

Exhibit No.:
Issue: Depreciation
Witness: Derick A. Miles, P.E.
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2016-0156
Date Testimony Prepared: September 2, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

ENGINEERING ANALYSIS UNIT

SURREBUTTAL TESTIMONY

OF

DERICK A. MILES, P.E.

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

Jefferson City, Missouri
September 2016

1
2
3
4
5
6
7
8
9
10
11
12
13

TABLE OF CONTENTS
SURREBUTTAL TESTIMONY
OF
DERICK A. MILES, P.E.
KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2016-0156

EXECUTIVE SUMMARY 2
STAFF’S PROPOSED DEPRECIATION RATES 2
WHOLE LIFE VERSUS REMAINING LIFE RATES 3
RETIREMENT OF SIBLEY UNITS 1, 2, AND LAKEROAD UNIT 4 4
DEPRECIATION EXPENSE – TERMINAL NET SALVAGE 4
AMORTIZATION OPTION 5
STAFF RECOMMENDATIONS 6

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **DERICK A. MILES, P.E.**

4 **KCP&L GREATER MISSOURI OPERATIONS COMPANY**

5 **CASE NO. ER-2016-0156**

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 Report
10 filed July 15, 2016, and also sponsored rebuttal testimony that was filed August 15, 2016?

11 A. Yes.

12 Q. Has your current position with the Missouri Public Service Commission
13 ("Commission" or "PSC") or your educational background and other qualifications changed
14 since Staff's Revenue Requirement Cost of Service Report was filed?

15 A. Yes. However, my position remains to be a Utility Regulatory Engineer II with
16 the Staff of the Commission. Currently, I am serving two Commission Units, namely, the
17 Engineering Analysis and Procurement Analysis Units. My work and educational experience are
18 on page 48 of Appendix 1 to Staff's Revenue Requirement 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 listed
21 on page 49 of that same Appendix.

1 **EXECUTIVE SUMMARY**

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

3 A. I will address the rebuttal testimony of Mr. John J. Spanos, of Gannett Fleming
4 Valuation and Rate Consultants, LLC (“Gannett Fleming”), contracted by Kansas City Power &
5 Light Greater Missouri Operations Company (“GMO”) for this rate case.

6 **STAFF’S PROPOSED DEPRECIATION RATES**

7 Q. Has Staff proposed new depreciation rates for this case?

8 A. No. Staff is recommending the adoption of current Commission ordered rates.

9 Q. Did GMO propose a combined schedule of depreciation rates?

10 A. Yes. GMO has proposed a set of rates that combine Missouri Public Service
11 (“MPS”) and Light & Power (“L&P”). Current Commission ordered depreciation rates separate
12 the districts on two different schedules.

13 Q. Does Staff take issue with combining the two current depreciation schedules into
14 one schedule?

15 A. No. Staff does not object to combining these two districts into one rate schedule.

16 Q. Are there benefits to consolidating assets for the two rate districts?

17 A. Yes. Staff agrees with GMO witness, John Spanos, in that all assets for GMO
18 will be treated the same. Customers will get the same benefit and same costs associated with
19 each asset. Mr. Spanos uses the example of distribution poles as an example. He states that a
20 distribution pole for the MPS district is accounted for and depreciated at the same rate as a pole
21 for the L&P district. In addition, Staff recognizes that there could be some efficiency gained in
22 Accounting from combining the two districts.

1 **WHOLE LIFE VERSUS REMAINING LIFE RATES**

2 Q. By adoption of the current Commission rates, is Staff recommending a life-span
3 approach be used to calculate depreciation rates for GMO's generating facilities?

4 A. Yes, the current Commission ordered depreciation rates were calculated using the
5 whole life method (or life span method), instead of the remaining life method.

6 Q. What issue does Staff take regarding the remaining life method for this case?

7 A. By using the remaining life method, the dollars left to collect on a plant can be
8 any number of years. For an example, assume there are \$4 million dollars left to collect on a
9 power plant that is expected to retire in two (2) years. The \$4 million dollars would be
10 representative of the plant's original cost plus net salvage minus the book reserve (or accrued
11 depreciation expense). Those dollars would need to be collected via a depreciation accrual rate
12 that returns \$2 million in depreciation expense annually until the plant is retired.

13 Q. What happens if this plant is retired in two (2) years, as the remaining life stated it
14 was going to be?

15 A. For this example, two million dollars would be collected annually until the
16 depreciation accrual rate was changed in the context of a subsequent rate case.

17 Q. What happens if GMO does not come before the Commission for a rate case
18 immediately after those two years commence?

19 A. The authorized depreciation accrual rate for that plant will continue to accrue and
20 the account will become over-accrued.

21 Q. What happens if the plant that was slated to retire in two (2) years, does not retire,
22 as it was stated to?

23 A. This creates generational inequity amongst the ratepayers. The cost of the plant
24 would be shifted to current ratepayers who would not get the full benefit of the useful life of the

1 plant. One generation of customers should not incur costs to pay for facilities that benefit
2 another generation of customers.

3 **RETIREMENT OF SIBLEY UNITS 1, 2, AND LAKEROAD UNIT 4**

4 Q. What are Staff's concerns with using a remaining life approach for the retirement
5 of Sibley Units 1, 2, and Lake Road Unit 4?

6 A. As mentioned in the example above, Staff is concerned that the plants may be
7 re-purposed (i.e., converted to another fuel source), causing a shift of burden of depreciation
8 expenses and thus causing generational inequity of rate payments.

9 Q. Does Staff believe that Sibley Units 1 and 2 will be retired after 2019 as stated in
10 the 2014 Depreciation Study provided to Staff?

11 A. Staff has concerns that the plants could be converted to natural gas fired units
12 after 2019 rather than being retired; GMO has only stated that the plants will cease burning coal
13 in 2019. This would cause a shift of burden of depreciation expenses and create generational
14 inequities of rates, if the depreciation rates in this case were set using the 2019 retirement dates
15 for Sibley Units 1 and 2.

16 **DEPRECIATION EXPENSE – TERMINAL NET SALVAGE**

17 Q. Has Staff changed its position regarding removal of terminal net salvage with
18 respect to the net salvage calculation?

19 A. No. Staff's position remains unchanged. Mr. Spanos cites Case No. GR-99-315,
20 in which the Commission ordered the inclusion of the terminal net salvage component in the
21 calculation of net salvage. However, the Commission subsequently ordered the removal of
22 terminal salvage in the net salvage calculation in the Commission's Report and Order in
23 Case No. ER-2004-0570. Staff would also note that even in the most recent KCP&L Rate Case,

1 Case No. ER-2014-0370, the depreciation rates agreed to by all parties and ordered by the
2 Commission removed the terminal salvage component from the net salvage calculation.

3 **AMORTIZATION OPTION**

4 Q. Is Staff aware of other methods GMO could utilize to make up any imbalance in
5 the depreciation reserves?

6 A. Yes. Staff is currently reviewing the option that an additional annual amortization
7 amount be collected in lieu of adopting GMO's proposed depreciation rates. This additional
8 annual amount would be in addition to the Staff's proposed adoption of current Commission
9 ordered rates.

10 Q. Has this approach been used before?

11 A. Yes. The Commission has adopted this amortization approach in case
12 EO-2005-0329 for an alternative regulatory plan (the "Regulatory Plan), which resulted in
13 fostering the construction Iatan 2.

14 Q. Are there any advantages to collecting an annual amortized amount versus fixing
15 the depreciation rates as GMO has proposed?

16 A. Yes. The collected dollars will serve as a method to recover any deficiencies in
17 depreciation reserves that could occur until the subsequent rate case. Any undistributed balance
18 would be used as an offset to future rate base.

19 Q. When would the amortizations be distributed?

20 A. The distributions would be determined by the Commission in GMO's subsequent
21 rate case.

1 **STAFF RECOMMENDATIONS**

2 Q. What are Staff's recommendations?

3 A. Staff recommends the Commission order GMO to use the depreciation rates in
4 Schedule DAM-d1 that are attached in Staff's Cost of Service Report.

5 Q. Does this conclude your surrebuttal testimony?

6 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri)
Operations Company's Request for Authority) Case No. ER-2016-0156
to Implement A General Rate Increase for)
Electric Service)

AFFIDAVIT OF DERICK A. MILES, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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 foregoing Surrebuttal Testimony and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

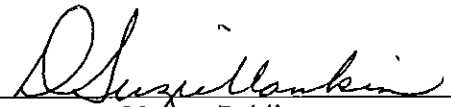


DERICK A. MILES, PE

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 1st day of September, 2016.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070
--



Notary Public