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Issues: Depreciation Reserves for Riverton
Unit 7 and Asbury Unit 2
Witness: Robert W. Sager
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2014-0351
Date Testimony Prepared: March 2015

**Before the Public Service Commission
of the State of Missouri**

Surrebuttal Testimony

of

Robert W. Sager

March 2015



Empire Exhibit No. 123
Date 4-14-15 Reporter KF
File No. ER-2014-0351

SURREBUTTAL TESTIMONY
OF
ROBERT W. SAGER
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2014-0351

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Robert W. Sager, 602 Joplin Street, Joplin, Missouri 64801.

4 **Q. ARE YOU THE SAME ROBERT W. SAGER THAT PROVIDED DIRECT**
5 **AND REBUTTAL TESTIMONY IN THIS CASE BEFORE THE MISSOURI**
6 **PUBLIC SERVICE COMMISSION (“COMMISSION”)?**

7 A. Yes, I am.

8 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR SURREBUTTAL**
9 **TESTIMONY.**

10 A. The purpose of my surrebuttal testimony is to address my disagreements with the
11 rebuttal testimony filed by Commission Staff (“Staff”) witness John Robinett and
12 Office of the Public Counsel (“OPC”) witness Keri Roth, regarding the depreciation
13 reserves and depreciation expense related to Riverton Unit 7 and Asbury Unit 2.

14 **Q. WHAT ASPECTS OF THE TESTIMONIES FILED BY MR. ROBINETT**
15 **AND MS. ROTH ARE YOU IN DISAGREEMENT WITH?**

16 A. Both testimonies indicate that they believe a shortfall does not exist regarding the
17 reserves related to these units.

18 **Q. ARE YOU SURPRISED BY THIS POSITION?**

1 A. It certainly is counterintuitive in regard to Staff's previous position.

2 **Q. TO WHAT POSITION ARE YOU REFERRING?**

3 A. Staff, in Commission Case ER-2012-0345, agreed that Empire could request an
4 Accounting Authority Order when both Riverton Units 7 and 8 were retired in order
5 to collect any depreciation reserve deficiency that might exist at that time. That in
6 itself is recognition that a reserve deficiency is expected for that group of assets.

7 **Q. DID MR. ROBINETT FOCUS ON THE SPECIFIC UNITS?**

8 A. No. Mr. Robinett indicated in his Rebuttal Testimony that the depreciation expense
9 for Riverton Unit 7 should not be continued because the reserve for this group was
10 adequate to "cover" Riverton Unit 7. The implication that results from this kind of
11 ratemaking is that at least a portion of the reserve that presently relates to Unit 8
12 must now "shift" over to Unit 7 to "cover" its costs.

13 **Q. WHAT IS THE CONSEQUENCE OF TAKING THIS APPROACH?**

14 A. Not continuing the depreciation expense collected from current customers for both
15 Riverton Unit 7 and Asbury Unit 2 further delays the ultimate cost recovery for a
16 group of assets, and potentially shifts collection of those costs to customers who did
17 not receive the benefit of the generation.

18 **Q. PLEASE ADDRESS MR. ROBINETT'S COMMENTS REGARDING FERC'S**
19 **FUNCTIONAL CLASSIFICATION FOR ESTABLISHING DEPRECIATION**
20 **AND DEPRECIATION RESERVES.**

21 A. The functional classifications according to FERC Account 108 refer to
22 classifications such as "Steam Power" and "Nuclear Power." Staff has established,
23 especially in recent years, varying depreciating rates for Empire's generating units

1 even within the same FERC functional classification. It appears Staff is relying on
2 the functional classification of FERC to support its recommendation of maintaining
3 depreciation reserves by group instead of individual assets. Conversely, Staff has
4 recommended varying depreciation rates for Empire's individual generation assets in
5 the past. This is inconsistent.

6 **Q. DID STAFF OR OPC PROVIDE OTHER REASONS FOR THEIR**
7 **RECOMMENDATIONS THAT DEPRECIATION EXPENSE NOT BE**
8 **CONTINUED FOR THESE UNITS?**

9 A. Both Mr. Robinett and Ms. Roth argued that since the units were no longer "used
10 and useful," depreciation expense would be inappropriate. In fact, Mr. Robinett
11 stated, "Staff uses the long practiced guideline for depreciating plant that is *used and*
12 *useful.*" This "long practiced guideline" would have to assume that the depreciation
13 rates ordered by the Commission for assets were perfectly in line with the actual
14 useful life. In reality, depreciation expense is an estimate, and in order for the
15 Company to recover all of its prudently incurred costs, certain adjustments to
16 depreciation rates - or even a continuation of expense recovery - will be necessary
17 for a group of assets, even if it extends somewhat past its service life.

18 **Q. DO YOU HAVE ANY CLOSING COMMENTS?**

19 A. Yes. Regardless of whether individual depreciation expense rates or group rates are
20 utilized, the Company must be allowed to recover its prudently incurred costs. These
21 costs should be recovered from customers as close to the commensurate service
22 period of the assets as possible. Depreciation reserve deficiency remaining at the end
23 of the life of plant only remains because the authorized depreciation rates have not

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1 accurately tracked the life of the plant. Requiring a utility to then forego recovery of
2 such amounts is unreasonable. In this situation, further delaying Riverton Unit 7 and
3 Asbury Unit 2 cost recovery by not maintaining the depreciation expense in
4 customer rates would delay, if not deny, the full recovery of prudent investment.

5 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

6 A. Yes, it does.

