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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2014-0370

REBUTTAL TESTIMONY

OF

JOHN J. SPANOS

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
May 2015**

REBUTTAL TESTIMONY

OF

JOHN J. SPANOS

Case No. ER-2014-0370

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 prefiled direct testimony in this matter?**

5 A. Yes.

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my testimony is to rebut the portions of the Staff Revenue Requirement
8 Cost of Service Report (“Staff Report”) filed by the Missouri Public Service Commission
9 (“Commission”) Staff (“Staff”) related to depreciation.

10 **Q. What are the subjects of your rebuttal testimony?**

11 A. The primary subject of my rebuttal testimony is depreciation. Specifically I will address
12 Staff’s exclusion of terminal net salvage for production plant accounts and Staff’s
13 recommendation to transfer unrecovered costs for retired electric meters to Account 364,
14 Poles, Towers and Fixtures. I will also address Staff’s comments regarding the
15 accumulated future cost of removal amount.

16 **I. TERMINAL NET SALVAGE**

17 **Q. What is terminal net salvage?**

18 A. Terminal net salvage is the net salvage (i.e. gross salvage less cost of removal) related to
19 the final or terminal retirement of life span property. Life span property is the term used
20 to describe assets (such as power plants) for which all assets associated with a facility

1 will eventually be retired concurrently. The retirements that occur at the end of the life of
2 an entire power plant are referred to as “final” or “terminal” retirements. These contrast
3 with the retirements that occur throughout the life of the plant (e.g. the replacement of
4 individual components of the plant such as piping or pumps), which are referred to as
5 “interim” retirements. The “life span method” is used for life span property. For the life
6 span method, service life estimates are made for the final retirement of a facility as well
7 as for the interim retirements expected to occur throughout the life of the facility.

8 There are typically net salvage costs associated with both types of retirements.
9 Costs associated with interim retirements, such as the costs incurred to replace piping or
10 pumps throughout the life of the facility, are referred to as “interim net salvage.” The
11 costs related to the final retirement of the facility, such as the demolition of the
12 superstructure and the remediation of ash ponds, are referred to as “final net salvage” or
13 “terminal net salvage.”

14 **Q. Has the Commission accepted the use of the life span method in the past?**

15 A. Yes. The Commission first accepted the use of the life span method in Case No. ER-
16 2010-0036 for Union Electric Company d/b/a Ameren Missouri (“AmerenMO”, at the
17 time AmerenUE), and has accepted the life span method in subsequent cases as well.
18 The life span approach was also accepted for the last KCP&L case (Case No. ER-2010-
19 0355). Prior to Case No. ER-2010-0036 the Commission had historically not accepted
20 the use of the life span method for most types of power plants.

1 **Q. Does Staff agree with the use of the life span method for assets such as power**
2 **plants?**

3 A. Yes. Staff not only agrees with the use of this method but also agrees with the estimates
4 of final retirement dates, interim survivor curves and interim net salvage I have used in
5 the depreciation study.¹ Staff's only area of disagreement for the Kansas City Power &
6 Light Company's ("KCP&L" or the "Company") production plant assets is the inclusion
7 of terminal net salvage in the depreciation rates.²

8 **Q. Should net salvage be included in depreciation?**

9 A. Yes. Net salvage costs experienced at the end of an asset's service life are part of the
10 service value of the asset. In order for customers to pay their cost of electric service,
11 depreciation must allocate the full service value (original cost less net salvage) over the
12 service life of the assets. This concept is set forth in the electric Uniform System of
13 Accounts, which states in General Instruction 22:

14 Utilities must use a method of depreciation that allocates in a systematic
15 and rational manner the service value of depreciable property over the
16 service life of the property.

17 If net salvage is not included in depreciation, then the net salvage costs the company will
18 incur upon the retirement of its assets will have to be paid by future customers after the
19 assets are retired. Future customers will not be receiving service from assets that have
20 already been retired. Therefore, excluding net salvage from depreciation results in
21 intergenerational inequity because future customers will pay the costs of assets which
22 have already been retired and from which they receive no benefit.

¹ Staff Report, p. 162, lines 21-24.

² Staff Report, p. 165, line 26 through p. 166, line 4.

1 **Q. Has the Commission ruled that net salvage should be included in depreciation?**

2 A. Yes. The Commission addressed the issue of net salvage in Case No. GR-99-315 for
3 Laclede Gas Company (“Laclede”), and ruled that net salvage should be included in
4 depreciation. The Commission stated:

5 The Commission finds that the fundamental goal of depreciation
6 accounting is to allocate the full cost of an asset, including its net salvage
7 cost, over its economic or service life so that utility customers will be
8 charged for the cost of the asset in proportion to the benefit they receive
9 from its consumption. The Commission further finds that the method
10 utilized by Laclede is consistent with that fundamental goal.³

11 **Q. Does Staff agree that net salvage should be included in depreciation?**

12 A. Yes, in general Staff appears to agree with this concept, as evidenced by Staff’s
13 recommendations in this case (and in other cases). Staff has recommended net salvage
14 estimates for all of the Company’s transmission, distribution and general plant accounts.
15 Staff has also recommended interim net salvage estimates for the Company’s production
16 plant accounts. Staff’s transmission, distribution and general plant net salvage estimates,
17 as well as Staff’s interim net salvage estimates, are therefore consistent with the
18 Commission’s decision in Laclede.

19 However, Staff has not included terminal net salvage in their recommendations
20 despite the fact that Staff has acknowledged that terminal net salvage is likely to occur in
21 the future as I will explain. Staff’s recommendation for terminal net salvage is therefore
22 not consistent with the Uniform System of Accounts, nor is it consistent with the
23 Commission’s Order in Laclede. Staff’s recommendation is also not consistent with its
24 recommendations in this case for other accounts and for interim net salvage.

³ Case No. GR-99-315, Third Report and Order, Issued January 11, 2005, p. 9 (“Laclede Order”).

1 **Q. Why has Staff excluded terminal net salvage from its recommended depreciation**
2 **rates?**

3 A. Staff only provides two justifications for this recommendation.⁴ The first is that the
4 Commission did not allow terminal net salvage in a previous case for a different utility.
5 The second is that the Company's book reserve currently exceeds its theoretical reserve
6 for production plant accounts. Neither of these justifications support deviating from the
7 Commission's stated objective of depreciation as set forth in the Laclede Order.

8 **Q. Please address Staff's reason for excluding terminal net salvage based on prior**
9 **decisions of the Commission.**

10 A. Staff cites the Commission's Report and Order in Case No. ER-2004-0570 ("Empire
11 Order") for The Empire District Electric Company ("Empire"). Staff's testimony gives
12 the impression that the Commission's order in the Empire case would disallow terminal
13 net salvage in all cases. However, a more detailed reading of the Empire case makes
14 clear that the Commission's decision in that case, issued more than a decade ago, was
15 based on assumptions that experience has shown to be incorrect. Given the
16 circumstances today, as well as more recent Commission decisions regarding life span
17 property, the Empire decision for terminal net salvage should not apply to KCP&L's
18 current case.

19 Staff quotes a portion of a sentence from page 53 of the Empire Order. However,
20 a more complete citation also provides the Commission's reasoning in the Empire case.

21 Specifically, the Commission stated:

22 [W]ith respect to Terminal Net Salvage of Production Plant Accounts, this
23 Commission generally has not allowed the accrual of this item. The
24 reason is that generating plants are rarely retired and any allowance for

⁴ Staff Report, p. 166.

1 this item would necessarily be purely speculative. It is true that all
2 depreciation is founded upon estimates, but all estimates are not unduly
3 speculative. Just as utility companies plan rate cases around the projected
4 in-service dates of new plants, so Empire can plan around the retirement
5 of its generating plants so that the Net Salvage expense is incurred in a
6 Test Year. Another alternative is the device of the Accounting Authority
7 Order. As already discussed in connection with the Production Account
8 Service Life issue, there is no evidence that the retirement of any of
9 Empire's plants is imminent and the estimated retirement dates considered
10 in this proceeding are not persuasive. For these reasons, the Commission
11 will not allow the accrual of any amount for Terminal Net Salvage of
12 Production Plants. (Emphasis added)

13 **Q. Why did the Commission not allow for terminal net salvage in the Empire case?**

14 A. As the underlined passages cited above demonstrate, the Commission's primary reason
15 for not allowing terminal net salvage was that at the time of the Empire decision the
16 Commission did not agree in concept with the use of the life span method. As I have
17 noted previously, the Commission did not allow the use of the life span method prior to
18 Case No. ER-2010-0036. Thus, in the Empire case, the Commission did not just reject
19 the use of terminal net salvage but also rejected the use of final retirement dates for
20 power plants.

21 However, in the time since the Empire decision the Commission has reversed its
22 opinion and has accepted the use of the life span method as appropriate for power plants.
23 The Commission's reasoning for excluding terminal net salvage in the Empire case
24 therefore no longer applies. Since the life span method is used, terminal net salvage must
25 also be included in order to be consistent with the Uniform System of Accounts and the
26 Commission's decision in Laclede.

1 **Q. In the passage from the Empire case you have cited above, the Commission stated**
2 **that “generating plants are rarely retired and any allowance for this item would**
3 **necessarily be purely speculative.” Has experience since the Empire decision shown**
4 **that generating plants are retired and that they experience terminal net salvage?**

5 A. Yes. In the time since the Commission issued the Empire Order the number of
6 retirements of coal-fired power plants has increased significantly, due in part to changing
7 environmental regulations. There are also a number of plants expected to retire in the
8 coming years. As a result, there is far more evidence of the ultimate disposition of these
9 facilities upon their retirement than was available at the time of the Empire decision. The
10 retirement of these plants has typically resulted in costs not only related to the
11 dismantlement of the physical power plants, but also significant costs related to the clean-
12 up of the site.

13 **Q. In the current depreciation study for KCP&L, how were the terminal net salvage**
14 **costs determined?**

15 A. As described in my direct testimony, KCP&L retained the firm Segal, Inc. to perform a
16 detailed study of the expected retirement and dismantlement costs for the Company’s
17 power plants. The results of this report (“Segal report”) are set forth in Chris Rogers’
18 direct testimony, Schedule CRR-2. The Segal report determined the costs expected to be
19 incurred upon the retirement and dismantlement of the Company’s plants. These costs
20 were based on a thorough review of the activities associated with the terminal net salvage
21 for these facilities. Further, the terminal net salvage used for the depreciation study are
22 based only on the retirement components of the Segal report, and do not include other
23 costs for site remediation that may potentially occur. The terminal net salvage costs used

1 for depreciation are therefore conservative estimates of the terminal net salvage costs.
2 The net salvage costs included in the depreciation study are not speculative estimates of
3 terminal net salvage, but are instead costs that the Company is very likely to incur.

4 **Q. Can you provide an example of a power plant owned by a Missouri electric**
5 **company that has been retired and experienced significant terminal net salvage**
6 **costs?**

7 A. Yes. The Venice Plant, operated until its closure by AmerenMO, provides an example
8 with which both Staff and I are familiar. Staff and I have both toured the site of the
9 Venice Plant subsequent to its decommissioning and dismantlement. This example is
10 instructive not only because it provides an illustration of the terminal net salvage costs
11 involved with power plants, but also because the site continues to be used for generation
12 by AmerenMO. This example therefore provides evidence that terminal net salvage
13 should be expected even if a generating site can be reused for other purposes after the
14 closure of the facility.

15 **Q. What was the experience of AmerenMO with the Venice Plant?**

16 A. The Venice Power Plant was a six unit coal-fired power plant (which was converted to
17 burn oil and gas in the 1970s) sited on the east bank of the Mississippi River near St.
18 Louis. The plant was owned and operated by AmerenMO. The total capacity of the plant
19 was 474 MW. In 2002, the plant was retired. Decommissioning and dismantlement
20 occurred in the years subsequent to the retirement and was completed in 2013. Total
21 costs expended by AmerenMO to retire the Venice Plant were approximately \$36.3
22 million, which was offset by about \$12.1 million in gross salvage. Thus, the total
23 terminal net salvage cost for Venice was approximately \$24.2 million. This amount

1 includes not only the demolition of the plant itself, but also significant costs to close and
2 remediate the ash pond for the site.

3 **Q. Has Staff recognized that Venice has experienced terminal net salvage costs?**

4 A. Yes. In the Staff Report for AmerenMO's most recent rate case, Case No. ER-2014-
5 0258, Staff discusses the Venice Plant:

6 The Venice steam production plant was retired in 2002, and environmental
7 cleanup, demolition, and disposal were completed in 2013. During three
8 visits over the past several years, Staff has observed the progression of the
9 removal of the steam production plant at Venice. The cost of removal and
10 salvage for these large plants often continues for many years, and is
11 recorded to the company's plant depreciation reserves. The Venice steam
12 plant accounts currently show an accumulated depreciation reserve deficit
13 of \$17,219,969.⁵

14 **Q. Were the terminal net salvage costs of the Venice Plant recovered over the life of the**
15 **plant?**

16 A. No. Because the Commission had not allowed for the recovery of terminal net salvage
17 through depreciation expense, the terminal net salvage costs for Venice were not
18 recovered over the plant's life. Current customers are paying for these costs, even though
19 they are not receiving service from Venice.⁶

20 The experience for Venice should demonstrate why it is important that terminal
21 net salvage be recovered prospectively through depreciation expense over the life of each
22 generating facility. Under Staff's proposal to exclude terminal net salvage from
23 depreciation, future customers will have to pay for the terminal net salvage costs of these

⁵ Case No. 2014-0258, Staff Cost of Service Report, p. 151, lines 21-27.

⁶ In Case ER-2014-0258, Staff's proposal was to offset the unrecovered Venice costs with accumulated depreciation reserves from certain general plant accounts. I should point out that mathematically Staff's proposal for Venice has the effect of recovering the Venice costs over the recovery period of these general plant accounts, as current customers will now pay more depreciation for the general plant assets. Thus, even with these reserve transfers current customers must pay higher rates due to the fact that earlier generations of customers did not pay the full cost of the Venice Plant.

1 plants – costs that Staff recognizes will occur. This is unfair to future customers, as they
2 will be paying costs related to assets that are retired and no longer providing service.

3 **Q. Has Staff also recognized that other Missouri power plants should be expected to**
4 **have terminal net salvage costs?**

5 A. Yes. In Case No. ER-2014-0258 Staff not only acknowledged the costs incurred at
6 Venice, but recognized that other plants will experience terminal net salvage when
7 retired. In the surrebuttal testimony of Arthur Rice in that case, Staff not only
8 acknowledged future terminal net salvage costs for AmerenMO's Meramec plant, but
9 provided a rough estimate of those future costs:

10 At this time Staff has only a very rough estimate of a cost for terminal net
11 salvage of the Meramec steam plant, (retirement and removal cost
12 corrected for salvage receipts). Based on this limited information, Staff
13 estimates the cost at approximately \$100 million, (15% of the current plant
14 in service for the Meramec steam plant).⁷

15 Because Staff has recognized that there are terminal net salvage costs for Meramec, I
16 would expect that they would also recognize that KCP&L will incur similar costs for its
17 steam plants.

18 **Q. How does Staff's estimate of terminal net salvage for the Meramec steam plant**
19 **compare to the estimates KCP&L has proposed in this proceeding?**

20 A. KCP&L's estimates are very conservative estimates of terminal net salvage when
21 compared to Staff's (admittedly rough) estimate of Meramec's terminal net salvage costs.

22 Table 2 of KCP&L's depreciation study (which can be found on pages VIII-2
23 through VIII-5 of the study) provides the total terminal net salvage estimates included in
24 the depreciation rates recommended in the study. As can be seen on page VIII-3 of the
25 study, the total terminal net salvage estimated for all of KCP&L's steam production

1 plants is approximately \$40.3 million. This is only about 40% of the cost Staff estimates
2 for just one of AmerenMO's power plants. This should emphasize that KCP&L's
3 terminal net salvage estimates are conservative estimates of the future costs the Company
4 should be expected to incur.

5 **Q. One argument that has been made against the inclusion of terminal net salvage in**
6 **depreciation is that generating sites can be reused for future generation. Does**
7 **AmerenMO still use the Venice site for power generation?**

8 A. Yes, it does. There are gas-fired generating units in operation on the site. The
9 decommissioning activities, such as the closure of ash ponds, were not required in order
10 to use the site for new generation and thus, cannot be charged to it. Indeed, much of the
11 site is not used for generation, as newer gas plants require a much smaller footprint than
12 coal-fired power plants. For example, the site of the ash pond, which represented a
13 significant portion of the terminal net salvage costs, is not used for generation. Instead,
14 this site is currently a grass field with wells to monitor the closed ash pond.

15 **Q. How does the experience of the Venice Plant impact the inclusion of terminal net**
16 **salvage in this case?**

17 A. The facts surrounding the experience of the Venice Plant demonstrate that significant
18 costs should reasonably be expected upon the final retirement of coal-fired power plants.
19 These costs are not speculative, and instead experience shows that terminal net salvage
20 costs will occur.

21 First, consider the argument that the Company's plants can be reused for other
22 purposes (such as future generation). Such a scenario has in fact occurred with the
23 Venice site. The coal facility at this site was retired in 2002, and the site continues to be

⁷ Case No. ER-2014-0036, surrebuttal testimony of Arthur Rice, p. 5, lines 15-18.

1 used for other types of generation. AmerenMO has spent a net amount of approximately
2 \$24.2 million removing the retired power plant and remediating the site. Thus, this
3 experience reveals that even when the site will be reused for new generation there will
4 still be significant costs incurred for the retirement of the old plant. These costs therefore
5 should be included prospectively in depreciation rates.

6 The costs and activities associated with the retirement of the ash pond at Venice
7 are also instructive. These are activities that are highly likely to be required upon the
8 retirement of the Company's power plants. Recent breaches of ash ponds at sites owned
9 by the Tennessee Valley Authority and by Duke Energy, in which the contents of the ash
10 ponds entered waterways, have increased scrutiny related to the remediation of the ash
11 ponds at coal plants across the country. It should therefore be expected that the costs
12 incurred at the KCP&L's existing coal fleet at a minimum be similar in scope to the
13 activities that were undertaken at Venice.

14 **Q. Can you provide examples from other jurisdictions of power plants that have been**
15 **or are planned to be decommissioned?**

16 A. Yes. There are many recent examples of plants that either have been or will be
17 decommissioned and dismantled. Examples include:

- 18 • Black Hills Power will decommission its Ben French, Osage and Neil
19 Simpson I plants.
- 20 • Black Hills Colorado Electric is in the process of decommissioning its Canon
21 City (W.N. Clark) plant and units 5 and 6 at its Pueblo plant.

- Duke Energy plans to decommission a number of sites in the Carolinas, and activities related to the retirements of these sites include asbestos removal, demolition and the closure of ash ponds.
- Dominion Virginia Power is in the process of decommissioning coal units at its Chesapeake Energy Center, North Branch and Yorktown sites.
- PacifiCorp is in the process of decommissioning its Carbon coal power plant.

Q. Will any of these sites continue to be used for power generation?

A. Yes. Some of these facilities have other existing generating facilities on location.

Q. Staff’s other reason for recommending the exclusion of terminal net salvage is due to an “over accrual” Staff identifies for production plant accounts. Can you address this Staff argument?

A. Yes. I would first point out that around half of the \$480 million amount Staff cites is related to specific circumstances at Hawthorn Unit 5 and Iatan Unit 2 that should not be considered to be an “over accrual” Because the Company has accounted for these costs correctly based on the specific circumstances for Hawthorn Unit 5 and Iatan 2. Further, as I have noted previously the terminal net salvage costs included in KCP&L’s depreciation rates are likely to be conservative estimates of the terminal net salvage costs for these facilities. The “over accrual” Staff presents is nothing more than a theoretical number based on current estimates of service life and net salvage. If terminal net salvage costs are higher than currently estimated or if power plants are retired earlier than anticipated it is possible that the Company actually has an “under accrual.”

However, independent of the actual amounts of any theoretical over- or under-accrual, Staff’s argument that “there will remain sufficient accumulated reserves to

1 address foreseeable future terminal cost of removal requirements”⁸ is incorrect. Staff
2 (and the Company) have recommended remaining life depreciation rates. Remaining life
3 depreciation rates are designed to recover the estimated service value (original cost less
4 net salvage) of an asset over its service life. Since Staff has recommended no terminal
5 net salvage, Staff’s depreciation rates will not recover any amount for terminal net
6 salvage over the lives of the Company’s power plants. To the extent there is any “over
7 accrual,” remaining life depreciation rates reflect the amount of depreciation already
8 recovered to date and are calculated to result in only the full recovery of the estimated
9 service values of the Company’s assets. Thus, using Staff’s recommended remaining life
10 depreciation rates, which incorporate no terminal net salvage, at the time a facility is
11 retired there will not be reserves for the terminal net salvage costs of the facility.⁹ Future
12 customers would have to pay for the terminal net salvage costs of a facility from which
13 they do not receive any benefit.

14 **Q. What do you conclude regarding terminal net salvage?**

15 A. Depreciation principles as set forth in the Uniform System of Accounts and the
16 Commission require that net salvage is included in depreciation expense. The exclusion
17 of net salvage costs results in intergenerational inequity because future customers will be
18 required to pay for the costs of retired assets that are no longer providing service.
19 Despite the fact that Staff has recognized that terminal net salvage costs will occur in the
20 future, Staff has proposed to exclude these costs from depreciation. Staff’s
21 recommendation therefore does not meet the requirements of the Uniform System of

⁸ Staff Report, p. 166, lines 9-11.

⁹ Staff’s discussion appears to present the implication that reserves from other facilities may be able to be used for terminal net salvage costs. However, this would result in a deferral and future customers would pay for the retirement costs of a plant no longer providing service.

1 Accounts or the Commission and will produce intergenerational inequity. For these
2 reasons, the Commission should reject Staff's proposal and accept the depreciation rates
3 proposed in the depreciation study.

4 **II. UNRECOVERED METERS COSTS**

5 **Q. Please explain the unrecovered legacy meters costs for KCP&L.**

6 A. As Staff discusses on page 170 of the Staff Report, KCP&L has initiated a program to
7 replace the Company's existing legacy meters with AMI meters. The expectation is that
8 when this program is completed, there will be approximately \$8.7 million of unrecovered
9 costs related to the legacy meters. That is, at the time all of the legacy meters will be
10 retired there will still be approximately \$8.7 million in costs left to be recovered.¹⁰

11 **Q. What has the Company proposed regarding the \$8.7 million in costs?**

12 A. The Company has proposed to amortize these unrecovered costs over a ten year period.
13 This period of time is short enough that many of the customers who pay for service for
14 this ten year period will have received service from the retired meters. However, it is not
15 too short so as to result in significant rate shock.

16 **Q. What has Staff proposed?**

17 A. Staff has proposed an "alternate method" under which accumulated depreciation reserves
18 for Account 364 Poles, Towers and Fixtures would be transferred to the meters account
19 to offset the unrecovered costs. Staff's justification for this proposal appears to be based
20 on a perceived theoretical "over accrual" for Account 364.

¹⁰ This assumes that we maintain the 40 year average service life and do not accelerate recovery equal to the shorter program completion.

1 **Q. Do you agree with Staff's proposal?**

2 A. No. In general, the most appropriate approach for addressing any theoretical reserve
3 imbalance (or "over accrual") for an account such as Account 364 is with the remaining
4 life technique, which has a "self-correcting" mechanism to handle any reserve
5 imbalances.

6 **Q. Why does Staff argue that there is an "over accrual" for Account 364?**

7 A. Staff's perceived "over accrual" is based on a comparison of the book reserve to the
8 theoretical reserve for this account. The theoretical reserve is calculated using the current
9 service life and net salvage estimates for this account. Based on the current depreciation
10 study and plant balances as of December 31, 2013, the book reserve for this account is
11 about \$90.0 million and the theoretical reserve is about \$79.9 million.

12 **Q. Does the book reserve exceeding the theoretical reserve for this account mean that
13 too much has been collected in depreciation for this account?**

14 A. No. The theoretical reserve is simply a point in time calculation based on the current
15 estimates of service life and net salvage. The Company periodically performs new
16 depreciation studies and the service life and net salvage estimates are updated to reflect
17 the information available at the time. It is possible that these estimates could change in
18 future studies, and the resulting theoretical reserve will therefore change in future studies.
19 Additionally, the book reserve will change in future studies due to reserve activity
20 (retirements, accruals, cost of removal, etc.) that will occur.

1 **Q. Is it possible that in future studies the theoretical reserve could exceed the book**
2 **reserve for this account?**

3 A. Yes. In fact, based on the historical data for this account it is very possible that the net
4 salvage estimate for this account could be much more negative in future studies. A more
5 negative net salvage estimate would have the effect of increasing the theoretical reserve
6 and reducing any perceived theoretical “over accrual.” The current net salvage estimate
7 is negative 50 percent, which corresponds to the overall average net salvage for the full
8 period of available historical net salvage data.¹¹ However, cost of removal has trended
9 higher in recent years. The most recent ten year average of net salvage is negative 107
10 percent. The most recent five year average is negative 149 percent. If these trends
11 continue, then more negative net salvage estimates than the proposed negative 50 percent
12 will be necessary for this account. It is therefore likely that future studies will show a
13 higher theoretical reserve, and that Staff’s perceived “over accrual” may actually become
14 an “under accrual.”

15 **Q. Given the possibility that the theoretical reserve could exceed the book reserve in**
16 **future studies, is it appropriate to use depreciation reserves for Account 364 to**
17 **address the unrecovered costs of legacy meters?**

18 A. No. It is likely that if Staff’s proposal would result in an “under accrual” in future studies
19 for Account 364 to become an even larger “under accrual.” In my opinion it is therefore
20 not appropriate to address the unrecovered meters costs with the reserves for Account
21 364.

¹¹ The net salvage analysis for this account is presented on pages VIII-55 and VIII-56 of the depreciation study.

1 **Q. You have discussed the use of the remaining life technique previously for Account**
2 **364. Can the remaining life technique be used to recover the costs related to**
3 **meters?**

4 A. No. The unrecovered costs for stranded meters are by definition related to assets that will
5 have already been retired. Thus, there is no remaining life for these assets. Stranded
6 meter costs must therefore be recovered over a period of time longer than their service
7 lives. Transferring these costs to or from any other distribution plant accounts will have
8 the effect of recovering the unrecovered meters costs over the remaining lives of the other
9 distribution assets (namely Account 364), which represents a period of time much longer
10 than the remaining life of the stranded meters—which is zero.

11 **Q. Under Staff’s proposal, what is the period of time over which the meters costs will**
12 **be recovered?**

13 A. Staff proposes to address the unrecovered meter costs with reserves from Account 364,
14 Poles, Towers and Fixtures. The estimated remaining life for this account is 29.3 years.
15 Thus, Staff’s proposal will in effect recover the stranded meters costs over 29.3 years.

16 **Q. Will such a proposal result in intergenerational inequity?**

17 A. Yes, it will. Staff’s proposal means that customers will still be paying for retired meters
18 almost 30 years from now. These future customers will also be paying a return on the
19 costs that will not yet be recovered related to meters.

20 Given the length of the recovery inherent to Staff’s proposal, it is probable that a
21 large percentage of the customers almost 30 years from now will not have received any
22 benefit from the retired legacy meters. Yet these customers will still be paying for the
23 return of and a return on these meters costs.

1 **Q. Are there any other considerations that help to demonstrate the inequity of this**
2 **proposal?**

3 A. Yes. The average service life estimate for the new AMI meters is 20 years. Thus, in
4 nearly 30 years not only will customers be paying for the retired meters at issue in this
5 proceeding, they will be paying for the second generation of smart meters that have
6 replaced them. A 30 year amortization period is simply too long to be equitable.

7 **Q. What do you conclude regarding Staff's recommendation for this account?**

8 A. Staff's proposal should not be accepted by the Commission. Staff's proposal will recover
9 the costs of retired meters over a period of time that I consider too long to be equitable.
10 Additionally, it is very possible that Staff's proposal will result in an "under accrual" of
11 Account 364 in future studies. For these reasons, it is more appropriate to recover the
12 costs of retired meters over a 10 year period, as proposed in the depreciation study.

13 **III. ACCUMULATED FUTURE COST OF REMOVAL**

14 **Q. Please address Staff's discussion of "Accumulated Future Cost of Removal" that**
15 **begins on page 169 of the Staff Report.**

16 A. Staff's discussion in this section of the Staff Report appears to be based on a
17 misunderstanding regarding an interrogatory response KCP&L provided to Staff.
18 KCP&L does maintain the information related to net salvage in accumulated depreciation
19 that Staff discusses on page 169 of the Staff Report. This misunderstanding has lead
20 Staff to believe that KCP&L does not follow SFAS 143 Accounting for Asset Retirement
21 Obligations ("ARO"). Company witness Ryan A. Bresette discusses KCP&L's
22 implementation of SFAS 143 in his rebuttal testimony.

1 **Q. Can you explain the response to the data request cited by Staff on page 169 of the**
2 **Staff Report?**

3 A. Yes. Staff Data Request No. 137 references Mr. Spanos' Depreciation Study and asks for
4 the amount of book reserve related to net salvage. KCP&L's interpretation of this data
5 request was that Staff had requested the amount of accumulated net salvage that would
6 result from the depreciation study, which would be a theoretical amount based on the
7 estimates provided in the depreciation study. The theoretical reserve amounts exclude
8 ARO. Consequently, the response to the data request was based on the parameters in the
9 depreciation study which required the qualifying statement in the response related to the
10 theoretical estimate.

11 **Q. Has KCP&L been recording the amounts of net salvage in the depreciation reserve**
12 **since 2003?**

13 A. Yes, they have. This is a financial reporting practice.

14 **Q. Does using AmerenMO 12% of depreciation reserves as net salvage have any**
15 **relevance to KCP&L?**

16 A. Not at all. As previously stated, the amounts were established based on the particular
17 parameters for each company which were not the same and the net salvage components
18 and activity have been different since that time as well.

19 **IV. CONCLUSION**

20 **Q. Does this conclude your rebuttal testimony?**

21 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) Case No. ER-2014-0370
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 Kansas City Power & Light Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of twenty (20) 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
John J. Spanos

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

Cheryl Ann Rutter
Notary Public

My commission expires: February 20, 2019

