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Depreciation
Witness: Stephen B. Moilanen, PE
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2018-0145 and
ER-218-0146
Date Testimony Prepared: July 27, 2018

MISSOURI PUBLIC SERVICE COMMISSION
COMMISSION STAFF DIVISION
ENGINEERING ANALYSIS DEPARTMENT

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REBUTTAL TESTIMONY
OF
STEPHEN B. MOILANEN, PE

KANSAS CITY POWER AND LIGHT COMPANY
CASE NO. ER-2018-0145
AND
KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2018-0146

Jefferson City, Missouri
July 2018

Staff Exhibit No. 211
Date 9-25-18 Reporter TC
File No. ER-2018-0145 + 0146

1 REBUTTAL TESTIMONY

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4 KANSAS CITY POWER AND LIGHT COMPANY COMPANY
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6 AND

7 KCP&L GREATER MISSOURI OPERATIONS COMPANY
8 CASE NO. ER-2018-0146

9 Q. Please state your name and business address.

10 A. My name is Stephen B. Moilanen. My business address is Missouri Public
11 Service Commission ("Commission"), P.O. Box 360, Jefferson City, Missouri 65102.

12 Q. Are you the same Stephen B. Moilanen that contributed to Staff's Cost of
13 Service Report filed on June 19, 2018 in these cases?

14 A. Yes I am.

15 Q. What is the purpose of your testimony?

16 A. The purpose of my testimony is to respond to the Direct Testimony of
17 The Office of the Public Counsel's ("OPC") witness John A. Robinett regarding OPC's
18 recommendations for depreciation. Specifically, I will respond to OPC's recommendation
19 that certain generating units in service and currently owned by Kansas City Power and Light
20 Company ("KCPL") or KCP&L Greater Missouri Operations Company ("GMO") receive a
21 depreciation rate of 0%.

22 Q. What is OPC's position?

23 A. OPC's position is that all depreciation expense incurred by the following
24 generating units should be omitted from the cost of service used to set rates: Montrose Unit 2,

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1 Montrose Unit 3, Sibley Unit 1, Sibley Unit 2, and Sibley Unit 3.¹ OPC also states that “all of
2 the costs associated with the retirements” of the same units be omitted from the cost of service
3 for both the generating units and the common plant at the Sibley and Montrose plant
4 locations.²

5 Q. How does Staff interpret the phrase “all of the costs associated with the
6 retirements”?

7 A. Staff interprets “all of the costs associated with the retirements” to mean all
8 depreciation expense of all Sibley and Montrose plant accounts and any associated gross
9 salvage and/or costs of removal.

10 Q. What is the basis of OPC’s position?

11 A. OPC’s position is based on the premise that KCPL and GMO will retire all
12 plant at the Sibley and Montrose generating stations shortly after the conclusion of these rate
13 cases and shortly after the end of the accounting test year, and therefore, depreciation expense
14 for these items will be built into rates even though the items will not be in service for the
15 majority of the time the approved rates are in effect.

16 Q. How does this issue affect customers?

17 A. If the depreciation expense for the Montrose and Sibley properties is kept in
18 place, customers’ rates will be higher. However, the accounting methodology that is used
19 dictates that no depreciation expense can be credited to the depreciation reserve after
20 retirement. In other words, customers will technically be paying depreciation expense
21 (through inclusion in Commission-approved rates) for these properties but will not be credited
22 for it through contributions made on the books towards depreciation reserve. In his

¹ Direct Testimony of John A. Robinett, Case Nos. ER-2018-0145 and ER-2018-0146, page 10, lines 23-25, and page 12, lines 21-23.

² Direct Testimony of John A. Robinett, Case Nos. ER-2018-0145 and ER-2018-0146, page 1, lines 18-21.

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1 Direct Testimony, Mr. Robinett referred to this as “beneficial regulatory lag for
2 KPCL/GMO”.³

3 Q. Do you agree with Mr. Robinett that absent his adjustments, KCPL/GMO will
4 experience “beneficial regulatory lag”?

5 A. It is not possible to know with certainty. While a utility may continue to
6 collect depreciation expense related to plant that is retired after rates are set in a given case,
7 depreciation expense for new plant put into service after those rates are set would not be
8 collected until the Commission approves new rates in a subsequent rate case. This could
9 offset (to some extent) the customer contributions included in rates for retired plant.
10 Unfortunately, it is not possible to determine with certainty an exact value of new property
11 that will be placed in service between this rate case and the next. It is also worth mentioning
12 that Sibley and Montrose, if and when they are taken out of service, will be very large
13 retirements, numbering in the hundreds of millions of dollars.

14 Q. What is the value of this issue?

15 A. According to Staff’s accounting schedules, which were submitted concurrently
16 with the Staff Cost of Service Report and Staff’s direct testimony, the depreciation expense
17 for the Montrose facility is approximately \$3.1 million per year and the depreciation expense
18 for the Sibley facility is approximately \$10.3 million per year.

19 Q. Does Staff agree with OPC’s approach to set depreciation rates for Montrose
20 and Sibley stations to 0%?

21 A. No. Staff disagrees with OPC’s recommendation to omit depreciation expense
22 for these items because the planned retirements fall outside the test year, and are just that –
23 planned, not certain.

³ Direct Testimony of John A. Robinett, Case Nos. ER-2018-0145 and ER-2018-0146, page 9, lines 2 and 13.

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1 Q. Why does Staff take issue that the retirements are forecasted to fall outside the
2 test year?

3 A. Staff uses an observed test year to propose fair rates because it contains known
4 and measureable information on which to base those rates. Basing rates off future planned
5 retirements is presumptuous and does not utilize known and measureable information.
6 Mr. Robinett acknowledged two specific factors that contribute to the uncertainty of the
7 Sibley and/or Montrose retirements: the presidential order signed by President Trump on
8 June 1, 2018, regarding stopping the closure of unprofitable coal and nuclear plants⁴ and
9 OPC's concern that retirement of the Sibley Unit 3 generator will create a deficiency in
10 capacity for GMO.⁵

11 Q. Did OPC offer an alternative to setting depreciation rates for Sibley and
12 Montrose to zero?

13 A. Yes. OPC recommended that in the event the Commission decides against the
14 exclusion of depreciation expense for Sibley and Montrose in rates, records be maintained
15 which document how much depreciation expense charged to customers is not booked to the
16 depreciation reserve. OPC then went on to state that customers should be credited for these
17 payments at the next rate case.⁶

18 Q. Does Staff agree with OPC's alternative?

19 A. Staff agrees that it is appropriate to document the difference between the
20 depreciation expense booked to reserve and depreciation expense included in rates for the
21 Sibley, Montrose, and Lake Road units. Staff has no position regarding what course of action

⁴ Direct Testimony of John A. Robinett, Case Nos. ER-2018-0145 and ER-2018-0146, page 12, lines 5-10, and page 14, lines 16-21.

⁵ Direct Testimony of John A. Robinett, Case Nos. ER-2018-0145 and ER-2018-0146, page 4, lines 3-8.

⁶ Direct Testimony of John A. Robinett, Case Nos. ER-2018-0145 and ER-2018-0146, page 11, lines 4-8, and page 14, lines 16-21.

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1 | to take in regards to this difference in future rate cases. In Staff's opinion, it is prudent for
2 | this value to be recorded. Staff can review this information in future rate cases when
3 | developing a position regarding adjustments to depreciation reserve.

4 | Q. Does this conclude your testimony?

5 | 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) Case No. ER-2018-0145
 to Implement a General Rate Increase for)
 Electric Service)

and

In the Matter of KCP&L Greater)
 Missouri Operations Company's Request) Case No. ER-2018-0146
 for Authority to Implement a General)
 Rate Increase for Electric Service)

AFFIDAVIT OF STEPHEN B. MOILANEN, PE

STATE OF MISSOURI)
) ss.
 COUNTY OF COLE)

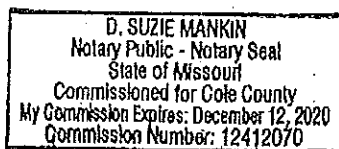
COMES NOW STEPHEN B. MOILANEN, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony* and that the same is true and correct according to his best knowledge and belief.

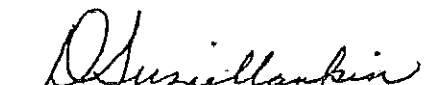
Further the Affiant sayeth not.


 STEPHEN B. MOILANEN, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 26th day of July 2018.




 Notary Public