

**Exhibit No.:** \_\_\_\_\_  
**Issue:** Depreciation  
**Witness:** John J. Spanos  
**Sponsoring Party:** Ameren Missouri  
**File No.:** ER-2014-0258  
**Date:** February 6, 2015

**MISSOURI PUBLIC SERVICE COMMISSION**

**FILE NO. ER-2014-0258**

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**SURREBUTTAL TESTIMONY OF**

**JOHN J. SPANOS**

**ON BEHALF OF**

**AMEREN MISSOURI**

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**Camp Hill, Pennsylvania**

**February, 2015**

**JOHN J. SPANOS SURREBUTTAL**

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1 **I. INTRODUCTION AND PURPOSE**

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

3 A. My name is John J. Spanos. My business address is 207 Senate Avenue, Camp Hill,  
4 Pennsylvania.

5 **Q. ARE YOU THE SAME JOHN J. SPANOS WHO PREFILED DIRECT AND**  
6 **REBUTTAL TESTIMONY IN THIS MATTER?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

9 A. I have previously addressed Staff's depreciation recommendations in my rebuttal  
10 testimony, and have explained why Staff's recommendations regarding mass  
11 property net salvage are inappropriate. The purpose of my surrebuttal testimony is  
12 to address certain statements in the rebuttal testimony of Arthur W. Rice filed on  
13 behalf of the Missouri Public Service Commission Staff ("Staff") regarding prior  
14 Commission decisions.

15 **Q. WHAT ARE THE SUBJECTS OF YOUR REBUTTAL TESTIMONY?**

16 A. The overall subject of my testimony is depreciation. Specifically, I will address  
17 Staff's statements regarding prior Commission decisions related to net salvage.

18 **II. PRIOR COMMISSION DECISIONS**

19 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE**  
20 **DEPRECIATION TREATMENT FOR NET SALVAGE?**

21 A. Yes. As I explain in my rebuttal testimony, in Case No. GR-99-315 for Laclede Gas  
22 Company ("Laclede case"), the Commission found that "the accrual method should

1 be used to calculate Laclede's net salvage value.”<sup>1</sup> The accrual method is the same  
2 method I have used in the depreciation study.

3 **Q. HAS STAFF RECOMMENDED THE USE OF THE ACCRUAL METHOD?**

4 A. For most accounts Staff has recommended the same depreciation rates as in the  
5 depreciation study, and thus for most accounts Staff has recommended the accrual  
6 method. However, for two accounts (Account 364 Poles, Towers and Fixtures and  
7 Account 369.01 Overhead Services), Staff has recommended artificially limiting the  
8 net salvage estimates to a level that will not accrue for the full service value of the  
9 Company's assets. Thus, Staff's recommendation for these accounts is not  
10 consistent with the Commission's decision in Case No. GR-99-315. I have  
11 explained the issues with Staff's recommendations for these two accounts in more  
12 detail in my rebuttal testimony.

13 **Q. IN MR. RICE'S REBUTTAL TESTIMONY, HE CITES CASE NO. ER-2004-**  
14 **0570 IN SUPPORT OF STAFF'S RECOMMENDATION FOR ACCOUNTS**  
15 **364 AND 369. CAN YOU ADDRESS STAFF'S DISCUSSION OF THIS**  
16 **CASE?**

17 A. Yes. First, I should be clear that in Case No. ER-2004-0570 for the Empire District  
18 Electric Company (“Empire”), the Commission affirmed the decision in the Laclede  
19 case that the accrual method is appropriate for net salvage. In Case No. ER-2004-  
20 0570, Staff had proposed a method to effectively expense net salvage, which was  
21 rejected by the Commission in favor of the accrual method, stating “[a]s in the

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<sup>1</sup> Case No. GR-99-315, Third Report and Order, issued January 11, 2005, p. 2.

1 Laclede case cited above, it is the Commission's conclusion that, with respect to  
2 Mass Property, traditional accrual of Net Salvage is required.”<sup>2</sup>

3 The Commission also reiterated what it considered to be the fundamental goal of  
4 depreciation accounting:

5 In a recent case [Laclede], the Commission stated that the  
6 fundamental goal of depreciation accounting is to allocate the full  
7 cost of an asset, including its Net Salvage cost, over its economic or  
8 service life so that utility customers will be charged for the cost of  
9 the asset in proportion to the benefit they receive from its  
10 consumption. The Commission found in that case that the  
11 traditional accrual method used by the utility was consistent with  
12 that fundamental goal. It is the policy of this Commission to return  
13 to traditional accounting methods for Net Salvage.  
14

15 As I have demonstrated in detail in my rebuttal testimony, Staff’s recommendation  
16 for Accounts 364 and 369.01 is not consistent with this fundamental goal.

17 **Q. IN MR. RICE’S REBUTTAL TESTIMONY, HE ARGUES THAT IN CASE**  
18 **NO. ER-2004-0570 THE COMMISSION CAPPED “NET SALVAGE AT A**  
19 **MAXIMUM NEGATIVE VALUE OF 100%.”<sup>3</sup> CAN YOU ADDRESS THIS**  
20 **CLAIM?**

21 A. Yes. I should first make clear that the Commission did not establish that a cap on  
22 net salvage was appropriate as a matter of principle. As noted above, the  
23 Commission reaffirmed that the accrual method is appropriate for net salvage.

24 However, there were mitigating circumstances in Case No. ER-2004-0570  
25 that resulted in the ordered depreciation rates limiting net salvage to negative 100  
26 percent for certain accounts. Specifically, in Case No. ER-2004-0570, Empire itself

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<sup>2</sup> Case No. ER-2004-0570, Report and Order, March 10, 2005, p. 55.

<sup>3</sup> Rebuttal Testimony of Arthur Rice, p. 4, lines 2-4.

1 proposed to limit the increase in depreciation expense to mitigate rate shock. The  
2 Commission explains these circumstances in the order for Case No. ER-2004-0570:

3 Empire's depreciation consultant, Roff, performed a Depreciation  
4 Study. Roff's study calculated that Empire should receive \$25.6  
5 million in additional Depreciation Expense Revenue Requirement,  
6 an increase that would nearly double the current level of  
7 Depreciation Expense revenue of \$27.8 million. Empire's position  
8 is that the facts presented by Roff fully justify an increase of that  
9 magnitude. However, in order to avoid rate shock to its customers,  
10 Empire elected to limit its requested increase to \$10.2 million. That  
11 figure can be achieved in either of two ways: (1) simply reduce the  
12 rates proposed by Roff on a pro rata basis so that they will produce  
13 an annual increase of \$10.2 million rather than \$25.6 million; or (2)  
14 make only a few of the original changes proposed by Roff so that  
15 the yield is \$10.2 million rather than \$25.6 million. These changes  
16 are (1) change to traditional accrual of Net Salvage, but limit  
17 negative Net Salvage in the four highest accounts to 100%; (2) use  
18 of the Whole Life method rather than the Remaining Life method;  
19 (3) extend the estimated retirement date of the Asbury Plant to 2020  
20 from 2014; and (4) use the updated balances (as of June 30, 2004)  
21 rather than the test year balances (December 31, 2003).<sup>4</sup>

22 Thus, the Commission's decision in Case No. ER-2004-0570 was simply to accept  
23 the Company's proposal, which included a cap on net salvage to mitigate rate shock.  
24 The Commission did not rule that as a matter of principle a cap on net salvage was  
25 appropriate, but instead adopted Empire's proposal:

26 As in the Laclede case cited above, it is the Commission's  
27 conclusion that, with respect to Mass Property, traditional accrual of  
28 Net Salvage is required. As proposed by Empire, this accrual will  
29 be capped at 100%.<sup>5</sup> (*Emphasis added*)

30 I should also note that, prior to Case No. ER-2004-0570, Empire was ordered to use  
31 a method for net salvage in which net salvage was effectively expensed. Thus, a  
32 significant portion of the increase for Empire in Case No. 2004-0570 was due to  
33 changing from an inappropriate method for net salvage to the accrual method the

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<sup>4</sup> Case No. ER-2004-0570, Report and Order, March 10, 2005, pp. 24-25.

<sup>5</sup> Case No. ER-2004-0570, Report and Order, March 10, 2005, p. 55.

1 Commission has consistently accepted since the Laclede case. Put another way, had  
2 Empire been using the accrual method all along there would not have been such a  
3 significant increase in depreciation expense needed per the depreciation study that  
4 Empire filed in Case No. ER-2004-0570.

5 **Q. DOES THE ORDER IN CASE NO. ER-2004-0570 SUPPORT STAFF'S**  
6 **RECOMMENDATION FOR AMEREN MISSOURI?**

7 No. The circumstances in the Empire case are far different from Ameren Missouri's  
8 current case. Ameren Missouri has not recommended to "nearly double"  
9 depreciation expense, and the methods in the depreciation study for Ameren  
10 Missouri are consistent with prior studies for Ameren Missouri and prior orders of  
11 the Commission. Staff's proposal in this case is to establish a cap on net salvage as a  
12 matter of principle. Such a proposal is inconsistent with established depreciation  
13 principles and with prior Commission Orders.

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

15 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company d/b/a )  
Ameren Missouri's Tariffs to Increase Its Revenues ) **Case No. ER-2014-0258**  
for Electric Service. )

**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 and my office is located in Camp Hill, Pennsylvania and I am associated with Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming).

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 5 pages and Schedule(s) XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

  
\_\_\_\_\_  
John J. Spanos

Subscribed and sworn to before me this 4th day of February, 2015.

  
\_\_\_\_\_  
Notary Public

My commission expires: February 20, 2015

