

Exhibit No.: _____
Issue: Depreciation
Witness: John J. Spanos
Sponsoring Party: Ameren Missouri
File No.: ER-2024-0319

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2024-0319

REBUTTAL TESTIMONY OF

JOHN J. SPANOS

ON BEHALF OF

AMEREN MISSOURI

Camp Hill, Pennsylvania

January 17, 2025

JOHN J. SPANOS REBUTTAL

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1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is John J. Spanos. My business address is 207 Senate Avenue, Camp Hill,
4 Pennsylvania.

5 **Q. ARE YOU THE SAME JOHN J. SPANOS WHO PREFILED DIRECT**
6 **TESTIMONY IN THIS MATTER?**

7 A. Yes.

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

9 A. The purpose of my testimony is to rebut the testimony filed by Missouri Public Service
10 Commission Staff (“Staff”) witness Amanda Coffey related to depreciation.

11 **Q. WHAT IS THE SUBJECT OF YOUR REBUTTAL TESTIMONY?**

12 A. The primary subject of my testimony is depreciation.

13 **Q. WHAT DEPRECIATION ISSUES DO YOU ADDRESS?**

14 A. I address two issues. First, Staff has not performed a depreciation study, therefore,
15 my rebuttal testimony will only address the unsupported recommendations of Staff’s
16 changes to the depreciation study I performed. Staff states that all depreciation rates
17 I have recommended are reasonable but has arbitrarily determined, for some accounts,
18 that the reasonable depreciation rates that I have recommended should not be
19 implemented. Staff broadly asserts, without explanation, that my recommended
20 depreciation rates for certain accounts are greater than what is reasonable. Staff
21 appears to claim that it cannot evaluate these particular accounts until certain issues
22 with Staff’s depreciation software are resolved. For these accounts, Staff recommends
23 continuing the use of existing depreciation rates. If my interpretation of Staff’s

1 testimony is correct, Staff's inability to evaluate these accounts is not a valid reason to
2 continue using the existing depreciation rates. By just maintaining the existing
3 depreciation rates as Staff recommends for only some assets, Staff ignores the
4 additional known information about assets that has occurred since the last study. This
5 concept of maintaining current depreciation rates also ignores how each account may
6 have changed since the last study with new types of assets or if any Company plans
7 for the assets in each account have been changed.

8 Second, Staff makes two unsupported reserve and plant balance adjustments,
9 which I also address below.

10 II. STAFF'S ADJUSTMENTS

11 Q. WHAT DOES STAFF RECOMMEND?

12 A. Staff recommends maintaining the current depreciation rates for a select few accounts
13 or subaccounts without justification as to why these accounts or subaccounts should
14 not utilize all the information obtained during the depreciation study as was done for
15 all other accounts. Instead, Staff recommends using depreciation rates for these select
16 few accounts based on plant and reserve data that is now out-of-date. In other words,
17 Staff's approach only considers assets in service through December 31, 2021. The
18 rates recommended in the depreciation study are based on updated data and informed
19 judgment through December 31, 2023.

20 Q. WHAT ACCOUNTS OR SUBACCOUNTS HAS STAFF PROPOSED NO 21 CHANGE FROM THE CURRENT DEPRECIATION RATES?

22 A. The accounts or subaccounts that Staff recommends maintaining the current
23 depreciation rates are as follows:

1 Steam Production Plant - Labadie
2 312.03, Boiler Plant Equipment – Aluminum Coal Cars
3 Steam Production Plant - Common
4 311.00, Structures and Improvements
5 312.00, Boiler Plant Equipment
6 315.00, Accessory Electric Equipment
7 316.00, Miscellaneous Power Plant Equipment
8 Nuclear Production Plant - Callaway
9 324.00, Accessory Electric Equipment
10 Other Production Plant - High Prairie Wind Farm
11 346.40, Miscellaneous Power Plant Equipment
12 Other Production Plant
13 344.10, Generators – Maryland Heights Landfill CTG
14 Transmission Plant
15 356, Overhead Conductors and Devices
16 Distribution Plant
17 371.00, Installations on Customers’ Premises
18 373.00, Street Lighting and Signal Systems
19 General Plant
20 390.00, Structures and Improvements – Miscellaneous Structures

21 **Q. IS THERE ANY INFORMATION WITHIN THE DEPRECIATION STUDY**
22 **OR OBTAINED FROM AMEREN MISSOURI SINCE THE LAST STUDY**
23 **THAT SHOULD BE IGNORED?**

24 A. No. All the asset classes should incorporate all the new historical data and informed
25 judgment obtained while conducting the updated depreciation study. This is
26 consistent with the practices of all authoritative texts in the field of depreciation. Even
27 if the new historical data and informed judgment are consistent with past practices,
28 the current rates would not be appropriate to be maintained because the current rates

1 are based on data through only December 31, 2021 and do not take into account the
2 new data that has been recorded since the time of the prior study, upon which those
3 current (and now outdated) depreciation rates are based.

4 **Q. WHAT ARE SOME OF THE KEY FACTORS THAT AFFECT**
5 **DEPRECIATION RATES?**

6 A. Depreciation rates are affected by depreciation methods and procedures, life
7 estimation, net salvage percentages, plant to reserve relationship and age of surviving
8 plant at the date of calculation, which in the proposed depreciation study is December
9 31, 2023. All of these factors will affect the depreciation rate in order to achieve full-
10 service value recovery over the life of the asset class in a systematic and rational
11 manner, which is the primary goal of depreciation.

12 **Q. DO ANY DEPRECIATION AUTHORITIES SUPPORT THAT THE**
13 **ESTIMATION OF SERVICE LIVES SHOULD BE BASED ON MORE THAN**
14 **MATHEMATICAL RESULTS AND THAT THE CURVE SHOULD MATCH**
15 **THE UTILIZATION OF THE ASSETS OVER THE ASSET’S LIFE?**

16 A. Yes. For example, NARUC makes clear that factors other than the statistical analysis
17 must be considered. Chapter XIII of *Public Utility Depreciation Practices*, entitled
18 “Actuarial Life Analysis” discusses and emphasizes the subjective nature of the
19 process of estimating service lives. NARUC starts this chapter by explaining that the
20 analysis of historical data is only one part of the process of estimating service lives:

21 Actuarial analysis objectively measures how the company has retired
22 its investment. The analyst must then judge whether this historical
23 view depicts the future life of the property in service. The analyst takes
24 into consideration various factors, such as changes in technology,

1 services provided, or capital budgets.¹

2
3 NARUC makes clear that the process of estimating service lives must go beyond any
4 objective measurement of the past. In describing the determination of a survivor curve
5 estimate (referred to as the “projection life” in this passage), NARUC states:

6 The projection life is a projection, or forecast, of the future of the
7 property. Historical indications may be useful in estimating a
8 projection life curve. Certainly the observations based on the
9 property’s history are a starting point. Trends in life or retirement
10 dispersion can often be expected to continue. Likewise, unless there is
11 some reason to expect otherwise, stability in life or retirement
12 dispersion can be expected to continue, at least in the near term.

13
14 Depreciation analysts should avoid becoming ensnared in the
15 mechanics of the historical life study and relying solely on
16 mathematical solutions. The reason for making an historical life
17 analysis is to develop a sufficient understanding of history in order to
18 evaluate whether it is a reasonable predictor of the future. The
19 importance of being aware of circumstances having direct bearing on
20 the reason for making an historical life analysis cannot be understated.
21 These circumstances, when factored into the analysis, determine the
22 application and limitations of an historical life analysis.²

23
24 Thus, NARUC strongly advises against the approach apparently used by Staff (or at
25 least is the result of Staff’s position). NARUC clearly states that “relying solely on
26 mathematical solutions” should be avoided. NARUC further elaborates on the need
27 for a subjective component to forecasting service lives:

28 A depreciation study is commonly described as having three periods of
29 analysis: the past, present, and future. The past and present can usually
30 be analyzed with great accuracy using many currently available
31 analytical tools. The future still must be predicted and must largely
32 include some subjective analysis. Informed judgment is a term used to
33 define the subjective portion of the depreciation study process. It is
34 based on a combination of general experience, knowledge of the
35 properties and a physical inspection, information gathered throughout

1 National Association of Regulatory Utility Commissioners, *Public Utility Depreciation Practices*, 1996, p. 111.

2 National Association of Regulatory Utility Commissioners, *Public Utility Depreciation Practices*, 1996, p. 126. Emphasis added.

1 the industry, and other factors which assist the analyst in making a
2 knowledgeable estimate.

3
4 The use of informed judgment can be a major factor in forecasting. A
5 logical process of examining and prioritizing the usefulness of
6 information must be employed, since there are many sources of data
7 that must be considered and weighed by importance. For example, the
8 following forces of retirement need to be considered: Do the past and
9 current service life dispersions represent the future? Will scrap prices
10 rise or fall? What will be the impact of future technological
11 obsolescence? Will the company be in existence in the future? The
12 analyst must rank the factors and decide the relative weight to apply to
13 each. The final estimate might not resemble any one of the specific
14 factors; however, the result would be a decision based upon a
15 combination of the components.³

16 **Q. HAVE YOU INCORPORATED THE VARIOUS FACTORS DISCUSSED BY**
17 **NARUC INTO YOUR ESTIMATES?**

18 A. Yes. I have conducted site visits for this and prior studies as well as engaged in
19 discussions with Company personnel to familiarize myself with the Company's assets
20 and plans for the assets. In addition, throughout my career, I have performed hundreds
21 of depreciation studies for numerous utilities. The information obtained from this
22 experience has also been incorporated into my recommendations for all accounts.

23 **III. STAFF RESERVE AND PLANT BALANCE ADJUSTMENTS**

24 **Q. ARE STAFF'S PLANT AND RESERVE ADJUSTMENTS APPLICABLE TO**
25 **THE DEPRECIATION STUDY?**

26 A. No. Necessary and appropriate adjustments to plant and reserve balances are a
27 component of a Depreciation Study and such adjustments are inputs to the
28 determination of reasonable depreciation rates. Ms. Coffey's recommended

3 National Association of Regulatory Utility Commissioners, *Public Utility Depreciation Practices*, 1996, p. 128. Emphasis added.

1 adjustments were *not* used in the Depreciation Study or to determine the depreciation
2 rates from my study (that she largely supports). That being said, the plant balance for
3 Account 316.21, for Meramec Energy Center *was* adjusted in a manner that achieves
4 Ms. Coffe's apparent desired outcome (to reduce this account to zero) in the
5 Depreciation Study and reflected in the rate that was proposed in the Depreciation
6 Study. Additionally, all the negative reserve amounts that Staff identified *have*
7 *already been* adjusted to achieve Ms. Coffe's apparent desired outcome (again to
8 reduce each balance to zero) in the Depreciation Study with the exception of Taum
9 Sauk Account 332. Regarding the Common Steam negative reserves, in my study I
10 split those adjustments between the Sioux and Labadie depreciation groups, as
11 opposed to attributing the adjustment entirely to the Sioux depreciation group as Ms.
12 Coffe recommends. The reserve reclassifications in the Depreciation Study are
13 driven by historical transactions within the accounts and their associated entries over
14 time. Consequently, the agreement with the proposed rates in the Depreciation Study
15 remove the negative reserve balances, more accurately align the plant to reserve levels
16 and authorize the manner at which the reserve balances have been realigned. Should
17 the Commission order the depreciation rates recommended in my Depreciation Study,
18 the Company will record the plant and reserve adjustments that those depreciation
19 rates were based on.

20 **Q. WHY SHOULD THE RESERVE FOR TAUM SAUK ACCOUNT 332 BE**
21 **NEGATIVE AT THIS TIME?**

22 A. The history of the upper reservoir at the Taum Sauk facility is well documented as an
23 unexpected early retirement and higher than expected cost of removal occurred which

1 caused the reserve to go negative. Given the historical activity, it would not be
2 appropriate to reclassify reserve from Taum Sauk Account 332 to Taum Sauk Account
3 333 and recover the future remaining value over a shorter period of time.
4 Consequently, moving reserve from Account 333 to Account 332 at Taum Sauk will
5 create higher expense over a shorter period of time which is not appropriate.

6 **Q. ARE THERE OTHER PLANT AND RESERVE AMOUNTS THAT STAFF**
7 **HAS CONCERNS?**

8 A. Yes, however, all have been addressed in the Depreciation Study. The plant and
9 reserve amounts in total are consistent with Company property records.

10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company)
d/b/a Ameren Missouri's Tariffs to Adjust)
Its Revenues for Electric Service.)

Case No. ER-2024-0319

AFFIDAVIT OF JOHN SPANOS

COMMONWEALTH OF PENNSYLVANIA)
) ss
COUNTY OF CUMBERLAND)

John Spanos, being first duly sworn states:

My name is John Spanos, and on my oath declare that I am of sound mind and lawful age;
that I have prepared the foregoing *Rebuttal Testimony*; and further, under the penalty of perjury,
that the same is true and correct to the best of my knowledge and belief.

/s/ John Spanos
John Spanos

Sworn to me this 17th day of January, 2025.