Staff's first concern related to an imbalance of the plant and reserve amounts as of December 31, 2008 which has been resolved. Through discussions with Art Rice, the plant and reserve balances for each account were reconciled which eliminated his opposition to inaccurate records as of December 31, 2008.

Staff's second concern is to address assets that are still on the books which may no longer be used and useful. This is the biggest challenge of general plant assets because there are so many assets with little individual value. Consequently, it is difficult for accounting departments to keep track of all these assets, especially the assets that have the ability to change locations easily. An extensive inventory of all of these assets could be performed which will take numerous man-hours, add little value of resources and most importantly not truly improve the future practices of asset retention, which will leave KCPL in this same position in a few years. Additionally, Staff raised concerns that some assets were not properly categorized by account. However, a thorough review of the classification in the Uniform System of Accounts and the Company's plant catalog which the Commission has a copy confirms the appropriate classification. Consequently, establishing a reasonable useful life of each general plant account that falls into the amortization criteria and retiring all assets that were installed prior to that period will eliminate almost all concerns that assets not used and useful will be taken off the books. This can be done with limited man-hours and will establish an improved practice for future recovery, all at the same time of stabilizing depreciation rates.

Staff's third concern is the appropriate useful life of each asset category. I have reviewed the various asset types in each account or subaccount and compared to other utilities across the country to determine the most reasonable useful life to be utilized. Staff has attempted to conduct life analyses from retirement history of KCPL assets which we know include assets that will be retired as soon as this case is finalized and amortization accounting is implemented. Therefore, there is little value in utilizing this data for establishing current and future life characteristics when it is known that the historical life characteristics are not a true indication of future characteristics. An understanding of the assets in each plant account and determination of their useful life must be the dominant factor in establishing a reasonable amortization period.

Q: Are there other issues Staff states for opposing general plant amortization?

A: Yes. The MPSC Staff also attempts to utilize FERC rulings as a reason for not using general plant amortization, but Accounting Release No. 15 clearly supports the concept.

Q: Does Staff propose any other alternatives in their attempt to avoid general plant amortization?

A: Yes. Staff proposes to raise the capitalization threshold for many of the asset classes. Higher capitalization thresholds may reduce some of the assets being misidentified, but it will not reduce the man-hours needed to keep track of small dollar items as compared to production, transmission and distribution assets. We must not forget that the accounts recommended for general plant amortization represents slightly more than 2 percent of the depreciable assets, yet requires an equal amount of time to monitor as compared to the other asset classes. Thus, conducting physical inventories for general plant increases unnecessarily increases costs of doing business without providing any long range benefit. General plant amortization creates improved accounting processes and minimizes heavy

costs for a small percentage of the capital investment. Also, the higher capitalization thresholds reduce the number of assets being capitalized, but it also increases the amount of dollars being expensed. Therefore, revenue requirements would increase because annual O&M expenses will increase instead of the current practice of capitalizing the smaller assets and recovering over 5, 10 or 20 years.

Q: Has Staff determined how life characteristics of 30 years for assets such as Communication Equipment are better than 15 years as I recommend?

A: No. On page 15 of Mr. Rice's rebuttal testimony, he indicates the life characteristics of Communication Equipment for KCPL is best represented by a 35-L0 survivor curve. In other words, Mr. Rice would consider a 35-year average service life and 115-year maximum life to be reasonable for telephones, radios, automatic meter reading equipment, video conferencing equipment, microwave equipment, flat screen TVs and security cameras. Mr. Rice does show on his table, page 15 of his rebuttal, that he would recommend a 30-year amortization to correlate to the life analyses. Even the 30-year amortization level seems extremely long for the types of assets in this account and that would even apply if we excluded some of the assets he feels are misclassified. However, I think anyone would agree that of all the assets listed in Account 397, Communication Equipment, there is very little that would stay in service and be useful beyond 15 years. Therefore, once again there is little support for Mr. Rice's opposition of General Plant amortization due to improper classifications. After reviewing the Uniform System of Accounts, there is justification for proper recording of all assets within the current asset class.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater Missouri Operations Company to Modify Its Electric Tariffs to Effectuate a Rate Increase	)))	Docket No. ER-2010-0356

AFFIDAVIT OF JOHN J. SPANOS

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

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

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

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of Nine (9) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

John J. Spanos

Subscribed and sworn before me this 3rd day of January, 2011.

Notary Public

My commission expires: February 20, 2011

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2011
Member, Pennsylvania Association of Notaries