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Witness: Thomas J. Sullivan
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Case No. ER-2012-0345
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BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2012-0345

The Empire District Electric Company

Surrebuttal Testimony of

Thomas J. Sullivan

**SURREBUTTAL 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 and**
4 **rebuttal testimony in this matter before the Missouri Public Service**
5 **Commission (“Commission”) on behalf of The Empire District Electric**
6 **Company (“Empire” or “Company”)?**

7 A. Yes, I am.

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

9 A. I will address the rebuttal testimony of Mr. John Robinett of the Missouri Public
10 Service Commission Staff (“Staff”) and the rebuttal testimony of Mr. Ted
11 Robinson of the Office of the Public Counsel (“OPC”) regarding the reserve
12 deficiency of the Riverton coal-fired facilities.

13 **Q. PLEASE SUMMARIZE YOUR CONCERNS WITH THE STAFF’S POSITION**
14 **REGARDING THE RIVERTON RESERVE DEFICIENCY.**

15 A. I have the following concerns with the rebuttal testimony filed by Mr. Robinett:

- 16 1. Staff is confusing the issue regarding the Company’s request regarding
17 the reserve deficiency for Riverton units 7 and 8.
- 18 2. Staff misquotes the FERC Uniform System of Accounts.
- 19 3. Staff violates its own incorrect interpretation of the FERC Uniform
20 System of Accounts.

1 4. Staff's claim that there is no reserve deficiency associated with
2 Riverton 7 and 8 is not supported by the facts presented in this case.

3 5. Staff's discussion of reserve deficiency is inconsistent with the Staff's
4 claim that it is recommending remaining life rates.

5 6. Staff's position is contrary to the principle that the cost of facilities
6 should be borne by ratepayers who receive the benefit of those
7 facilities.

8 **Q. HOW HAS STAFF CONFUSED THE COMPANY'S REQUEST REGARDING**
9 **THE RESERVE DEFICIENCY FOR RIVERTON UNITS 7 AND 8?**

10 A. On page 1, lines 18 through 22 of his rebuttal testimony, Mr. Robinett prefaces
11 the Company's request as relating to "the shortfall of depreciation reserves
12 related to the future retirement of Riverton 7, 8, 9, and Asbury 2..."

13 This statement is factually incorrect. As stated in both my direct and
14 rebuttal testimonies, the Company is requesting amortization of the reserve
15 deficiency for Riverton 7 and 8. Nowhere in my testimony and schedules have I
16 indicated that the Company is requesting anything but amortization of the reserve
17 deficiency for Riverton 7 and 8 in this case.

18 **Q. HOW HAS STAFF MISQUOTED THE FERC UNIFORM SYSTEM OF**
19 **ACCOUNTS?**

20 A. On page 3, lines 13 and 14 of his rebuttal testimony, Mr. Robinett states: "The
21 FERC Account 108 definition clearly states that depreciation reserves are to be
22 analyzed by functional classification of plant, not on the individual unit basis."

1 The FERC Uniform System of Accounts actually says the following: “For
2 general ledger and balance sheet purposes, this account shall be regarded as a
3 single composite provision for depreciation. For purposes of analysis, however,
4 each utility shall maintain subsidiary records in which this account is segregated
5 according the following functional classification for electric plant:...”

6 Nowhere does the Uniform System of Accounts state “not on the individual
7 unit basis.” Furthermore, the definition referenced by Staff has generally been
8 interpreted as a minimum requirement that does not prohibit maintaining
9 additional detail. It is common to see accumulated depreciation maintained at
10 the FERC account level, for example.

11 **Q. WHERE HAS THE STAFF VIOLATED THE NARROW DEFINITION OF THE**
12 **UNIFORM SYSTEM OF ACCOUNTS PROVIDED BY MR. ROBINETT AND**
13 **PERFORMED ANALYSES AT THE ADDITIONAL DETAIL LEVEL THAT YOU**
14 **DISCUSSED?**

15 A. In Staff Accounting Schedule 6, the Staff provides an analysis showing
16 accumulated depreciation reserve not only by FERC account but also by
17 individual generating unit. Furthermore, the adjustments and the jurisdictional
18 allocation performed by Staff in this Schedule are also performed at the FERC
19 account and individual generating unit levels.

20 In Mr. Robinett’s rebuttal testimony, he also violates his own narrow
21 definition. If any analysis of depreciation reserve is limited to the functional level,
22 as the Staff claims, then Staff’s position regarding the Asbury unit train, as stated
23 on page 4, lines 16 through 18 of Mr. Robinett’s rebuttal, violates its own stated

1 rule because Staff is recommending not only a reserve adjustment to a specific
2 generating unit but also a specific account for that generating unit.

3 **Q. HAVE YOU PROVIDED ANALYSES IN THIS CASE SUPPORTING THE**
4 **COMPANY'S POSITION THAT THERE IS A RESERVE DEFICIENCY**
5 **ASSOCIATED WITH RIVERTON 7 AND 8?**

6 A. Yes. Please see page 5 of my rebuttal testimony and pages 15 through 18 of my
7 direct testimony in this case. As indicated above, the Staff's analysis of reserve
8 on page 2 of Mr. Robinett's rebuttal testimony is flawed because it is based on
9 selective, inconsistent, and overly narrow interpretation of the FERC Uniform
10 System of Accounts.

11 **Q. IF THE STAFF IS PROPOSING REMAINING LIFE RATES FOR THE**
12 **COMPANY'S GENERATING FACILITIES, IS THE DISCUSSION OF RESERVE**
13 **DEFICIENCY RELEVANT?**

14 A. No. As discussed in my rebuttal testimony on pages 3 and 4, the remaining life
15 method automatically amortizes any over or under accrual of depreciation
16 reserve; therefore, if remaining life rates are used, there is no need for an
17 amortization of any reserve deficiency. As further discussed in my rebuttal
18 testimony, it is unclear whether the Staff is recommending whole life or remaining
19 life rates. Staff's direct testimony and its Revenue Requirement Report are
20 internally inconsistent with one another. If it is truly Staff's intent to propose
21 remaining life rates, the appropriate depreciation rates are discussed on page 4
22 of my rebuttal testimony, and no amortization of reserve deficiency is required.

1 **Q. HOW IS THE STAFF'S POSITION CONTRARY TO THE PRINCIPLE THAT**
2 **RATEPAYERS WHO RECEIVE THE BENEFITS OF A FACILITY SHOULD**
3 **PAY THE COSTS OF THAT FACILITY?**

4 A. On page 3, lines 3 through 7 of his rebuttal testimony, Mr. Robinett states: "After
5 the retirements and associated cost of removal are recorded (become known and
6 measureable), for these facilities, a depreciation study should be conducted to
7 evaluate the reasonableness of current ordered depreciation rates, and
8 adjustments made accordingly. These adjustments would compensate for any
9 excess or shortfall observed in the reserves as a result of the retirements and
10 removal of these facilities."

11 This recommendation would result in any shortfall being recovered after
12 the plant is retired and it is no longer generating electricity. As a result, the
13 unrecovered costs will be borne by ratepayers who did not benefit from the
14 output of the plant. Furthermore, the ratepayers who did benefit from the output
15 of the plant will not have fully paid for the plant. The Commission has an
16 opportunity in this case to avoid this outcome.

17 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING STAFF'S**
18 **POSITION REGARDING ACCUMULATED DEPRECIATION?**

19 A. Yes. It should be pointed out that if Staff's stated interpretation of Account 108 is
20 true, it would be virtually impossible to develop remaining life rates using a life
21 span approach for generating assets. Further, it would not be possible to develop
22 remaining life rates by FERC account. In order to develop remaining life rates by

1 generating plant or by FERC account, accumulated depreciation by generating
2 plant or by FERC account is required.

3 **Q. PLEASE SUMMARIZE THE OPC'S POSITION REGARDING THE RIVERTON**
4 **RESERVE DEFICIENCY.**

5 A. The OPC's position regarding the Riverton reserve deficiency is addressed on
6 pages 10 through 15 of Mr. Robertson's rebuttal testimony. The OPC does not
7 provide any additional evidence or analysis beyond that provided by the Staff.
8 The OPC is agreeing with the Staff's position regarding the Riverton reserve
9 deficiency.

10 **Q. ARE THERE ANY COMMENTS YOU WOULD LIKE TO ADD REGARDING**
11 **THE OPC'S POSITION?**

12 A. Yes. First, the OPC does not provide any independent analysis of depreciation
13 rates or reserve. Second, the OPC recommends that any reserve deficiency
14 should not be addressed until after a plant retires. As Mr. Robertson states on
15 page 14, line 19 through page 15, line 2: "Not until the retirements actually occur
16 will the parties, or the Commission, know what, if any, reserve deficiency exists
17 or if one exists at all. Therefore, it is Public Counsel's recommendation that the
18 Commission deny the Company's request based on a projected retirement year
19 and estimated deficiency amount which it does not know for certain will occur."

20 There are two problems with this statement. First, the Commission has
21 already adopted the life span approach (and the Staff is also agreeing with this
22 approach in this case) which by definition, is dependent upon projected
23 retirement years. Second, Mr. Robertson's statement is inconsistent with the

1 matching principle, which favors ratepayers paying the costs for facilities from
2 which they receive benefit.

3 **Q. DOES THIS COMPLETE YOUR PREPARED SURREBUTTAL TESTIMONY?**

4 **A.** Yes, it does.

