

Exhibit No.:
Issue: Depreciation Studies
Witness: John Spanos
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Evergy Missouri Metro and Evergy Missouri
West
Case No.: ER-2022-0129 / 0130
Date Testimony Prepared: August 16, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NOS.: ER-2022-0129 / 0130

SURREBUTTAL TESTIMONY

OF

JOHN SPANOS

ON BEHALF OF

EVERGY MISSOURI METRO and EVERGY MISSOURI WEST

**Kansas City, Missouri
August 2022**

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1 **Q: Please state your name and business address.**

2 A: My name is John J. Spanos. My business address is 207 Senate Avenue, Camp Hill,
3 Pennsylvania, 17011.

4 **Q: Are you the same John J. Spanos who submitted rebuttal testimony in these**
5 **dockets on July 13, 2022?**

6 A: Yes.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of Evergy Metro, Inc. d/b/a Evergy Missouri Metro
9 (“Evergy Missouri Metro”) and Evergy Missouri West, Inc. d/b/a Evergy Missouri
10 West (“Evergy Missouri West”) (collectively, the “Company”).

11 **Q: What is the purpose of your surrebuttal testimony?**

12 A: The purpose of my testimony is to respond to the Rebuttal Testimonies set forth by
13 the Missouri Public Service Commission (“Commission”) Staff (“Staff”) and the
14 rebuttal testimony of the Office of the Public Counsel (“OPC”).

15 **Q: What are the subjects of your surrebuttal testimony?**

16 A: The overall subject of my testimony is depreciation; however, the specific areas
17 relate to depreciation issues for both Evergy Missouri Metro and Every Missouri
18 West. The issues are: (1) the need to include a terminal net salvage component into
19 depreciation expense for full recovery of the service value of all generating assets;

1 (2) the development of depreciation expense for all asset classes using the same
2 depreciation procedure which would be to maintain the remaining life method; (3)
3 the most appropriate handling of the Sibley reserve; and (4) the most appropriate
4 life span dates for generating facilities.

5 **I. Terminal Net Salvage**

6 **Q. What are the parties' positions related to terminal net salvage?**

7 A. Each Evergy company has included a terminal net salvage component in their
8 depreciation rates. Staff does not include a terminal net salvage component in their
9 depreciation rates.

10 **Q. Does Staff believe that the costs related to the decommissioning of a generating
11 facility should be recovered?**

12 A. Yes.¹ There is no debate amongst the parties as to whether terminal costs of
13 facilities should be recovered. However, the issue from Staff is when these terminal
14 costs should be recovered. I, the Companies, and authoritative depreciation texts²
15 believe that costs should be recovered from the customers who receive service from
16 the plant while the assets are in service while Staff believes costs should be
17 recovered after the facility is retired from customers who receive no service from
18 the facility.³

¹ Buttig Rebuttal Testimony p. 5, 7:10 and Cunigan Rebuttal Testimony p. 4, 9:14

² Spanos Rebuttal Testimony p. 5-6

³ Buttig Rebuttal Testimony p. 3, 19:21 and Cunigan Rebuttal Testimony p. 5, 3:7

1 **Q. Why does Staff believe terminal net salvage costs should be recovered after a**
2 **facility has already been retired?**

3 A. Staff refers to the concept of intergenerational equity to explain why recovering
4 terminal net salvage costs from customers who are receiving service from the
5 facility is unfair to customers.⁴ Mr. Buttig and Mr. Cunigan have not fully thought
6 through the concept of intergenerational equity as it relates to terminal net salvage
7 costs.

8 There are many components that are incorporated to calculate depreciation
9 rates which include estimates of the future. Every component is not a known
10 quantity, but there are tools and analytical techniques at our disposal in order to
11 estimate a fair and reasonable expected terminal component. Staff witnesses, Mr.
12 Buttig and Mr. Cunigan are aware of this concept. By not including terminal net
13 salvage in depreciation rates as proposed by Staff, there will be intergenerational
14 inequity. However, Staff attempts to avoid intergenerational inequity by
15 inappropriately excluding this component. Each new customer that receives service
16 from Evergy after the generating facility has been retired will be paying costs on
17 assets from which they received no service such as the terminal net salvage. In
18 contrast, the customers that were on the system when the facility was in service will
19 not pay costs related to terminal net salvage for the facility. That is a textbook
20 example of intergenerational inequity.

21 The only possible way to eliminate all intergenerational inequity is by
22 including terminal net salvage in depreciation rates. The most fair and rational way

⁴ Buttig Rebuttal Testimony p. 5, 11:22 and Cunigan Rebuttal Testimony p. 4, 13:22

1 to deal with terminal net salvage is to estimate decommissioning costs for the
2 facilities and include those costs in depreciation rates. Evergy has closed a similar
3 facility and has known and measurable costs related to the decommissioning. Other
4 utilities in the state have closed similar facilities and have known and measurable
5 costs related to decommissioning. Other utilities in the country have closed similar
6 facilities and have known and measurable costs related to decommissioning.
7 Decommissioning costs are not speculative and can be estimated in a fair and
8 reasonable matter, and should be collected from customers who actually receive
9 service from the facilities.

10 **Q. Has Staff presented other arguments related to the exclusion of terminal net**
11 **salvage in depreciation rates?**

12 A. Yes. Staff's other position discusses the concept that decommissioning costs are
13 speculative and have not been allowed by the Commission in prior cases. These
14 arguments have already been addressed in my rebuttal testimony.⁵ Staff's rebuttal
15 testimony was basically the same as its direct testimony on the topic of terminal net
16 salvage.

17 **II. Whole Life vs. Remaining Life**

18 **Q. Does Staff disagree with the use of the remaining life method to calculate**
19 **depreciation rates?**

20 A. No. Staff supports the use of the remaining life method.⁶ However, Staff does
21 continue to support a different methodology for non-generating assets which is not
22 a typical practice.

⁵ Spanos Rebuttal Testimony p. 11-15

⁶ Buttig Rebuttal Testimony p. 2, 8:12

1 **Q. What issue does Staff have with the use of the remaining life method for non-**
2 **life span accounts?**

3 A. Staff claims that the remaining life method should not be used for non-life span
4 accounts because using the method can lead to new investments being depreciated
5 at a faster or a slower rate than the whole life method.⁷ Staff worries that this can
6 lead to larger fluctuations in depreciation rates over time when compared to using
7 the whole life method.

8 **Q. Are Staff's concerns about the remaining life method leading to larger**
9 **fluctuations in depreciation rates than the whole life method accurate?**

10 A. No. One of the primary drivers for theoretically “over-accrued or under-accrued”⁸
11 plant accounts is the result of changing service life and net salvage estimates and
12 past proceedings that differ from asset utilization. For example, if an account is
13 being depreciated using a 40-R3 survivor curve and negative 50 percent net salvage,
14 and then due to conduct of a depreciation study the new historical data and company
15 plans, the most appropriate life and net salvage estimates are the 35-R3 survivor
16 curve and negative 60 percent net salvage. Consequently, the Company was
17 depreciating the assets in the account at a lower annual depreciation rate than they
18 theoretically should have been. With the remaining life method this is automatically
19 corrected over the remaining life and factored into the updated depreciation rate. In
20 Contrast, using the whole life method there is no mathematical true-up mechanism
21 to deal with the fact that service life and net salvage estimates change on an ongoing
22 basis in the utility industry. Therefore, it is not the remaining life method itself that

⁷ Buttig Rebuttal Testimony p. 2, 16:19

⁸ Buttig Rebuttal Testimony p. 2, 18

1 is leading to under or over-recovery of depreciation, it is the constantly evolving
2 estimates related to Company's assets. When estimates change, and plant accounts
3 are potentially under or over-recovered based on where they should be, the whole
4 life method does not have a way to systematically correct. If the whole life method
5 is not monitored, it can lead to very large under or over-recoveries of depreciation,
6 and no procedure to correct through depreciation methodologies. In other words,
7 utilization of the whole life method is actually the inconsistent recovery that Staff
8 is trying to avoid. The remaining life method automatically adjusts for any under
9 or over-recovery of depreciation over the remaining life of each account which
10 makes sure all generations of customers are treated fairly.

11 **Q. Are there other issues of past Staff practices that create issues with using two**
12 **different methods by functional plant?**

13 A. Yes. In past proceedings, Staff has typically recommended reserve reclassification
14 between functions. Not only is this not a reasonable practice if using any method
15 but it is particularly a concern if some depreciation rates are determined using the
16 remaining life method and some determined using the whole life method.

17 **Q. Should the Commission adopt whole life rates for the non-life span accounts?**

18 A. No. The currently approved rates were developed using the remaining life method
19 and Staff has not presented a convincing argument for the Commission to overturn.
20 The remaining life method is the predominant method used across the country and
21 properly recovers the full-service value of all assets, no more, no less. The whole
22 life method has no mechanism to achieve full recovery or ensure over recovery.

1 **III. Sibley Generating Station Recovery**

2 **Q. Has the Staff presented the same position regarding the recovery plan for the**
3 **Sibley Generating Station (“Sibley”) in its rebuttal testimony as it had**
4 **presented in direct testimony?**

5 A. No.

6 **Q. Please explain how the Staff has revised its position regarding recovery of**
7 **Sibley.**

8 A. Staff’s direct testimony stated its concurrence with the \$145.6 million Net Book
9 Value (NBV) of Sibley developed by Evergy Missouri West as of June 30, 2018.
10 Although Staff agrees Evergy Missouri West should be provided the opportunity to
11 recover the \$145.6 million NBV, it is recommending Evergy Missouri West be
12 denied an opportunity to earn a return on the NBV via depreciation rates. However,
13 MECG witness Meyer’s direct testimony made an inaccurate recommendation
14 regarding Sibley which Staff now requests the Commission adopt a \$300 million
15 NBV related to Sibley calculated by MECG witness Meyer as of June 30, 2018.

16 **Q. Has Staff explained why they have changed their position related to the**
17 **recovery of Sibley?**

18 A. No.

19 **Q. Does the Staff understand the difference between the \$145.6 million NBV**
20 **calculated by Evergy Missouri West and the \$300 million NBV calculated by**
21 **MECG witness Meyer as of June 30, 2018?**

22 A. No. In fact, Staff witness Keith Majors specifically states in his rebuttal testimony
23 that he cannot explain the difference between the \$145.6 million NBV and the \$300

1 million NBV on page 5, lines 7 and 8. However, as stated in my rebuttal testimony
2 it should be clear that the \$145.6 million NBV was calculated based on historical
3 recovery patterns of Sibley during its time in service.

4 **Q. Can you explain the difference between the \$145.6 million NBV calculated by**
5 **Evergy Missouri West and the \$300 million NBV calculated by MECG witness**
6 **Myer?**

7 A. Yes. MECG witness Meyer utilized the reserve as of June 30, 2018, reflected in the
8 Staff Accounting Schedules presented in Case No. ER-2018-0146 to calculate the
9 \$300 million NBV. The issue with the reserve reflected in those schedules is a
10 simple allocation of the depreciation reserve developed using mass plant
11 accounting for generating facilities rather than the reserve being developed utilizing
12 depreciation rates consistent with the lives associated with each generating facility
13 and/or its generating units. As I stated in my rebuttal testimony, the \$145.6 million
14 NBV calculated as of June 30, 2018 “properly allocated the book reserve to the
15 Sibley asset level based on the theoretical reserve calculated for each steam unit
16 based on the known life parameters.” This calculation was critical in that it was the
17 first time the book reserve was specifically applied to the Sibley location or unit
18 level and developed a more accurate book reserve level associated with Sibley and
19 its generating units.

20 **Q. Can you explain why the Staff has changed its position related the recovery of**
21 **Sibley?**

22 A. I cannot. Given Staff witness Keith Majors specifically stated he did not understand
23 the difference between the \$145.6 million NBV amount calculated by Evergy

1 Missouri West and the \$300 million NBV calculated by MECG witness Meyer, I
2 can only speculate that Staff sees this as an opportunity to exclude a larger dollar
3 amount from the development of customer's rates and on which Evergy Missouri
4 West should be able to earn a return based on its recommendation that any future
5 return on Sibley assets be excluded from rates.

6 **Q. Has OPC witness Robinett proposed an alternative recovery plan related to**
7 **the NBV associated with Sibley?**

8 A. Yes. In fact, OPC witness Robinett has proposed two additional options for the
9 recovery of Sibley.

10 **Q. Do you agree with either option proposed for recovery of Sibley?**

11 A. No.

12 **Q. Why not?**

13 A. OPC witness Robinett's proposals are referencing an unrecovered balance
14 according to my 2014 depreciation study as \$227,100,766. First, I have not been
15 able to determine how Mr. Robinett developed the \$227,100,766 amount. Second,
16 it was not until the specific analysis as of June 30, 2018, when the book reserve
17 related to Sibley was properly aligned in accordance with known life parameters to
18 develop the Net Book Value of Sibley as of that date. Prior to the proper alignment
19 of the reserve related to Sibley as of June 30, 2018, Evergy was maintaining the
20 book reserve at the FERC Account level and only assigning the account book
21 reserve based on a simple allocation through their fixed asset system. Any
22 calculations prior to June 30, 2018, would have utilized an allocation of the account
23 level book reserve based on depreciation parameters that were not consistent with

1 remaining life and the life span approach. Hence, OPC's proposal of recovery
2 calculations based on figures prior to June 30, 2018, is completely inappropriate.

3 **Q. Can you further explain why the 2014 Depreciation Study results is not**
4 **appropriate for determining the net book value as of June 2018?**

5 A. Yes. First, the book reserve as of the 2014 Depreciation Study by location was
6 based on parameters for each generating location that was not the same as those
7 that were implemented consistently with the full life cycle of each facility. Second,
8 the assignment of the book reserve to the location level within each account did not
9 adjust the required recovery patterns for changes from whole life to remaining life
10 and the proper use of the life span methodology. Third, the establishment of the
11 book reserve in the 2014 Depreciation Study incorporates assignments of the
12 reserve to each location that considered some portion of net salvage related to
13 recovery of final retirement costs. Therefore, utilizing the 2014 Depreciation Study
14 results and attempting to bring forward that net book value does not consistently
15 align the book reserve at the location level with the overall recovery. The
16 calculation of the June 30, 2018 net book value established the proper location, unit
17 and account level book reserve consistent with recovery pattern of each unit the
18 known depreciation procedures were in place.

19 **Q. Does OPC witness Robinett's position concerning the Sibley retirement costs**
20 **follow proper ratemaking practices?**

21 A. No. First, the Company has not been afforded the opportunity to fully recover the
22 full service value of the Sibley Generating facility based on the Commission
23 practice to follow Staff's position related to final retirement. Second, the costs to

1 make a facility safe after retirement is a standard component of net salvage which
2 is established in the definition of service value. Therefore, not allowing recovery
3 of the full service value while the asset is in service and then not allowing the costs
4 to make the site safe as a component of retirement is not reasonable.

5 **Q. What should the Commission approve related to the recovery of the NBV**
6 **associated with Sibley?**

7 A. The Commission should approve the recovery related to Sibley presented in Evergy
8 Missouri West's depreciation study as of June 30, 2021. The depreciation study
9 reflects the most appropriate calculation of the NBV associated with Sibley assets
10 which Evergy Missouri West should be able to recover and on which it should be
11 able to earn a return during the recovery period.

12 **IV. Generation Life Spans**

13 **Q. Did OPC witness Robinett raise any concerns in his direct testimony related**
14 **to specific life span dates related to Evergy generating facilities?**

15 A. No.

16 **Q. Did OPC witness Robinett raise any concerns in his rebuttal testimony related**
17 **to specific life span dates related to Evergy generating facilities?**

18 A. Yes.

19 **Q. What concerns did Mr. Robinett identify related to life spans?**

20 A. Mr. Robinett cites to the forecasts of capacity balances for Evergy Missouri Metro
21 and Evergy Missouri West included in the Companies' IRPs. He only includes
22 specific pages from the IRP, not entire sections, however it appears that the capacity
23 forecasts are based on the Companies' Preferred Plan. There is no mention in what

1 Mr. Robinett includes in his rebuttal testimony⁹ as to what the Preferred Plan is
2 exactly, or the likelihood of this plan being executed. Mr. Robinett surmises that
3 because capacity forecasts cease or continue in future years for the Preferred Plan
4 that life spans for the purpose of depreciation should be adjusted to reflect these
5 years.

6 **Q. Do you agree with Mr. Robinett’s opinion on the life spans of generating**
7 **facilities for the Evergy companies?**

8 A. Even though Mr. Robinett did not raise these issues during his direct testimony as
9 is the appropriate procedure, I will still address his arguments here. No, I do not
10 agree with Mr. Robinett’s assessment of appropriate life spans for generating
11 plants.

12 **Q. Why do you disagree with Mr. Robinett?**

13 A. Mr. Robinett’s testimony and exhibits are not convincing to portray the argument
14 that the years included in the production forecasts are certain future retirement
15 dates. The IRP is a comprehensive and thorough analysis of possible plans related
16 to future asset strategies and this Preferred Plan is just one option considered by the
17 Company. Even so, life span dates related to depreciation are not determined based
18 solely on an IRP, but all of the Company plans for the units. For example, Mr.
19 Robinett mentions the Spearville wind production facility specifically in his
20 testimony.¹⁰ I use a life span date for depreciation of 2026 for Spearville 1 and
21 2030 for Spearville 2. These dates represent a life span of 20 years which is
22 consistent with life spans for wind facilities of this size and type construction in the

⁹ Robinett Rebuttal Testimony, JAR-R-1 and JAR-R-2

¹⁰ Robinett Rebuttal Testimony, pg. 9, 7:13

1 mid-2000s across the industry. Even if these facilities are extended beyond 20
2 years, they will need to be repowered, rebuilt, or refurbished in such a way that
3 costs related to the original assets will have been recovered by the time the age of
4 the facilities gets to 20 years. Mr. Robinett proposes 2040 as the life span for both
5 Spearville 1 and 2, which would be a life span of 34 years for Spearville 1 and a
6 life span of 30 years for Spearville 2. Mr. Robinett does not explain why he thinks
7 Spearville 1 will have a 4 year longer life span than Spearville 2. He also does not
8 explain why this type of wind facility should have a longer life than expected for
9 comparable assets in the industry that were built during a similar time period.

10 **Q. What changes to depreciation rates does Mr. Robinett propose related to life**
11 **spans of generating facilities?**

12 A. Mr. Robinett has not provided any calculations or depreciation rate changes as part
13 of his testimony. It is unclear to what extent Mr. Robinett is proposing to change
14 life spans, so his exact depreciation proposal is uncertain. Given the lack of support
15 for his position, the current parameters for Spearville and the arguments above, the
16 depreciation rates and life spans proposed in my depreciation studies for Evergy
17 Missouri Metro and Evergy Missouri West should be accepted by the Commission.

18 **Q: Does that conclude your surrebuttal testimony?**

19 A: Yes, it does.