

Exhibit No.:  
Issue: Depreciation Rates  
Witness: Thomas J. Sullivan  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Empire District Electric  
Case No. ER-2012-0345  
Date Testimony Prepared: January 2013

**BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION**

**Case No. ER-2012-0345**

**The Empire District Electric Company**

**Rebuttal Testimony of  
Thomas J. Sullivan**

**Issues:  
Depreciation Rates**

**REBUTTAL TESTIMONY  
OF THOMAS J. SULLIVAN  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2012-0345**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. Thomas J. Sullivan, 15898 Millville Road, Richmond, Missouri 64085.

3 **Q. Are you the same Thomas J. Sullivan who filed direct testimony in this**  
4 **matter before the Missouri Public Service Commission (“Commission”) on**  
5 **behalf of The Empire District Electric Company (“Empire” or “Company”)?**

6 Yes, I am.

7 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

8 A. I will address the depreciation recommendations of the Missouri Public Service  
9 Commission Staff (“Staff”) contained on pages 95 through 102 of the Staff Report  
10 – Cost of Service – Revenue Requirement, dated November 30, 2012 (“Staff  
11 Report”).

12 **Q. PLEASE SUMMARIZE THE STAFF’S PROPOSED DEPRECIATION RATES.**

13 A. The Staff’s proposed production plant depreciation rates are based on the  
14 analyses contained in Schedule TJS-2 reflecting very minor modifications to the  
15 net salvage allowances reflected in my analyses. The differences are minimal.  
16 The Staff’s proposed transmission, distribution, and general plant depreciation  
17 rates are equivalent to the Company’s existing depreciation rates.

18 **Q. PLEASE SUMMARIZE THE CONCERNS YOU HAVE WITH THE STAFF’S**  
19 **PROPOSED DEPRECIATION RATES.**

1 A. I will address the following concerns with Staff's depreciation rates and their  
2 explanation of those rates in the Staff Report:

3 1. The Staff mischaracterizes the rates it is recommending for the  
4 Company's production units as remaining life rates (Page 98, Line 4).

5 2. The Staff's recommendations regarding the depreciation rates for the  
6 production units fail to recognize the most current information  
7 regarding the expected retirement dates of the Asbury and Riverton  
8 plants and the most current cost estimates for the Asbury mercury  
9 emission equipment.

10 3. The Staff incorrectly implies that the Company has "no record of  
11 depreciation reserve....actually accrued for any specific asset or unit."  
12 Staff therefore incorrectly concludes that "any over or under accrual of  
13 reserve for any asset less than functional classification is beyond the  
14 precision involved in regulatory depreciation historically practiced"  
15 (Page 99, Line 28 through Page 100, Line 2).

16 4. The Staff Report does not explicitly address the amortization of reserve  
17 deficiency on the Riverton coal units.

18 5. The Staff Report provides no support for its incorrect claim that the  
19 Company's depreciation reserve is over-accrued under its  
20 recommended rates (Page 97, Lines 16 through 19).

21 **Q. ARE THE PRODUCTION PLANT DEPRECIATION RATES THE STAFF IS**  
22 **RECOMMENDING REMAINING LIFE RATES?**

1 A. No, they are not. The production plant depreciation rates shown in Appendix 3,  
2 Schedule JAR(DEP)-1 in the Staff Report are based on the rates shown in  
3 Schedule TJS-2, Table 5-1, Columns [E] through [H], which are clearly identified  
4 as whole life rates. The appropriate remaining life rates are shown in Column [I]  
5 of Table 5-1. The detailed calculations of both the whole life and remaining life  
6 rates in Table 5-1 are shown in Appendix A of Schedule TJS-2.

7 **Q. WHAT IS THE PRINCIPAL DIFFERENCE BETWEEN THE WHOLE LIFE AND**  
8 **REMAINING LIFE RATES SHOWN IN TABLE 5-1?**

9 A. The whole life rates are calculated based on historical and expected plant activity  
10 over the entire (whole) life of the facilities. The remaining life rates are based on  
11 recovering the difference between current plant in service and expected plant  
12 activity minus accumulated depreciation over the remaining life of the facility.

13 **Q. IS THERE OTHER EVIDENCE IN THE STAFF REPORT THAT THE STAFF'S**  
14 **RECOMMENDED RATES FOR PRODUCTION PLANT ARE NOT REMAINING**  
15 **LIFE RATES?**

16 A. Yes. The Staff's discussions on pages 96 through 97 and pages 99 through 100  
17 in the Staff Report regarding Depreciation Reserve do not make sense if the  
18 depreciation rates the Staff is recommending for production plant are based on  
19 the remaining life method. The entire discussion of amortization of over or under  
20 accrued depreciation reserve is not relevant to the remaining life method. By  
21 definition, the remaining life method automatically amortizes any over or under  
22 accrual of depreciation reserve. In addition, if the Staff is recommending  
23 remaining life rates, it is contradictory to be opposed to amortizing the reserve

1 deficiency on the Riverton coal units. Again, as discussed on page 17, lines 9  
2 through 15 of my direct testimony, use of the remaining life method corrects for  
3 any reserve deficiency (or excess).

4 **Q. IF IT IS THE STAFF'S INTENT TO RECOMMEND, AND THE COMMISSION'S**  
5 **DESIRE TO USE, REMAINING LIFE RATES FOR EMPIRE'S PRODUCTION**  
6 **PLANT, WHAT DEPRECIATION RATES SHOULD BE USED?**

7 A. The appropriate remaining life rates for Empire's production plant are shown in  
8 Column [I] of Table 5-1 or Schedule TJS-2, with two exceptions: Asbury Plant  
9 and Riverton Plant. The appropriate remaining life rate for the Asbury Plant is  
10 shown on page 1 of Schedule TJS-6 to be 4.83 percent (including the cost of  
11 removal allowance of 0.49 percent). The appropriate remaining life rate for the  
12 Riverton Plant is shown on page 1 of Schedule TJS-7 to be 9.28 percent  
13 (including the cost of removal allowance of 1.78 percent). The two exceptions  
14 are related to the revised retirement dates and revised cost estimate for mercury  
15 emission equipment at the Asbury plant as discussed on page 14, lines 4  
16 through 16 of my direct testimony.

17 **Q. DO THE STAFF'S RECOMMENDED DEPRECIATION RATES TAKE INTO**  
18 **CONSIDERATION THE UPDATED RETIREMENT DATES OF RIVERTON AND**  
19 **ASBURY AND THE UPDATED COST ESTIMATE FOR MERCURY EMISSION**  
20 **EQUIPMENT AT THE ASBURY PLANT?**

21 A. No. The Staff's recommended depreciation rates for the Asbury and Riverton  
22 plants are based on the analyses contained in Schedule TJS-2, which was  
23 prepared in September 2010. The most current information regarding the Asbury

1 and Riverton plants is included in Schedules TJS-6 and TJS-7, respectively,  
2 which were prepared in July 2012.

3 **Q. DOES EMPIRE MAINTAIN RECORDS OF DEPRECIATION RESERVE BY**  
4 **PLANT?**

5 A. Yes. Those figures are shown in Column [D] of Table 6-2 of Schedule TJS-2, as  
6 well as various places in Appendix A or Schedule TJS-2. The updated figures for  
7 the Asbury and Riverton plants are shown in Schedules TJS-6 and TJS-7,  
8 respectively.

9 **Q. IS THE STAFF'S ASSERTION ON PAGE 97 OF THE STAFF REPORT THAT**  
10 **EMPIRE'S DEPRECIATION RESERVE IS OVER-ACCRUED ACCURATE?**

11 A. No. As shown in Table 6-2, Column [M], Line 60 of Schedule TJS-2, Empire's  
12 depreciation reserve was under-accrued at December 31, 2009 by \$21.9 million.  
13 For the production plant, Empire's depreciation reserve was under-accrued by  
14 \$56.9 million (Table 6-2, Column [M], Line22). In the nearly three years that the  
15 current depreciation rates have been used, the overall under-accrual has  
16 increased.

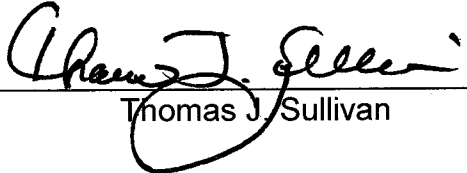
17 **Q. DOES THIS COMPLETE YOUR PREPARED REBUTTAL TESTIMONY?**

18 A. Yes, it does.

**AFFIDAVIT OF THOMAS J. SULLIVAN**

STATE OF MISSOURI )  
  ) ss  
COUNTY OF RAY        )

On the 11<sup>th</sup> day of January 2013, before me appeared Thomas J. Sullivan, to me personally known, who, being by me first duly sworn, states that he is President of Navillus Utility Consulting LLC and acknowledged that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

  
Thomas J. Sullivan

Subscribed and sworn to before me this 11<sup>th</sup> day of January, 2013

  
Notary Public

My commission expires: 4-3-16

