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SURREBUTTAL TESTIMONY

OF

JOHN A. ROBINETT

Submitted on Behalf of the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2016-0285

January 27, 2017

INDEX

Unit Train Depreciation Expense inclusion in FAC	2
Amortization of Depreciation Study	3
Surrebuttall of KCPLWitness Mr. John J. Spanos	3

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OF
JOHN A. ROBINETT

1 **Q. Please state your name and business address.**

2 A. John A. Robinett, PO Box 2230, Jefferson City, Missouri 65102.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Utility
5 Engineering Specialist.

6 **Q. Are you the same John A. Robinett that filed direct and rebuttal testimony on behalf**
7 **of the Office of Public Counsel in this proceeding?**

8 A. Yes.

9 **Q. What is the purpose of your surrebuttal testimony?**

10 A. I will address a change in OPC’s position regarding unit train depreciation expense. Then
11 I respond to the amortization of a depreciation study cost request discussed in Kansas
12 City Power and Light (“KCPL”) witness Mr. Ronald A. Klote’s rebuttal testimony.
13 Finally I will address the depreciation rebuttal testimony of KCPL witness Mr. John J.
14 Spanos.

15 The fact that I do not address any other particular issues in my testimony or am
16 silent with respect to any portion of the testimony of witnesses John J. Spanos,

1 Christopher “Chris” Robert Rogers, Tim M. Rush, and Ronald A. Klote should not be
2 interpreted as an approval of any position taken by KCPL or any other party in testimony.

3 **Unit Train Depreciation Expense inclusion in FAC**
4

5 **Q. What was OPC’s position in rebuttal related to unit train depreciation expense?**

6 A. My rebuttal testimony focused on assuring that depreciation expense for the unit train
7 was not double counted by being included in the FERC Account 151, Fuel Stock and
8 subsequently reflected in an expense account such as Account 501 and also being
9 included in FERC Account 403 Depreciation Expense. In my rebuttal testimony I
10 recommended the removal of unit train depreciation expense from the FAC and
11 recommended, consistent with prior Staff revenue requirement treatment, that this
12 expense be included in base rates as reflected in Staff’s Depreciation Expense
13 Accounting Schedule.

14 **Q. Has your position on where the unit train depreciation expense could or**
15 **should be accounted for changed?**

16 A. Yes, in part. Under the Federal Energy Regulatory Commission (FERC) Uniform
17 System of Accounts (USOA), depreciation expense on unit trains that deliver coal to a
18 utility generation station is to be recorded in FERC Account 151, Fuel Stock and
19 subsequently reflected in an expense account such as Account 501. Consistent with
20 OPC’s position on fuel expense and the FAC, my recommendation will allow for changes
21 in depreciation expense on unit trains to be reflected in the FAC. Importantly, this does

1 not change my recommendation that the unit train depreciation expense should not be
2 double counted in KCPL's cost of service.

3 **Amortization of Depreciation Study**
4

5 **Q. Does OPC Agree with Mr. Klote's recommendation of amortizing a depreciation study**
6 **cost over three years?**

7 A. No. OPC supports Staff's position of a five year normalization of the expense. This is
8 consistent with the Commission Rule requiring a Company to file a depreciation study
9 every five years. The costs of a depreciation study are in essence a rate case expense.
10 Rate case expenses are "normalized" not "amortized".

11 **Q. Has KCPL provided new depreciation studies in each and every rate case in recent**
12 **history?**

13 A. No. Recent history shows complete "new" depreciation studies being supplied every other
14 rate case. KCPL has provided the same or "updated" studies from previous cases if they
15 were conducted within three years prior to the filing of that rate case.

16 **Surrebuttal of KCPL Witness Mr. John J. Spanos**
17

18 **Q. As it relates to depreciation what is KCPL asking of the Commission?**

1 A. The Company is asking the Commission to change its accepted practice on depreciation
2 in order to include costs of terminal net salvage related to future retirements that may
3 occur many years from now.

4 **Q. What is the Commission's accepted practice on the inclusion in depreciation rates of**
5 **terminal net salvage costs related to future retirements?**

6 A. The accepted practice in Missouri is to calculate net salvage using historical data
7 experienced, and not the future estimated costs of retirement or dismantlement costs. This
8 has been the practice of the Commission since at least 2005 when the Commission
9 ordered this approach in the *Third Report and Order* in Case No. GR-99-315¹ involving
10 Laclede Gas Company and the *Report and Order* from Case No. ER-2004-0570
11 involving the Empire District Electric Company.

12 **Q. What was the Commission's practice just prior to these cases (2000-2005)?**

13 A. For a period of about five years the cost of removal portion of net salvage was recorded
14 as an operating expense rather than included in the depreciation rate and depreciation
15 expense. The Report and Orders from Case Nos. GR-99-315 and ER-2004-0570 placed
16 net salvage back into the depreciation rate calculation. However, in neither case did the
17 Commission permit terminal net salvage to be included to be based on future unknown
18 costs.

¹ *Third Report and Order* in Case No. GR-99-315 Issue Date: January 11, 2005

1 **Q. What was the Commission's rationale for not including future estimated net salvage**
2 **in depreciation rates?**

3 A. As the *Third Report and Order* from Case No. GR-99-315 states:

4
5 *Under the accrual method, the depreciation rate for a particular asset*
6 *or group of assets is calculated as follows:*

7
$$\text{Depreciation Rate} = \frac{100\% - \% \text{ Net Salvage}}{\text{Average Service Life (years)}}$$

8
9 *In this formula, net salvage equals the gross salvage value of the*
10 *asset minus the cost of removing the asset from service. The net salvage*
11 *percentage is determined by dividing the net salvage experienced for a period of*
12 *time by the original cost of the property retired during that same period of time.*
13 *The Commission finds that many natural gas assets will have a negative net*
14 *salvage value and corresponding negative net salvage value percentage, since the*
15 *cost of removing the asset from service frequently exceeds its gross salvage value.*
16 *The Commission finds that many natural gas assets will have a negative net*
17 *salvage value and corresponding negative net salvage value percentage, since the*
18 *cost of removing the asset from service frequently exceeds its gross salvage value.*

19 *The accrual method has been used by Laclede and the Commission*
20 *to determine Laclede's depreciation rates since at least the early 1950s. It is*
21 *undisputed that using the accrual method for this purpose is supported by the*
22 *overwhelming weight of authority on such matters. In both evidentiary hearings,*
23 *Laclede and AmerenUE provided evidence showing the widespread support*
24 *among depreciation professionals and authoritative texts for the traditional, or*
25 *accrual, method of treating net salvage.* ²**(internal citations removed).**

26
27 Similarly, the *Report and Order* from Case No. ER-2004-0570 states:

28 *Under the traditional accrual method favored by Empire, the*
29 *depreciation rate for a particular asset or group of assets is calculated as*
30 *follows:*

31
$$\text{Depreciation Rate} = \frac{100\% - \% \text{ Net Salvage}}{\text{Average Service Life (years)}}$$

32
33
34 *In this formula, net salvage equals the gross salvage value of the*
35 *asset minus the cost of removing the asset from service. The net salvage*

² Case No. GR-99-315, Third Report and Order, p. 8

1 *percentage is determined by dividing the net salvage experienced for a period of*
2 *time by the original cost of the property retired during that same period of time.*³
3 **(internal citations removed)**
4

5 The Commission further described how terminal net salvage was to be treated:

6 *Second, with respect to Terminal Net Salvage of Production Plant*
7 *Accounts, this Commission generally has not allowed the accrual of this item.*
8 *The reason is that generating plants are rarely retired and any allowance for this*
9 *item would necessarily be purely speculative. It is true that all depreciation is*
10 *founded upon estimates, but all estimates are not unduly speculative. Just as*
11 *utility companies plan rate cases around the projected in-service dates of new*
12 *plants, so Empire can plan around the retirement of its generating plants so that*
13 *the Net Salvage expense is incurred in a Test Year. Another alternative is the*
14 *device of the Accounting Authority Order. As already discussed in connection*
15 *with the Production Account Service Life issue, there is no evidence that the*
16 *retirement of any of Empire's plants is imminent and the estimated retirement*
17 *dates considered in this proceeding are not persuasive. For these reasons, the*
18 *Commission will not allow the accrual of any amount for Terminal Net Salvage of*
19 *Production Plants.*⁴
20

21 It's my understanding that the accepted practice of not allowing the terminal net
22 salvage value in depreciation rates has been in place since these decisions were ordered in
23 early 2005.

24 **Q. What does KCPL witness Spanos recommend in his rebuttal testimony?**

25 A. Mr. Spanos is seeking to include not only the value of historical net salvage but include
26 an additional portion for future unknown expenses related to the retirement of a
27 generating unit. As mentioned above this is would be a significant change in the
28 Commission's policy without a full depreciation study or extraordinary circumstances
29 should not be considered.

³ Case No. ER-2004-0570, Report and Order, p.52

⁴ Case No. ER-2004-0570, Report and Order, p.53

1 **Q. Do you agree with Mr. Spanos' statement on page 5 beginning at line 12 of his**
2 **rebuttal testimony that “Staff and OPC’s recommendation for terminal net salvage**
3 **are therefore not consistent with the USOA, nor are they consistent with the**
4 **Commission’s Order in Laclede.”⁵?**

5 A. No. OPC would like to point out to the Commission that the FERC USOA does not use
6 any of the following terms: interim net salvage, terminal net salvage, final net salvage.
7 Mr. Spanos has not provided any substantive evidence to support his claim. I believe it is
8 incumbent for him to do so.

9 **Q. Does Mr. Spanos in his rebuttal testimony address some of the concerns raised**
10 **about what future cost estimates were included in the recommended depreciation**
11 **rates for KCPL?**

12 A. Yes. On page 9 of Mr. Spanos' rebuttal testimony he clarifies that only the retirement
13 components of the Sega report were used for the study.

14 **Q. Does Mr. Spanos on page 4 of his rebuttal testimony properly state General**
15 **Instruction 22 of the FERC USOA for electric utilities?**

16 A. Yes he does. On lines 4 through 6 stating: “*Utilities must use a method of depreciation*
17 *that allocates in a systematic and rational manner the service value of depreciable*
18 *property over the service life of the property. (Emphasis added)”*

19 He adds emphasis on the term “service value”; and then provides the definition on
20 lines 7 through 8 of page 4 of his rebuttal testimony:

⁵ Spanos Rebuttal Testimony p.5 l12-14

1 *Service value means the difference between original cost and net salvage value of*
2 *electric plant.*⁶

3 **Q. What does the term “net salvage value” mean?**

4 A. Net salvage value is defined also in the FERC USOA as definition #19:

5 *Net salvage value means the salvage value of property retired less the cost of removal.*⁷

6 **Q. How is this definition applicable to KCPL’s proposal in this rate case?**

7 A. The Commission has said “*The net salvage percentage is determined by dividing the net*
8 *salvage experienced for a period of time by the original cost of the property retired during*
9 *that same period of time*”⁸ which is consistent with OPC’s position on how to treat the
10 *depreciation expense by using known and measurable historical costs. In contrast, Mr.*
11 *Spanos method would use the net salvage that has been experienced over a period of time*
12 *and then collect additional dollars for estimated unknown future retirement costs.*

13 **Q. Does Mr. Spanos in his rebuttal testimony discuss two Commission decisions**
14 **regarding net salvage?**

15 A. Yes. Specifically, Mr. Spanos discusses the *Third Report and Order* from Case No. GR-
16 99-315 involving Laclede Gas Company and the *Report and Order* from Case No. ER-
17 2004-0570 involving Empire.

⁶ FERC USOA for electric utilities definition #37

⁷ FERC USOA for electric utilities definition #19

⁸ Third Report and Order GR-99-315 p.8

1 **Q. Why does Mr. Spanos cite Case No ER-2004-0570?**

2 A. Mr. Spanos cites the case to support the need for the inclusion of terminal net salvage in
3 depreciation rates. His position is that terminal net salvage should be collected from
4 ratepayers since the Empire Order stated “*generating plants are rarely retired*” and
5 “*there is no evidence that the retirement of any of Empire’s plants is imminent*” as
6 reasoning for not allowing terminal net salvage be included in the depreciation rates. Mr.
7 Spanos then discussed multiple power plants in other jurisdictions that are planned to
8 retire or have been retired as evidence that times have changed and the Commission
9 should reverse its long accepted practice based only on his testimony.

10 **Q. Was the only reason provided by the Commission provided as its basis for not**
11 **allowing terminal net salvage the fact that retirements are rare and not imminent?**

12 A. No. The Commission found that

13 *“this Commission generally has not allowed the accrual of this item.”*⁹

14 and further emphasized that the utility has the ability to time its rate case, stating

15 *“Just as utility companies plan rate cases around the projected in-service*
16 *dates of new plants, so Empire can plan around the retirement of its generating*
17 *plants so that the Net Salvage expense is incurred in a Test Year. Another*
18 *alternative is the device of the Accounting Authority Order.”*¹⁰

19 The Commission further clarified its opinion regarding net salvage:

20
21 *“In a recent case, the Commission stated that the fundamental goal of*
22 *depreciation accounting is to allocate the full cost of an asset, including its Net*
23 *Salvage cost, over its economic or service life so that utility customers will be*
24 *charged for the cost of the asset in proportion to the benefit they receive from its*
25 *consumption. The Commission found in that case that the traditional accrual*

⁹ Case No. ER-2004-0570, Report and Order, p.53

¹⁰ Case No. ER-2004-0570, Report and Order, p.53

1 *method used by the utility was consistent with that fundamental goal. It is the*
2 *policy of this Commission to return to traditional accounting methods for Net*
3 *Salvage.”¹¹ (internal citations omitted)*
4

5 **Q. Does the Report and Order in Case No. ER-2004-0570 use the terms “interim” and**
6 **“terminal” net salvage?**

7 A. Yes. As indicated by Mr. Spanos on page 7 and 8 of his testimony the Commission’s
8 Report and Order in the Empire Case No. ER-2004-0570 did not allow for the collection
9 of terminal net salvage to be included in depreciation rates. The Commission stated “*For*
10 *these reasons, the Commission will not allow the accrual of any amount for Terminal Net*
11 *Salvage of Production Plants.”¹² The Commission further stated: “It is the policy of this*
12 *Commission to return to traditional accounting methods for Net Salvage.”¹³*

13 **Q. Mr. Spanos also cites to Case No GR-99-315. Why does Mr. Spanos cite this case?**

14 A. Mr. Spanos cites this rate case as evidence the Commission ordered net salvage to be
15 included into depreciation rates. Mr. Spanos asserts that his position that terminal net
16 salvage should be included in depreciation rates is supported by the Third Report and
17 Order in Case No. GR-99-315, where the Commission states:

18 *“The Commission finds that the fundamental goal of depreciation accounting is to*
19 *allocate the full cost of an asset, including its net salvage cost, over its economic*
20 *or service life so that utility customers will be charged for the cost of the asset in*
21 *proportion to the benefit they receive from its consumption. The Commission*

¹¹ Case No. ER-2004-0570, Report and Order, p.54

¹² Case No. ER-2004-0570, Report and Order, p.53

¹³ Case No. ER-2004-0570, Report and Order, p.54

1 further finds that the method utilized by Laclede is consistent with that
2 fundamental goal.”¹⁴ (internal citations removed).
3

4 **Q. Does the Third Report and Order in GR-99-315 use the terms “interim” and**
5 **“terminal” net salvage?**

6 A. No it does not.

7 **Q. What did the Commission’s Third Report and Order in Case No. GR-99-315 conclude**
8 **about how to calculate depreciation rates?**

9 A. In that case the Commission’s Report and Order stated the following:
10

11
12 *Under the accrual method, the depreciation rate for a particular asset or*
13 *group of assets is calculated as follows:*

14
$$\text{Depreciation Rate} = \frac{100\% - \% \text{ Net Salvage}}{\text{Average Service Life (years)}}$$

15
16 *In this formula, net salvage equals the gross salvage value of the asset*
17 *minus the cost of removing the asset from service. The net salvage percentage is*
18 *determined by dividing the net salvage experienced for a period of time by the*
19 *original cost of the property retired during that same period of time. The*
20 *Commission finds that many natural gas assets will have a negative net salvage*
21 *value and corresponding negative net salvage value percentage, since the cost of*
22 *removing the asset from service frequently exceeds its gross salvage value. The*
23 *Commission finds that many natural gas assets will have a negative net salvage*
24 *value and corresponding negative net salvage value percentage, since the cost of*
25 *removing the asset from service frequently exceeds its gross salvage value.*

26 *The accrual method has been used by Laclede and the Commission to*
27 *determine Laclede’s depreciation rates since at least the early 1950s. It is*
28 *undisputed that using the accrual method for this purpose is supported by the*
29 *overwhelming weight of authority on such matters. In both evidentiary hearings,*
30 *Laclede and AmerenUE provided evidence showing the widespread support*

¹⁴ Third Report an Order GR-99-315 p.9

1 among depreciation professionals and authoritative texts for the traditional, or
2 accrual, method of treating net salvage.¹⁵ **(Emphasis Added)**
3

4 **Q. What should the Commission conclude from a review of each of these cases regarding**
5 **net salvage?**

6 A. That these two orders follow the long time Commission practice of only including known
7 and measurable expenses in rates. Importantly, net salvage is to be included in
8 depreciation rate calculations. However, the net salvage to be included in depreciation
9 rates should be based on historical experience as opposed to future estimates.

10 **Q. Is there any other reason the Commission should reject KCPL's attempt to change the**
11 **method and increase the amount of depreciation expense and unnecessarily increase**
12 **utility rates in this rate case?**

13 A. Yes. There is no evidence or data that is presented by KCPL in this case that it has not
14 fully recovered the cost of all retired assets. What Mr. Spanos has included in his
15 "updated study" are future estimates for future dollars related to operating plants being
16 retired and the actions that are required to retire those units. OPC fully expects that the
17 net salvage experienced for the retirement of Montrose Unit 1, discussed by both Staff
18 and KCPL, will be analyzed in a future depreciation study as historical net salvage
19 experienced. The inclusion of the historical cost experienced with Montrose Unit 1 will
20 affect the amounts recommended for net salvage on production facilities when analyzed
21 in future cases. However, those values were not present in Mr. Spanos' limited updates to
22 the existing study.

¹⁵ Case No. GR-99-315, Third Report and Order, p. 8-9

1 **Q. What is OPC's recommendation regarding depreciation rates for KCPL in this rate**
2 **case?**

3 A. OPC recommends that the Commission find that KCPL's "updated study" provides
4 insufficient support for increasing depreciation rates for unknown and not measurable
5 future costs that may or may not be covered by the current and long accepted use of
6 historical net salvage data.

7 Additionally OPC requests that the Commission find that Staff's recommended
8 rates that were amended are not supported by a study.

9 OPC recommends the Commission order KCPL to continue to use the current
10 ordered depreciation rate ordered in Case No. ER-2014-0370.

11 **Q. Does this conclude your Surrebuttal testimony?**

12 A. Yes, it does.