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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2016-0285**

Missouri Public  
Service Commission

**SURREBUTTAL TESTIMONY**

**OF**

**JOHN J. SPANOS**

**ON BEHALF OF**

**KANSAS CITY POWER & LIGHT COMPANY**

Kansas City, Missouri  
January 2017

KCP+L Exhibit No. 145  
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File No. ER-2016-0285



**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 Testimony and Rebuttal**  
4 **Testimony in this matter?**

5 A. Yes.

6 **Q. What is the purpose of your Surrebuttal Testimony?**

7 A. The purpose of my testimony is to address the depreciation issues set forth in the Rebuttal  
8 Testimony of Missouri Office of the Public Counsel (“OPC”) witness John A. Robinett. I  
9 will also address the responses to Data Requests prepared by the Missouri Public Service  
10 Commission (“Commission”) Staff (“Staff”).

11 **Q. What are the subjects of your Surrebuttal Testimony?**

12 A. First, I will comment on Staff responses to data requests related to Montrose Unit 1  
13 which due to the timing of receipt of the responses were unable to be reviewed prior to  
14 the submittal of rebuttal testimony. Second, I will address OPC witness Robinett’s  
15 depreciation related issues. The main discussion will relate to clarification of his  
16 misunderstanding of the costs included in the depreciation study which leads to why  
17 updated depreciation rates are appropriate in this proceeding. Additionally, it should be  
18 clear that KCPL is not requesting depreciation rates by generating unit.

1     **Q. Can you discuss the flaws in Staff's treatment of Montrose Unit 1 for the remaining**  
2     **facilities?**

3     A. As stated in the Staff Report, Staff personnel took a site visit to Montrose generating  
4     facility to see the activities of terminal net salvage. These activities are cost of removal  
5     and should be included in total accumulated depreciation for Montrose Unit 1.  
6     Therefore, when these costs are included in depreciation rates, the total amount of  
7     depreciation expense to be recovered for Montrose Unit 1 should exceed the original cost.  
8     Thus, eliminating Montrose Unit 1 from the study without including the terminal costs  
9     which Staff has seen take place, does not fully recover the full service value of the  
10    facility.

11    **Q. How does Staff's removal of Montrose Unit 1 affect full recovery of Montrose Unit**  
12    **1?**

13    A. By removing both the original cost and accumulated depreciation of Montrose Unit 1  
14    with equal amounts, Staff does not allow for full recovery. If Staff agrees that after  
15    visiting Montrose Unit 1 that terminal net salvage is incurred, then they should not  
16    recommend maintaining the same depreciation rates for all other generating units from  
17    Case No. ER-2014-0370. Group depreciation and the remaining life method require the  
18    unrecovered amounts to be recovered by the remaining investment in the accounts.

19    **Q. Can you address Mr. Robinett's depreciation issues?**

20    A. Yes. Mr. Robinett only addressed depreciation issues in rebuttal, which primarily were  
21    due to a misunderstanding of terminology.

1 Q. On pages 6 and 7 of his testimony, Mr. Robinett argues that your direct testimony  
2 confuses the issue of terminal net salvage. Please address Mr. Robinett's comments.

3 A. First I would like to provide a number of definitions to help clarify the issue of terminal  
4 net salvage. These are as follows:

5 1) Net Salvage Costs - defined in my direct testimony page 6, lines 6 through 8  
6 "Net Salvage is the salvage value received for the asset upon retirement less the  
7 cost to retire the asset. When the cost to retire exceeds the salvage value, the  
8 result is negative net salvage."

9 2) Cost to retire (Cost of Removal) – defined as the cost (labor, overheads, etc.)  
10 incurred upon retirement of the asset.

11 3.) Salvage Value (Gross Salvage) – defined as proceeds received or value of  
12 material recoverable and returned to stores.

13 4.) Net Salvage Percentage Analysis – defined in my direct testimony page 7,  
14 lines 6 through 8 "The net salvage percentages for generating facilities were based  
15 on two components, the interim net salvage percentage and the final net salvage  
16 percentage."

17 5.) Interim Retirements – as defined in my rebuttal testimony on page 6 line 7  
18 through 10 "retirements that occur throughout the life of the plant (e.g. the  
19 replacement of individual components of the plant such as piping or pumps)."

20 6.) Interim net salvage percentages - net salvage that is related to interim  
21 retirements.

22 7.) Terminal Retirements (Final Retirements) – as defined in my rebuttal  
23 testimony on page 2 line 6 and 7 " The retirements that occur at the end of the life  
24 of an entire power plant are referred to as 'final' or 'terminal' retirements."

1 8.) Terminal Net Salvage (Final Net Salvage) – Terminal net salvage is the net  
2 salvage incurred upon the final retirement of an entire life span facility (such as a  
3 power plant). In the depreciation study final net salvage is estimated based on  
4 “Retirement Costs” provided by SEGA and included on page 1-7 in Chris  
5 Rogers’s testimony Schedule CRR-2. Final and Terminal net salvage is also  
6 referred to as dismantlement costs or decommissioning costs.

7 8.) Dismantlement Costs (Decommissioning Costs) – often used interchangeably  
8 with the term final net salvage. However, dismantlement costs are more precisely  
9 defined in this study have two components “Retirement” and “Dismantlement”.  
10 These two components were included in the SEGA study and included on page 1-  
11 7 of Chris Rogers’s testimony Schedule CRR-2. As referenced on page 7, only  
12 the retirement component was used in the depreciation study.

13 9.) Retirement Cost Component - as used in the depreciation study and defined by  
14 Mr. Rogers in his direct testimony on page 4 lines 16 through 18 “Retirement, as  
15 used in this study, refers to the planned, orderly and safe shutdown and removal  
16 from service of an electric generating unit and assumes the unit will not be used  
17 for service again.”

18 10.) Dismantlement Cost Component – was not used in the depreciation study and  
19 was defined by Mr. Rogers in his direct testimony on page 5 line 23 thru page 6  
20 line 2 “Dismantlement as contemplated in this study provides for the orderly  
21 removal of the unit’s components to maximize safety and scrap value while  
22 preventing damage to any surrounding facilities.”

1 **Q. Please address further Mr. Robinett’s comments on pages 6 and 7 of his rebuttal**  
2 **testimony.**

3 A. Mr. Robinett’s confusion appears to be due to semantics related to the concept of  
4 terminal net salvage. In my direct testimony, I used the term “dismantlement,” which is  
5 often used interchangeably with “terminal net salvage” or “final net salvage” when  
6 discussing net salvage costs related to the retirement of electric generating facilities. This  
7 usage is common because it is well understood in the depreciation profession that the cost  
8 of retiring a facility must be included in depreciation rates in order to equitably allocate  
9 the costs of a power plant over its service life. As I discussed in my rebuttal testimony,<sup>1</sup>  
10 the Commission has endorsed the concept that net salvage (or the net cost of retirement)  
11 is to be included in depreciation in the Laclede case.<sup>2</sup>

12 However, in the instant case a more precise distinction has been made between  
13 “retirement costs” and “dismantlement costs.” This is because the Company is  
14 requesting what is in my view a very conservative level of terminal net salvage in its  
15 depreciation rates. While it is likely that the Company will incur “dismantlement costs”  
16 in addition to “retirement costs,” the Company has only requested the “retirement costs”  
17 to be included in depreciation rates. That is, I have only included the “retirement costs”  
18 (and not “the dismantlement costs”) from the SEGA study in the depreciation rates  
19 recommended in my direct testimony. However, the “retirement costs” should be  
20 considered the minimum that should be included in KCP&L’s depreciation expense.  
21 OPC’s (and Staff’s) proposal to include zero terminal net salvage is in contradiction to  
22 the Commission’s decision in the Laclede order, as the failure to include any terminal net

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<sup>1</sup> See page 4, lines 15-24 of my rebuttal testimony.  
<sup>2</sup> Case No. GR-99-315.

1 salvage will defer these costs to future customers who will receive no benefit from the  
2 Company's generating facilities. . In the Laclede order The Commission stated:  
3 The Commission finds that the fundamental goal of depreciation accounting is to allocate  
4 the full cost of an asset, including its net salvage cost, over its economic or service life so  
5 that utility customers will be charged for the cost of the asset in proportion to the benefit  
6 they receive from its consumption. The Commission further finds that the method  
7 utilized by Laclede is consistent with that fundamental goal.

8 **Q. Are you aware that the SEGA study includes a "Retirement" component and**  
9 **"Dismantlement" component?**

10 A. Yes. As stated in my direct and rebuttal testimony only the "Retirement" component was  
11 used in my study.

12 **Q Mr. Robinett on page 6 of his rebuttal testimony believes Mr. Spanos has not made it**  
13 **clear as to whether he has included dismantlement costs from the SEGA study in the**  
14 **computation of terminal net salvage percentages. Can you identify in your direct or**  
15 **rebuttal testimony that clearly identifies you were using only the "retirement" costs**  
16 **from the SEGA study as filed in Mr. Chris Rogers direct testimony for use in your**  
17 **terminal net salvage computation?**

18 A. Yes. Page 9 line 5 through 19 of my rebuttal testimony discusses how terminal net salvage  
19 costs were determined and used in the current study. Line 13 through 15 states "Further,  
20 the terminal net salvage used for the depreciation study are based only on the retirement  
21 components of the SEGA report, and do not include other costs for site remediation that  
22 may occur."

1 **Q. Mr. Robinett on page 7 line 19 through 21 of his rebuttal testimony states “KCP&L’s**  
2 **witnesses appear to not be in agreement with each other (or with their own**  
3 **testimony) as to whether the dismantlement portion of terminal net salvage was or**  
4 **was not included in the depreciation study. Can you identify in your direct or**  
5 **rebuttal testimony where you and Mr. Rogers are in agreement regarding the**  
6 **category of costs included in your depreciation study?**

7 A. Yes. Mr. Rogers and I have always been in agreement that only the retirement component  
8 of Mr. Rogers study would be used in my depreciation study. As mentioned in response  
9 to the preceding question page 9, line 13 through 15 of my rebuttal testimony clearly  
10 states that only the retirement component was used in my depreciation study. Mr. Rogers  
11 stated in his direct testimony page 8 lines 4 through 7 that “[i]t is my understanding that  
12 the retirement costs I have identified have been incorporated into the depreciation study  
13 performed for KCP&L by Company witness, Mr. John Spanos. It is also my  
14 understanding that Mr. Spanos has not included the dismantling costs from my study in  
15 his depreciation study.”

16 **Q. Mr. Robinett provides an example of the Company’s Hawthorn units that were**  
17 **retired in 1984. Please address his example.**

18 A. Mr. Robinett appears to argue that the Company will not incur retirement costs for its  
19 current power plants because it has not fully dismantled four units at Hawthorn that were  
20 retired over thirty years ago. I first would note that there are still units operating at the  
21 Hawthorn site, and therefore it is still possible that these units will be dismantled at some  
22 point in the future. Additionally, the regulatory environment has changed considerably  
23 over the past thirty years. In my rebuttal testimony<sup>3</sup> I provided a number of examples of

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<sup>3</sup> See pages 9 through 14 of my rebuttal testimony.



1 more contemporary retirements of power plants. These plants provide further (and more  
2 current) evidence that terminal net salvage must be included in depreciation.

3 **Q. Please discuss Mr. Robinett's comments regarding the principle of "known and**  
4 **measurable" costs.**

5 A. I should be clear that depreciation requires estimates of events that will happen many  
6 years in the future. This is true for service lives (which are estimates of retirements that  
7 will occur many years in the future) and for net salvage (which are estimates of costs that  
8 will be incurred in the future). Because the future cannot be known with absolute  
9 certainty, depreciation estimates obviously cannot be made with complete certainty.  
10 However, estimates still must be made, and as I have explained in my rebuttal testimony  
11 the Commission required in Laclede (Case No. 99-315) that depreciation include  
12 estimates of future net salvage. Thus, estimates of future net salvage costs, which would  
13 include terminal net salvage, meet Commission principles of including "known and  
14 measurable costs" in depreciation rates.

15 Further, the retirement costs included in my recommended depreciation rates are  
16 based on a detailed study performed by SEGA. The terminal net salvage costs included  
17 are therefore the minimum costs expected to be incurred upon the retirement of these  
18 plants. Just as the Commission has accepted studies of the estimates of terminal  
19 retirement dates for the estimation of power plant life spans, the SEGA study is a  
20 reasonable basis for the estimate of terminal net salvage costs.

21 **Q. Please address Mr. Robinett's comments, Page 9, lines 14 through 21, that it is**  
22 **"improper" to include net salvage estimates by generating facility.**

23 A. Mr. Robinett argues that the historical net salvage data is not maintained by facility, and  
24 therefore it would be improper to estimate net salvage by generating facility. However,

1 the historical net salvage data in the depreciation study for generating facilities is only  
2 studied for interim retirements (i.e., those that occur throughout the life of the facility)  
3 and not for terminal retirements. Terminal net salvage is specific to each facility and  
4 therefore should be determined for each facility (ideally through a decommissioning  
5 study such as the one performed by SEGA).

6 Mr. Robinett also argues that the inclusion of terminal net salvage is inconsistent  
7 with Commission practice. I have already addressed this argument and have explained  
8 that it is in fact Mr. Robinett's proposal to exclude future net salvage costs that is  
9 inconsistent with the Commission's precedent in the Laclede case.

10 **Q. Does this clarification address Mr. Robinett's issue regarding updating depreciation**  
11 **rates?**

12 A. Yes. Mr. Robinett's position was based on the premise that depreciation components  
13 between witnesses were not consistent which has been explained to be inaccurate.

14 **Q. Are the depreciation rates presented in this case determined by generating unit or**  
15 **by account?**

16 A. The depreciation rates are developed by account. However, within each account there are  
17 generating units that have unique retirement dates. Also, the net salvage percentage is  
18 based on account level interim net salvage and the retirement costs from the SEGA  
19 report.

20 **Q. Does this conclude your Surrebuttal Testimony?**

21 A. Yes, it does.

