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Issue: Depreciation
Witness: Derick A. Miles
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2014-0370
Date Testimony Prepared: June 5, 2015

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES

SURREBUTTAL TESTIMONY

OF

DERICK A. MILES, P.E.

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Jefferson City, Missouri
June 2015

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1 **SURREBUTTAL 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. Are you the same Derick A. Miles who prepared and sponsored sections of
9 testimony addressing depreciation issues in Staff's Revenue Requirement Cost of Service
10 Report filed April 3, 2015, and also sponsored rebuttal testimony that was filed on May 7,
11 2015?

12 A. Yes.

13 Q. Has your current position with the Commission or your educational
14 background and other qualifications changed since Staff's Cost of Service Report was filed?

15 A. No. My current position remains to be Utility Regulatory Engineer II in the
16 Engineering and Management Services Unit with the Missouri Public Service Commission
17 ("Commission" or "PSC"), and my work and educational experience are on page 78 of
18 Appendix 1 to Staff's Cost of Service Report.

19 Q. Have you previously provided testimony before the Commission?

20 A. Yes. The cases in which I have filed testimony before the Commission are
21 listed on page 79 of that same appendix.

1 **EXECUTIVE SUMMARY**

2 Q. What is the purpose of your surrebuttal testimony?

3 A. I will address the rebuttal testimonies of Kansas City Power & Light
4 Company's ("KCPL") Mr. Ryan A. Bresette and Mr. John J. Spanos, of Gannett Fleming
5 Valuation and Rate Consultants, LLC ("Gannett Fleming"), contracted by KCPL for this
6 rate case.

7 **DEPRECIATION EXPENSE – TERMINAL NET SALVAGE**

8 Q. Does Staff agree with the assertions that Mr. Spanos makes of Staff regarding
9 terminal net salvage?¹

10 A. No.

11 Q. What is incorrect about Mr. Spanos' assertions?

12 A. Staff did include terminal net salvage in its depreciation rate recommendation.
13 However, it was not the entire amount that the Company recommended. Staff included the
14 retirement portion of Mr. Spanos' recommendation; however, Staff did not include the
15 dismantlement (terminal) portion of net salvage for various reasons. Staff has seen examples
16 of generating facilities owned by KCPL that have been retired for 30 years and are still
17 standing today, in place. Staff has confirmed this based on KCPL's responses to Data
18 Requests 0569-0571. In fact, these four plants, in addition to the KCI Combustion Turbines,
19 are excluded in the Decommissioning Study provided to the Company conducted by KCPL
20 witness Chris Rogers, P.E. in his Direct Testimony in this rate case.

¹ John J. Spanos Rebuttal Testimony.

1 **SFAS 143 GUIDELINES**

2 Q. Does Staff take issue with the KCPL's allegations that Staff misunderstood the
3 data represented by the Company in Data Request 0137 to (Financial Accounting Standards
4 Board) SFAS 143 – Accounting for Asset Retirement Obligations (ARO)?

5 A. Yes.

6 Q. Why is Staff concerned with the Company's answer to Data Request 0137?

7 A. The Company provided net salvage data related to SFAS 143 by account on a
8 total Company basis. KCPL provided all other accumulated reserves based on unit specific
9 accounts. Staff expected the net salvage accumulations to be available on a unit specific
10 basis, being that these values are important to aid Staff and KCPL in determining if specific
11 accounts are over or under accrued.

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

13 Q. What is the issue with AMR meters?

14 A. The automated meter reading (AMR) customer meters were replaced with
15 newer technology Advanced Metering Infrastructure (AMI) meters (further discussed in
16 Staff's report, pages 144, 170 and 220). The replacement and obsolescence of the AMR
17 meters created an approximate \$8.7 million in unrecovered original cost. KCPL proposed an
18 amortization to collect the \$8.7 million over 10 years. Staff recommended transferring
19 \$8.7 million from Distribution account 364 to the AMR meters account reserves to address
20 the non-recovered original cost due to pre-mature retirement. Due to the transfer of reserves,
21 Staff recommended an increase in depreciation rate for account 364 from 3.18% to 3.37%.
22 The transfer of accrued depreciation dollars from one account to another provides KCPL

1 customers with the depreciation dollar recognition they have already paid to the Company for
2 service received by its plant.

3 Q. Did KCPL take issue with this methodology [of transferring dollars between
4 reserve accounts]?

5 A. Yes. The Company goes on to state that the recovery of the \$8.7 million will
6 be expanded from 10 years (KCPL's proposal) to 29.3 years, if Staff's methodology is used.

7 Q. Does Staff agree that it will take 29.3 years for the Company to recover the
8 \$8.7 million dollars due to the obsolescence of the AMR meters?

9 A. No. Staff simply recommended to shift dollars from an over accrued reserve
10 account to the meters account to compensate for the deficiency due to the premature
11 retirement of the AMR meters.

12 Q. Is this practice of rebalancing reserves a newly created concept proposed
13 by Staff?

14 A. No. Staff rebalances depreciation reserve accounts for multiple regulated
15 entities including sewer, water, electric, and natural gas companies. Even in KCPL's last rate
16 case (ER-2012-0174), Staff addressed an unrecovered reserve issue included in account
17 119300 by balancing reserves through a transfer of depreciation reserves from Transmission
18 plant to general plant, which KCPL agreed. In this instance, Staff proposes staying
19 completely within the Distribution accounts, instead of different plant types. (Distribution,
20 General, Transmission.)

21 **STAFF RECOMMENDATIONS**

22 Q. What are Staff's recommendations?

Surrebuttal Testimony of
Derick A. Miles

1 A. Staff recommends the Commission order KCPL to use the depreciation rates in
2 Schedule DAM-1 that were attached to Staff's Cost of Service Report in Appendix 3.

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

6 Q. Does this conclude your surrebuttal testimony?

7 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

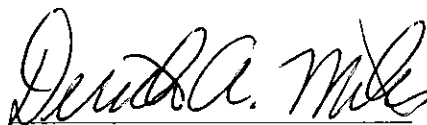
In the Matter of Kansas City Power & Light)
Company's Request for Authority to)
Implement a General Rate Increase for Electric)
Service)

Case No. ER-2014-0370

AFFIDAVIT

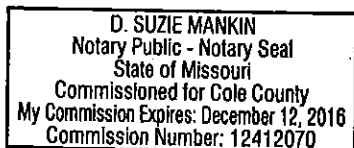
COMES NOW Derick A. Miles, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Surrebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

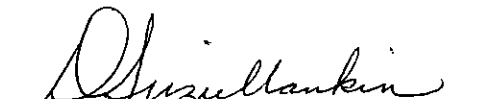
Further the Affiant sayeth not.


Derick A. Miles, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 3rd day of June, 2015.




Notary Public