

**FILED**

**SEP 28 2016**

**Missouri Public  
Service Commission**

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*Witness:* Derick A. Miles, P.E.  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal Testimony  
*Case No.:* ER-2016-0156  
*Date Testimony Prepared:* September 2, 2016

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**ENGINEERING ANALYSIS UNIT**

**SURREBUTTAL TESTIMONY**

**OF**

**DERICK A. MILES, P.E.**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**CASE NO. ER-2016-0156**

*Jefferson City, Missouri  
September 2016*

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KCP&L GREATER MISSOURI OPERATIONS COMPANY  
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1 **EXECUTIVE SUMMARY**

2 Q. What is the purpose of your surrebuttal testimony?

3 A. I will address the rebuttal testimony of Mr. John J. Spanos, of Gannett Fleming  
4 Valuation and Rate Consultants, LLC ("Gannett Fleming"), contracted by Kansas City Power &  
5 Light Greater Missouri Operations Company ("GMO") for this rate case.

6 **STAFF'S PROPOSED DEPRECIATION RATES**

7 Q. Has Staff proposed new depreciation rates for this case?

8 A. No. Staff is recommending the adoption of current Commission ordered rates.

9 Q. Did GMO propose a combined schedule of depreciation rates?

10 A. Yes. GMO has proposed a set of rates that combine Missouri Public Service  
11 ("MPS") and Light & Power ("L&P"). Current Commission ordered depreciation rates separate  
12 the districts on two different schedules.

13 Q. Does Staff take issue with combining the two current depreciation schedules into  
14 one schedule?

15 A. No. Staff does not object to combining these two districts into one rate schedule.

16 Q. Are there benefits to consolidating assets for the two rate districts?

17 A. Yes. Staff agrees with GMO witness, John Spanos, in that all assets for GMO  
18 will be treated the same. Customers will get the same benefit and same costs associated with  
19 each asset. Mr. Spanos uses the example of distribution poles as an example. He states that a  
20 distribution pole for the MPS district is accounted for and depreciated at the same rate as a pole  
21 for the L&P district. In addition, Staff recognizes that there could be some efficiency gained in  
22 Accounting from combining the two districts.

1 **WHOLE LIFE VERSUS REMAINING LIFE RATES**

2 Q. By adoption of the current Commission rates, is Staff recommending a life-span  
3 approach be used to calculate depreciation rates for GMO's generating facilities?

4 A. Yes, the current Commission ordered depreciation rates were calculated using the  
5 whole life method (or life span method), instead of the remaining life method.

6 Q. What issue does Staff take regarding the remaining life method for this case?

7 A. By using the remaining life method, the dollars left to collect on a plant can be  
8 any number of years. For an example, assume there are \$4 million dollars left to collect on a  
9 power plant that is expected to retire in two (2) years. The \$4 million dollars would be  
10 representative of the plant's original cost plus net salvage minus the book reserve (or accrued  
11 depreciation expense). Those dollars would need to be collected via a depreciation accrual rate  
12 that returns \$2 million in depreciation expense annually until the plant is retired.

13 Q. What happens if this plant is retired in two (2) years, as the remaining life stated it  
14 was going to be?

15 A. For this example, two million dollars would be collected annually until the  
16 depreciation accrual rate was changed in the context of a subsequent rate case.

17 Q. What happens if GMO does not come before the Commission for a rate case  
18 immediately after those two years commence?

19 A. The authorized depreciation accrual rate for that plant will continue to accrue and  
20 the account will become over-accrued.

21 Q. What happens if the plant that was slated to retire in two (2) years, does not retire,  
22 as it was stated to?

23 A. This creates generational inequity amongst the ratepayers. The cost of the plant  
24 would be shifted to current ratepayers who would not get the full benefit of the useful life of the

1 plant. One generation of customers should not incur costs to pay for facilities that benefit  
2 another generation of customers.

3 **RETIREMENT OF SIBLEY UNITS 1, 2, AND LAKEROAD UNIT 4**

4 Q. What are Staff's concerns with using a remaining life approach for the retirement  
5 of Sibley Units 1, 2, and Lake Road Unit 4?

6 A. As mentioned in the example above, Staff is concerned that the plants may be  
7 re-purposed (i.e., converted to another fuel source), causing a shift of burden of depreciation  
8 expenses and thus causing generational inequity of rate payments.

9 Q. Does Staff believe that Sibley Units 1 and 2 will be retired after 2019 as stated in  
10 the 2014 Depreciation Study provided to Staff?

11 A. Staff has concerns that the plants could be converted to natural gas fired units  
12 after 2019 rather than being retired; GMO has only stated that the plants will cease burning coal  
13 in 2019. This would cause a shift of burden of depreciation expenses and create generational  
14 inequities of rates, if the depreciation rates in this case were set using the 2019 retirement dates  
15 for Sibley Units 1 and 2.

16 **DEPRECIATION EXPENSE – TERMINAL NET SALVAGE**

17 Q. Has Staff changed its position regarding removal of terminal net salvage with  
18 respect to the net salvage calculation?

19 A. No. Staff's position remains unchanged. Mr. Spanos cites Case No. GR-99-315,  
20 in which the Commission ordered the inclusion of the terminal net salvage component in the  
21 calculation of net salvage. However, the Commission subsequently ordered the removal of  
22 terminal salvage in the net salvage calculation in the Commission's Report and Order in  
23 Case No. ER-2004-0570. Staff would also note that even in the most recent KCP&L Rate Case,

1 Case No. ER-2014-0370, the depreciation rates agreed to by all parties and ordered by the  
2 Commission removed the terminal salvage component from the net salvage calculation.

3 AMORTIZATION OPTION

4 Q. Is Staff aware of other methods GMO could utilize to make up any imbalance in  
5 the depreciation reserves?

6 A. Yes. Staff is currently reviewing the option that an additional annual amortization  
7 amount be collected in lieu of adopting GMO's proposed depreciation rates. This additional  
8 annual amount would be in addition to the Staff's proposed adoption of current Commission  
9 ordered rates.

10 Q. Has this approach been used before?

11 A. Yes. The Commission has adopted this amortization approach in case  
12 EO-2005-0329 for an alternative regulatory plan (the "Regulatory Plan), which resulted in  
13 fostering the construction Iatan 2.

14 Q. Are there any advantages to collecting an annual amortized amount versus fixing  
15 the depreciation rates as GMO has proposed?

16 A. Yes. The collected dollars will serve as a method to recover any deficiencies in  
17 depreciation reserves that could occur until the subsequent rate case. Any undistributed balance  
18 would be used as an offset to future rate base.

19 Q. When would the amortizations be distributed?

20 A. The distributions would be determined by the Commission in GMO's subsequent  
21 rate case.

1 STAFF RECOMMENDATIONS

2 Q. What are Staff's recommendations?

3 A. Staff recommends the Commission order GMO to use the depreciation rates in  
4 Schedule DAM-d1 that are attached in Staff's Cost of Service Report.

5 Q. Does this conclude your surrebuttal testimony?

6 A. Yes.



**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of KCP&L Greater Missouri )  
Operations Company's Request for Authority ) Case No. ER-2016-0156  
to Implement A General Rate Increase for )  
Electric Service )

**AFFIDAVIT OF DERICK A. MILES, PE**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

**COMES NOW DERICK A. MILES, 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.

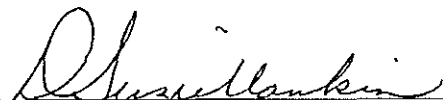
Further the Affiant sayeth not.

  
\_\_\_\_\_  
**DERICK A. MILES, 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 1<sup>st</sup> day of September, 2016.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: December 12, 2016  
Commission Number: 12412070

  
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Notary Public