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Witness: David T. Buttig, PE
Sponsoring Party: MoPSC Staff
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Case Nos.: ER-2022-0129 and
ER-2022-0130
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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL & BUSINESS ANALYSIS DIVISION
PROCUREMENT ANALYSIS DEPARTMENT

REBUTTAL TESTIMONY

OF

DAVID T. BUTTIG, P. E.

Evergy Metro, Inc. d/b/a Evergy Missouri Metro
Case No. ER-2022-0129

Evergy Missouri West, Inc. d/b/a Evergy Missouri West
Case No. ER-2022-0130

Jefferson City, Missouri
July 2022

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**TABLE OF CONTENTS OF
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EXECUTIVE SUMMARY1
REMAINING LIFE METHOD2
TERMINAL NET SALVAGE3
CONCLUSION.....6

1 **REBUTTAL TESTIMONY**

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3 **DAVID T. BUTTIG, P. E.**

4 **Evergy Metro, Inc. d/b/a Evergy Missouri Metro**
5 **Case No. ER-2022-0129**

6 **Evergy Missouri West, Inc. d/b/a Evergy Missouri West**
7 **Case No. ER-2022-0130**

8 Q. Please state your name and business address.

9 A. My name is David T. Buttig, and my business address is 200 Madison Street,
10 Jefferson City, Missouri, 65101.

11 Q. By whom are you employed?

12 A. I am a Senior Professional Engineer employed by the Missouri Public Service
13 Commission (“Commission”) in the Procurement Analysis Department.

14 Q. Are you the same David T. Buttig who filed Direct Testimony on June 8, 2022
15 in this case?

16 A. Yes, I am.

17 **EXECUTIVE SUMMARY**

18 Q. What is the purpose of your rebuttal testimony?

19 A. The purpose of my rebuttal testimony is to address the use of the remaining life
20 method to calculate the depreciation rates proposed by Evergy Missouri Metro (“EMM”)
21 witness John Spanos and the inclusion of terminal net salvage in the calculation of net salvage
22 of the generation plants.

1 **REMAINING LIFE METHOD**

2 Q. For which accounts does Mr. Spanos use the remaining life method with the
3 average service life procedure for the depreciation rate calculation?

4 A. Mr. Spanos used the remaining life method of depreciation with the average
5 service life procedure for all accounts except for General Plant Accounts 391.00, 391.01,
6 391.02, 393.00, 394.00, 395.00, 397.00, and 398.00. For the listed General Plant accounts,
7 Mr. Spanos used the straight line remaining life method of amortization.¹

8 Q. Does Staff disagree with the use of EMM's approach for all accounts using the
9 remaining life method of depreciation with the average service life procedure?

10 A. No. Staff used the same approach for the production plant accounts with
11 probable retirement dates, however Staff disagrees with its usage for the remaining plant
12 accounts.

13 Q. Why does Staff not agree with Mr. Spanos's approach?

14 A. The accounts without a probable retirement date can reasonably be assumed to
15 remain in use over the economic life of the utility, with a continual cycle of retirement of plant
16 from the accounts, and acquisition of plant into the accounts. By using the remaining life for
17 these accounts, new investments would accrue depreciation at a faster or slower rate than if the
18 whole life method were used. This can lead to the accounts being over-accrued or under-accrued
19 and lead to more fluctuations in the calculated depreciation rates in the future.

20 Q. If using the remaining life method can lead to over- or under-accruals of
21 accounts, why then does Staff recommend it for the production plant accounts with probable
22 retirement dates?

¹ Direct testimony of John Spanos, page 6, lines 8-14.

1 A. These accounts have probable retirement dates for when EMM plans to retire
2 the entire account. The remaining life method takes into account the amount of depreciation
3 reserve and calculates the remaining balance to fully accrue the account and spreads that amount
4 over the remaining life of the account.

5 **TERMINAL NET SALVAGE**

6 Q. What is terminal net salvage?

7 A. Terminal net salvage is the ultimate retirement of plant facilities, including
8 associated gross salvage and cost of removal. The current depreciation rates approved by the
9 Commission in Case No. ER-2018-0145 do not include terminal net salvage.

10 Terminal net salvage is distinguished from interim net salvage. Interim net salvage is
11 associated with the removal from service of units of property from a works or system during
12 the life of the overall unit. The current depreciation rates include interim net salvage.

13 Q. What is EMM's position on terminal net salvage?

14 A. EMM has included terminal net salvage (or final net salvage) in its calculation
15 of net salvage percentages for its generating facilities. EMM based the final net salvage or
16 dismantlement component of the net salvage on the assets anticipated to be retired at the
17 concurrent date of final retirement. Mr. Spanos used the decommissioning costs determined by
18 the 1898 & Co. study attached to the Direct Testimony of Jeffrey T. Kopp.^{2,3}

19 Q. Did Staff include terminal net salvage in its calculation of net salvage for the
20 generating facilities?

21 A. No.

² Direct Testimony of John Spanos: page 13, lines 3-13

³ Direct Testimony of Jeffrey T. Kopp: Schedule JTK-1

1 Q. Why did Staff not include terminal net salvage in its calculation of net salvage
2 for the generating facilities?

3 A. Staff has not included terminal net salvage because the costs associated with it
4 are not known and measurable at this time and are still merely speculative.

5 Q. Has the Commission previously ruled on the use of terminal net salvage for the
6 calculation of depreciation in any previous cases?

7 A. Yes. In Commission Case No. ER-2004-0570, The Empire District Electric
8 Company proposed the inclusion of terminal net salvage. The Commission states in its Report
9 and Order dated March 10, 2005 that, “the Commission will not allow the accrual of any amount
10 of terminal net salvage for production plants.”

11 Also, in the *Report and Order* (ER-2016-0285) for Kansas City Power & Light
12 (“KCPL”), the former name of EMM, the Commission decided that the depreciation rates
13 ordered by Staff were the most appropriate. The Commission stated, in part, in its Findings of
14 Fact:

15 “95. Terminal net salvage should not be included in depreciation rates because the actual
16 cost KCPL will incur is unknown, cannot be measured, and is speculative.

17 96. The Commission has previously excluded terminal net salvage from rates for
18 exactly that reason.

19 97. Nothing has changed in the interim and there is no good reason to admit costs for
20 terminal net salvage to rates now.

1 98. As with any speculative cost, if the amount accrued for retirement during the plant's
2 operation in fact exceeds the actual cost of that retirement, there will be no feasible way
3 to return that money to the ratepayers that paid too much.”⁴

4 Since the Commission came to the decision to exclude terminal net salvage from
5 depreciation rates, the Commission ordered the use of Staff's depreciation rates, which
6 excluded terminal net salvage.

7 Q. Does Staff think that the cost of final termination should be recovered?

8 A. Yes. The costs associated with final termination should be recovered. The issue
9 with speculating those costs is that it can be vastly over or under estimated at present time. This
10 can create generational inequity if you over or under collect from customers.

11 Q. Do you have generational inequity with the current recovery methods for final
12 termination costs?

13 A. Yes. It is near impossible to eliminate generational inequity related to these
14 costs without exact foreknowledge of final termination costs. The current approach of
15 amortizing the final costs after they are known, or securitizing those costs limits the impact to
16 current customers compared to speculating the costs prior to them being known. The utility
17 does not actually incur costs related to final termination until the facility is terminated.
18 However, under Mr. Spanos's approach, the utility would begin recovering the termination
19 expense from the moment a facility is placed in rate base. An over recovery prior to termination
20 would be impossible to return to previous customers. An under recovery prior to termination
21 would work in a similar manner to how termination costs are currently handled with the cost
22 either being securitized or amortized over a period of time.

⁴ Case No. ER-2016-0285 Report and Order issued May 3, 2017, page 37.

1 **CONCLUSION**

2 Q. What Does Staff recommend with this rebuttal testimony?

3 A. Staff recommends that the Commission order the use of Staff's depreciation
4 rates. Staff's depreciation rates do not include terminal net salvage, which, as stated above, is
5 speculative and unknown, and Staff's rates are more appropriate for the accounts.

6 Q. Does this conclude your rebuttal testimony?

7 A. Yes it does.

