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REGULATORY REVIEW DIVISION

UTILITY SERVICES

REBUTTAL TESTIMONY

OF

DERICK A. MILES, P.E.

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Jefferson City, Missouri
May 2015

Staff Exhibit No. 229
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1 REBUTTAL TESTIMONY

2 OF

3 DERICK A. MILES, P.E.

4 KANSAS CITY POWER & LIGHT COMPANY

5 CASE NO. ER-2014-0370

6 Q. Please state your name and business address.

7 A. Derick A. Miles, P.O. Box 360, Jefferson City, MO 65102.

8 Q. By whom are you employed and in what capacity?

9 A. I am a Utility Regulatory Engineer II in the Engineering and Management
10 Services Unit with the Missouri Public Service Commission ("Commission" or "PSC").

11 Q. Please describe your work and educational background.

12 A. A copy of my work and educational experience was provided in Appendix I of
13 Staff's Cost of Service Revenue Requirement Report.

14 Q. Are you the same Derick A. Miles that contributed to the Staff Cost of Service
15 Report filed in this proceeding?

16 A. Yes, I am.

17 **EXECUTIVE SUMMARY**

18 Q. What is the purpose of your testimony?

19 A. The purpose of this testimony is to address the difference between Staff and
20 Kansas City Power & Light Company ("Company" or "KCPL") Witness Mr. John J. Spanos, of
21 the consulting firm Gannett Fleming, regarding the Company's recommended depreciation rates.
22 Also addressed is the method for handling the recovery of automated meter reading (AMR)
23 meters that were retired early due to obsolescence.

1 **DEPRECIATION EXPENSE – TERMINAL NET SALVAGE**

2 Q. How did Mr. Spanos derive his depreciation rates?

3 A. Regulatory depreciation expense accruals presented in Mr. Spanos' direct
4 testimony include two basic components: one component is original plant cost, and the other
5 component is net salvage. Net salvage is gross salvage minus the cost of removal. In this case,
6 for production equipment, net salvage is differentiated into two parts, interim and terminal net
7 salvage. Also in this case, the Company recommends that the terminal net salvage part be
8 further differentiated into a retirement portion and a dismantlement portion. KCPL's witness
9 Spanos has proposed depreciation rates for steam, wind, and combustion turbine electrical
10 production equipment which include the accrual of interim net salvage and the retirement portion
11 of terminal net salvage, but not the dismantlement portion of terminal net salvage.

12 Q. How did Staff calculate its depreciation rates?

13 A. Staff's depreciation rate recommendation for steam, wind, and combustion
14 turbine electrical production equipment includes accrual for interim net salvage only, and does
15 not include an accrual for any terminal net salvage. Both the retirement and dismantlement
16 portions of terminal net salvage were removed by Staff when determining its proposed
17 depreciation rates.

18 Q. Why did Staff remove terminal net salvage from the production plant accounts?

19 A. There are two reasons. First, The Commission's *Report and Order* for
20 The Empire District Electric Company ("Empire"), Case No. ER-2004-0570, dated March 10,
21 2005, made a clear distinction between interim and terminal net salvage. The Commission stated
22 on page 53 of the order in that case that "the Commission will not allow the accrual of any
23 amount for Terminal Net Salvage of Production Plants." Secondly, Staff's review found a
24 significant over accrual of depreciation in the Production Plant accounts and recommends a

1 reduction. Staff is of the opinion that there will remain sufficient accumulated reserves to
2 address foreseeable future terminal cost of removal requirements and there is no need to
3 accumulate more at this time.

4 Q. What specifically is the difference between the Company's and Staff's
5 recommended depreciation accrual rates in this case?

6 A. Staff's recommended depreciation rates produce a depreciation expense of
7 \$2.5 million below the Company's proposed depreciation expense. Staff's recommended
8 depreciation rates produce an annual depreciation expense of approximately \$104.9 million,
9 whereas the Company proposes an annual depreciation expense of approximately \$107.4 million.
10 The current Commission-ordered rates produce an annual depreciation expense of
11 \$111.3 million. Therefore, both KCPL and Staff are recommending a reduction in depreciation
12 over existing rates.

13 Q. What specifically caused the difference between the Company's and Staff's
14 recommended depreciation accrual rates?

15 A. Staff's recommended depreciation rates define a retirement date for each
16 production plant and removes terminal net salvage in the calculation of the depreciation expense.
17 KCPL's proposed depreciation rates and Staff's recommended depreciation rates are different
18 because the amounts of terminal net salvage included for Production Plant accounts are different.

19 **AMR CUSTOMER METERS – UNDER-ACCRUED DEPRECIATION**

20 Q. What did Mr. Spanos propose in this case regarding the AMR meters?

21 A. The AMR customer meters were replaced with newer technology Advanced
22 Metering Infrastructure (AMI) meters (further discussed in Staff's report, pages 144 and 220).
23 The replacement and obsolescence of the AMR meters created an approximate \$8.7 million in

1 unrecovered original cost. The Company proposed an amortization to collect the \$8.7 million
2 over 10 years.

3 Q. Does Staff agree with this methodology and additional collection?

4 A. No. Staff recommends transferring \$8.7 million of the over-accrual in
5 Distribution account 364 to the AMR meters account reserves to address the under-recovery
6 resulting from obsolescence of the AMR meters. This transfer of reserves also results in an
7 increase in Staff's recommended depreciation rate for account 364 from 3.18% to 3.37%. The
8 transfer of accrued depreciation dollars from one account to another provides KCPL customers
9 with the depreciation dollar recognition they have already paid to the Company for service
10 received by its plant.

11 **STAFF RECOMMENDATIONS**

12 Q. What are Staff's recommendations?

13 A. Staff recommends the Commission order KCPL to use the depreciation rates in
14 Schedule DAM-1 that were attached to Staff's Cost of Service Report in Appendix 3. Staff does
15 not recommend the use of terminal net salvage in the depreciation rates for KCPL.

16 Staff recommends transferring \$8.7 million of the over-accrual in Distribution account
17 364 to the AMR meters account 370.001 reserves to address the under-recovery resulting from
18 obsolescence of the AMR meters.

19 Q. Does this conclude your rebuttal testimony?

20 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)
Implement a General Rate Increase for Electric)
Service)

Case No. ER-2014-0370

AFFIDAVIT OF DERICK A. MILES, P.E.

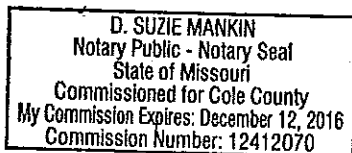
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

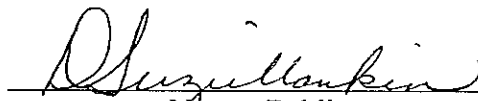
Derick A. Miles, PE, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he 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.



Derick A. Miles, PE

Subscribed and sworn to before me this 6th day of May, 2015.





Notary Public