

Exhibit No.:  
Issue(s): Plant Amortization  
Witness: Stephen B. Moilanen, PE  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Surrebuttal Testimony  
Case Nos.: ER-2018-0145 and  
ER-2018-0146  
Date Testimony Prepared: September 4, 2018

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**ENGINEERING ANALYSIS DEPARTMENT**

FILED  
October 23, 2018  
Data Center  
Missouri Public  
Service Commission

**SURREBUTTAL 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  
September 2018*

*Staff*  
Exhibit No. 240  
Date 9-25-18 Reporter YV  
File No. ER-2018-0145 + 0146



Surrebuttal Testimony of  
Stephen B. Moilanen, PE

1           A.     The Company has taken the position that the \$7.2 million annual amortization  
2 amount should remain in rates until the next rate case, at which time, the Company intends to  
3 present a depreciation study.<sup>1</sup>

4           Q.     What is the Company's basis for its position?

5           A.     Mr. Klote offered three reasons. First, he stated that because of the short time  
6 frame between this rate case and the last, no new depreciation study has been performed to  
7 justify removing the annual amortization amount. Second, he stated that in the last rate case  
8 (Case No. ER-2016-0156) Staff stated that "amortization is a possible method to make up  
9 imbalances in depreciation reserve balances" and that Staff supports this method because of  
10 the inclusion of the \$7.2 million annual amortization amount in the Stipulation and  
11 Agreement approved by the Commission. Third, he stated that the language in the  
12 Stipulation and Agreement supports maintaining the \$7.2 million in this rate case.<sup>2</sup>

13          Q.     Why does Staff have the position that this amount should not be included  
14 in rates?

15          A.     Because the Stipulation and Agreement from Case No. ER-2016-0156  
16 specifically states that the amortization is to end at the next general rate case. The  
17 Stipulation and Agreement states the following on pages 2 and 3:

18                   **This additional amortization shall be booked and accounted**  
19                   **for on an annual basis until GMO's next general electric rate**  
20                   **case. In GMO's next filed rate case the Commission will**  
21                   **determine the distribution of the additional amortization. The**  
22                   **balance will be used to cover any deficiencies in reserves across**  
23                   **production, transmission and distribution accounts. Any**  
24                   **undistributed balance will be used as an offset to future rate base.**  
25                   **This amortization is for purpose of settlement of this case only and**

<sup>1</sup> Rebuttal Testimony of Ronald A. Klote, Case Nos. ER-2018-0145 and ER-2018-0146, Page 12, Lines 12-20.

<sup>2</sup> Rebuttal Testimony of Ronald A. Klote, Case Nos. ER-2018-0145 and ER-2018-0146, Page 13, Lines 1-23 and Page 14, Lines 1-11.

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1 does not constitute an agreement as to the methodology or a  
2 precedent for any future rate case. [Emphasis added.]

3 Q. Why was the additional amortization put in place?

4 A. From the language of the Stipulation and Agreement approved in Case No.  
5 ER-2018-0156, the additional amortization was simply a means to reach settlement regarding  
6 the disagreement Staff had with the Company regarding depreciation in the prior rate case.  
7 As disclosed previously, the Stipulation and Agreement states: “This amortization is for  
8 purpose of settlement of this case only...” [Emphasis added.]

9 Q. What were the causes of disagreement in the last case regarding depreciation  
10 and how was it resolved in the Stipulation and Agreement?

11 A. Specifically, Staff was opposed to the technique used to calculate the  
12 depreciation rate as well as the Net Salvage methodology employed by the Company’s  
13 recommendation regarding depreciation rates.<sup>3</sup> It is my understanding that Staff’s position  
14 proposed to maintain the depreciation rates that were currently ordered at the time while the  
15 Company proposed new rates based on new salvage and service life parameters. Per the  
16 Stipulation and Agreement, the existing rates were continued per Staff’s recommendation  
17 (with some updates not pertinent to this discussion)<sup>4</sup> and the annual amortization amount of  
18 \$7.2 million was prescribed.

19 Q. In Mr. Klote’s Rebuttal Testimony, on pages 13 and 14, he states, “...the  
20 language in the Stipulation and Agreement from the last GMO rate case clearly states that  
21 there is no precedent set in future rate cases. Both Staff and the Office of the Public Counsel

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<sup>3</sup> Surrebuttal Testimony of Derick A. Miles, P.E., Case No. ER-2016-0156, Pages 3-5.

<sup>4</sup> Updates to the depreciation schedule included combining the rates of GMO’s separate districts, as well as adding a handful of new accounts that were not previously prescribed (particularly for solar assets).

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1 have taken that to mean that it is time to end the amortization.” Do you agree with  
2 this statement?

3 A. Not entirely. As I disclose previously, there is also language that specifically  
4 states the amortization is to be collected *until* the next rate case, which is now. The language  
5 Mr. Klote references states the following: “*This amortization is for purpose of settlement of*  
6 *this case only and does not constitute an agreement as to the methodology or a precedent for*  
7 *any future rate case.*” I interpret this language to indicate that Staff was simply stating that it  
8 was refusing an obligation to support or oppose amortization of reserve imbalances because of  
9 this Stipulation and Agreement. I believe it was important for Staff to include this language  
10 in the Stipulation and Agreement because amortization of reserve imbalances is fairly  
11 common in the industry, but is also something Staff has not supported in the past.<sup>5</sup>

12 Q. Mr. Klote stated that because no depreciation study was performed, there is no  
13 justification for ending the amortization.<sup>6</sup> What is your response to that statement?

14 A. Staff’s basis to end the amortization comes from the language in the  
15 Stipulation and Agreement from the last GMO rate case. Although I agree with Mr. Klote  
16 that the lack of a new depreciation study in this case does not cause justification for halting  
17 the annual amortization amount, it also does not provide cause for continuing the annual  
18 amortization amount.

19 Q. Mr. Klote implies in his Rebuttal Testimony that the amortization is in place to  
20 make up deficiencies in reserve balance.<sup>7</sup> Do you agree there is a reserve deficiency?

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<sup>5</sup> Case No. ER-2007-0002, Report and Order, Page 94 – Staff Witness Jolie Mathis identified a reserve imbalance based on Staff-proposed depreciation parameters, but did not propose an amortization of the imbalance.

<sup>6</sup> Rebuttal Testimony of Ronald A. Klote, Case Nos. ER-2018-0145 and ER-2018-0146, Page 14, Lines 5-8.

<sup>7</sup> Rebuttal Testimony of Ronald A. Klote, Case Nos. ER-2018-0145 and ER-2018-0146, Pages 13 and 14.

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1           A.     I acknowledge there may be a reserve deficiency, but I cannot form a position  
2 regarding the quantity of a reserve imbalance (whether it be a deficiency or a surplus) without  
3 a depreciation study. Even if I did quantify a reserve imbalance, it would be subjective due to  
4 the nature of the parameters that are used to determine the imbalance.

5           Q.     How would it be subjective?

6           A.     A depreciation reserve imbalance is taken as the difference between  
7 Theoretical Depreciation Reserve and Book Depreciation Reserve. The Theoretical  
8 Depreciation Reserve is dependent on the service life parameters and net salvage values  
9 selected for an account. Net salvage and average service life are variable and are to some  
10 extent dependent on professional judgement and speculation, meaning that both of these  
11 parameters are subjective estimates of the future. Language in the most recent depreciation  
12 study presented by Company Witness John J. Spanos supports this assertion.<sup>8</sup> Because both  
13 of these variables are subjective, so are the Theoretical Depreciation Reserve and any  
14 perceived depreciation reserve imbalance.

15          Q.     How does Theoretical Depreciation Reserve differ from Book Depreciation  
16 Reserve?

17          A.     Book Depreciation Reserve is simply the amount of depreciation expense that  
18 has been collected according to the Company balance sheet. Theoretical Depreciation  
19 Reserve represents what the depreciation reserve *should* be, according to the depreciation  
20 parameters chosen for an account or a group of accounts.

21          Q.     Could you provide an example of a depreciation reserve imbalance?

22          A.     I will provide a fictional, simplified example. Imagine a company owns a  
23 golf cart that was purchased five years ago for \$1,000. Also imagine that the depreciation

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<sup>8</sup>Direct Testimony of John J. Spanos, Schedule JJS-1, Case No. ER-2016-0156, Page I-4.

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1 parameters chosen for the golf cart are a 10 year service life and 0% net salvage. This means  
2 that the depreciation expense for the golf cart is \$100 per year (\$1,000/10 years) and the  
3 Theoretical Depreciation Reserve is \$500 (\$100/year X 5 years). If the Book Depreciation  
4 Reserve is not \$500 (the amount of the Theoretical Depreciation Reserve), there is a reserve  
5 imbalance. For instance, if the Book Depreciation Reserve is \$600, there is a reserve surplus  
6 of \$100 (book reserve – theoretical reserve = \$600 - \$500 = \$100). Likewise, a  
7 Book Depreciation Reserve of \$300 would result in a reserve deficiency of \$200.

8 Q. What depreciation parameters did the Company use to determine a reserve  
9 deficiency in the last rate case? Did Staff agree the parameters were valid estimates?

10 A. According to the response provided in DR No. 0445, the \$7.2 million  
11 amortization amount was derived from the difference between existing depreciation expense  
12 and Company-proposed depreciation expense.<sup>9</sup> The Company's proposed depreciation  
13 expense (and any corrections for reserve imbalance included in the expense) would have been  
14 dependent on the Company's proposed depreciation parameters. Staff, however, did not  
15 support the Company's proposed depreciation parameters, and therefore, did not support any  
16 perceived depreciation reserve deficiency created from those parameters. Furthermore,  
17 although Mr. Klote asserts in his Rebuttal Testimony that a reserve imbalance existed, the  
18 Company provided no quantity of that imbalance in the response to DR No. 0445.

19 Q. Was there a reserve imbalance according to Staff's proposed depreciation  
20 parameters in the last rate case?

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<sup>9</sup> Response to DR No. 0445, Part A, states: "The imbalance Mr. Klote is referring to is the \$7.2M annual amortization allowance ordered by the Commission in rate case ER-2016-0156. The \$7.2M was an agreed upon number for settlement purposes and primarily based on the difference in depreciation expense using depreciation rates in the depreciation study filed in rate case ER-2016-0156 and existing rates at the time. Proposed depreciation rates in ER-2016-0156 reflected changes in life and salvage parameters as well as changing from a whole life methodology to a remaining life methodology. It should be noted that KCP&L's current approved rates are based on the remaining life methodology."

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1           A.     Staff's depreciation schedule did not provide depreciation parameters, which  
2 are used to determine Theoretical Depreciation Reserve and reserve imbalances; only  
3 the depreciation rates were provided. For this reason, the schedule approved, in the  
4 Stipulation and Agreement, in Case No. ER-2016-0156 did not contain the information  
5 necessary to determine a reserve imbalance.

6           Q.     Can you reiterate Staff's position regarding the \$7.2 million annual  
7 amortization amount?

8           A.     Staff suggests the Commission suspend the annual amortization amount to  
9 conform to the Non-Unanimous Stipulation and Agreement approved in Case No.  
10 ER-2018-0156. In addition, Staff recommends that the accumulated depreciation reserve  
11 from the annual amortization amount be maintained as a separate line item in the plant  
12 accounting schedules, and be distributed to plant accounts at the next rate case if a  
13 depreciation study is made available.

14          Q.     Does this conclude your testimony?

15          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 a General Rate Increase for Electric Service )  
) Case No. ER-2018-0145  
)  
)  
) and

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

**AFFIDAVIT OF STEPHEN B. MOILANEN, PE**

STATE OF MISSOURI )  
) ss.  
COUNTY OF COLE )

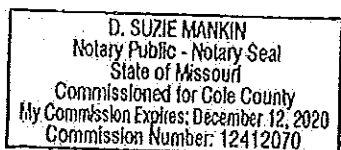
COMES NOW STEPHEN B. MOILANEN, PE, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony* and that the same is true and correct according to his best knowledge and belief.

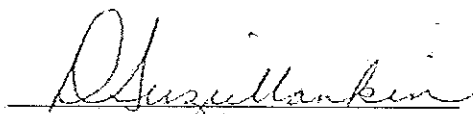
Further the Affiant sayeth not.

  
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 29<sup>th</sup> day of August 2018.



  
Notary Public