

Exhibit No.:
Issue: Depreciation
Witness: John J. Spanos
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations
Company
Case No.: ER-2016-0156
Date Testimony Prepared: September 2, 2016

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0156

SURREBUTTAL TESTIMONY

OF

JOHN J. SPANOS

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
September 2016**

SURREBUTTAL TESTIMONY

OF

JOHN J. SPANOS

Case No. ER-2016-0156

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

2 A: John J. Spanos, 207 Senate Avenue, Camp Hill, Pennsylvania, 17011.

3 **Q: Are you the same John J. Spanos who pre-filed Direct and Rebuttal Testimony in**
4 **this matter on behalf of KCP&L Greater Missouri Operations Company (“GMO”**
5 **or the “Company”)?**

6 A: Yes.

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

8 A: The purpose of this testimony is to respond the Rebuttal Testimony of Missouri Public
9 Service Commission Staff (“Staff”) witness, Derick A. Miles regarding the retirement
10 dates of Sibley Unit 1 and 2, Lake Road Unit 4 and the inclusion of terminal net salvage
11 for generating facilities.

12 **RETIREMENT DATES OF GENERATING UNITS**

13 **Q: Has Staff challenged the probable retirement dates of some generating units?**

14 A: Yes. Staff has proposed to utilize the current rates, which are significantly outdated
15 based on the Missouri Code of State Regulations 4 CSR 24-3.175, because Staff has
16 interpreted information to be inconsistent as related to three generating units. GMO
17 witness Burton Crawford addresses the reason for and timing of retirement of these units
18 in his Surrebuttal Testimony while I will address the depreciation related issues. First, as
19 previously described in my Rebuttal Testimony, the year difference in probable
20 retirement dates for Sibley Unit 1 and 2 as well as the Lake Road Unit 4 between the

1 Depreciation Study and the new Integrated Resource Plan (“IRP”) relate to timing of
2 information. The one-year difference is the result of new information and plans that were
3 developed by GMO for the IRP but were only known after the Depreciation Study was
4 finalized. However, both documents are consistent in the functionality of the units and
5 the plan to retire coal assets.

6 Second and more importantly, the use of the remaining life method of
7 depreciation as utilized in my study is a self-correcting methodology which ensures full
8 recovery—no more, no less—over the remaining life. Therefore, if these units were to be
9 converted to any other fuel type and continue to operate beyond the recommended
10 probable retirement date, then only new plant investment and any remaining net plant
11 investment will be depreciated, not the entire plant investment still in service. For
12 example, if Sibley Unit 1 was to be converted to another fuel source by 2019, then only
13 the remaining net plant as of that date plus new plant additions will be recovered through
14 depreciation rates when using the remaining life method. Thus, if Sibley Unit 1, prior to
15 conversion, had an original cost of \$100 million and accumulated depreciation of \$90
16 million, then only \$10 million of the remaining investment will be recovered in the
17 future. In contrast, Staff recommends depreciating the full \$100 million using old rates
18 as long as it is in service.

19 **Q: Does this possible change of plans for these three units warrant the reason to**
20 **continue current rates?**

21 A: Absolutely not. While GMO does not believe these plans will change, the mere
22 possibility is absolutely no reason to continue using current depreciation rates. This is
23 why depreciation studies incorporate more than statistical analyses and continual review.
24 The current rates are not based on all the statistical analyses available nor do they

1 incorporate all the information we know today. Companies make business decisions
2 every day relating to their assets and these changes are incorporated at the time of filing
3 of a case. When new decisions are made then appropriate changes to depreciation should
4 be incorporated. The remaining life method fairly addresses these changes for proper
5 recovery levels.

6 **Q: Does upgrading controls signify assets will be in service longer?**

7 A: No. Many upgrades are conducted for security reasons or just so the assets can operate at
8 an efficient level until retirement. The cost to convert the three units to another fuel
9 source would not be cost effective based on their current age.

10 **TERMINAL NET SALVAGE**

11 **Q: Has Staff included terminal net salvage in their report?**

12 A: No. Staff excludes terminal net salvage in their report based on a Commission Order for
13 The Empire District Electric Company Case ER-2004-0570 dated March 10, 2005.

14 **Q: Do you agree that the ER-2004-0570 Order and Staff's application of the Order for
15 GMO is still valid?**

16 A: No. The 2005 Order that Staff relies on was based on the lack of facilities that were
17 retired and dismantled, however, that has changed considerably since 2005. As discussed
18 in my rebuttal testimony, a large number of facilities have been shut down and many
19 others are in the process of closure. There have been a considerable amount of closure
20 costs incurred already with more to come. These costs are part of the full service value of
21 each facility and should be included in depreciation rates.

22 **Q: Is terminal net salvage included in depreciation rates in other jurisdictions?**

23 A: Yes. Since the early 2000s, most other jurisdictions have recognized that terminal net
24 salvage is a component of the service value of a generating facility.

1 **Q: Does Staff's recommendation defer these costs to future customers?**

2 A: Yes. Terminal net salvage has two stages. The first stage is the decommissioning and
3 shut down of the facility or unit in order for the location to be safe. In many cases, these
4 costs are high and increasing yearly due to environmental requirements. The second
5 stage is the removal of all the assets along with any scrap value of equipment. By
6 excluding terminal net salvage costs described here and maintaining current rates, Staff
7 defers recovery to future customers who have not received the benefit of these assets.

8 **CONCLUSION**

9 **Q: What are the appropriate depreciation rates to utilize for GMO?**

10 A: The depreciation rates set forth in the Depreciation Study are the most appropriate.
11 These rates reflect the combined analyses of all GMO assets through 2014 and include
12 the most appropriate recovery methods and service value of all assets. Staff's
13 recommendation of continued utilization of current rates is not a good option.
14 Recommending depreciation rates that were developed many years ago before retirement
15 dates for these facilities were known is unreasonable and ignores the critical changes that
16 have occurred in plant activity; plans for assets; combinations of assets into a
17 consolidated company; and the most appropriate recovery patterns of the assets during
18 their life cycle.

19 **Q: Does this conclude your surrebuttal testimony?**

20 A: Yes, it does.

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

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

AFFIDAVIT OF JOHN J. SPANOS

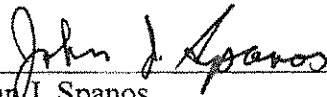
COMMONWEALTH OF PENNSYLVANIA)
) ss
COUNTY OF CUMBERLAND)

John J. Spanos, being first duly sworn on his oath, states:

1. My name is John J. Spanos. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC as a Senior Vice President. I have been retained to serve as an expert witness to provide testimony on behalf of KCP&L Greater Missouri Operations Company.

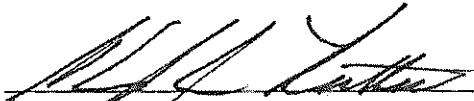
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of four (4) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



John J. Spanos

Subscribed and sworn before me this 30th day of August, 2016.



Notary Public

My commission expires: February 20, 2019

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2019
MEMBER, PENNSYLVANIA ASSOCIATION OF NOTARIES