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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2014-0370

REBUTTAL TESTIMONY

OF

JOHN J. SPANOS

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
May 2015

REBUTTAL TESTIMONY

OF

JOHN J. SPANOS

Case No. ER-2014-0370

Q. Please state your name and business address.

A. My name is John J. Spanos. My business address is 207 Senate Avenue, Camp Hill, Pennsylvania, 17011.

Q. Are you the same John J. Spanos who prefiled direct testimony in this matter?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the portions of the Staff Revenue Requirement Cost of Service Report ("Staff Report") filed by the Missouri Public Service Commission ("Commission") Staff ("Staff") related to depreciation.

Q. What are the subjects of your rebuttal testimony?

A. The primary subject of my rebuttal testimony is depreciation. Specifically I will address Staff's exclusion of terminal net salvage for production plant accounts and Staff's recommendation to transfer unrecovered costs for retired electric meters to Account 364, Poles, Towers and Fixtures. I will also address Staff's comments regarding the accumulated future cost of removal amount.

I. TERMINAL NET SALVAGE

Q. What is terminal net salvage?

A. Terminal net salvage is the net salvage (i.e. gross salvage less cost of removal) related to the final or terminal retirement of life span property. Life span property is the term used to describe assets (such as power plants) for which all assets associated with a facility

will eventually be retired concurrently. The retirements that occur at the end of the life of an entire power plant are referred to as "final" or "terminal" retirements. These contrast with the retirements that occur throughout the life of the plant (e.g. the replacement of individual components of the plant such as piping or pumps), which are referred to as "interim" retirements. The "life span method" is used for life span property. For the life span method, service life estimates are made for the final retirement of a facility as well as for the interim retirements expected to occur throughout the life of the facility.

There are typically net salvage costs associated with both types of retirements. Costs associated with interim retirements, such as the costs incurred to replace piping or pumps throughout the life of the facility, are referred to as "interim net salvage." The costs related to the final retirement of the facility, such as the demolition of the superstructure and the remediation of ash ponds, are referred to as "final net salvage" or "terminal net salvage."

Q. Has the Commission accepted the use of the life span method in the past?

A. Yes. The Commission first accepted the use of the life span method in Case No. ER-2010-0036 for Union Electric Company d/b/a Ameren Missouri ("AmerenMO", at the time AmerenUE), and has accepted the life span method in subsequent cases as well. The life span approach was also accepted for the last KCP&L case (Case No. ER-2010-0355). Prior to Case No. ER-2010-0036 the Commission had historically not accepted the use of the life span method for most types of power plants.

Q. Does Staff agree with the use of the life span method for assets such as power plants?

A. Yes. Staff not only agrees with the use of this method but also agrees with the estimates of final retirement dates, interim survivor curves and interim net salvage I have used in the depreciation study.[1] Staff's only area of disagreement for the Kansas City Power & Light Company's ("KCP&L" or the "Company") production plant assets is the inclusion of terminal net salvage in the depreciation rates.[2]

Q. Should net salvage be included in depreciation?

A. Yes. Net salvage costs experienced at the end of an asset's service life are part of the service value of the asset. In order for customers to pay their cost of electric service, depreciation must allocate the full service value (original cost less net salvage) over the service life of the assets. This concept is set forth in the electric Uniform System of Accounts, which states in General Instruction 22:

> Utilities must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property.

If net salvage is not included in depreciation, then the net salvage costs the company will incur upon the retirement of its assets will have to be paid by future customers after the assets are retired. Future customers will not be receiving service from assets that have already been retired. Therefore, excluding net salvage from depreciation results in intergenerational inequity because future customers will pay the costs of assets which have already been retired and from which they receive no benefit.

[1] Staff Report, p. 162, lines 21-24.
[2] Staff Report, p. 165, line 26 through p. 166, line 4.

Q. Has the Commission ruled that net salvage should be included in depreciation?

A. Yes. The Commission addressed the issue of net salvage in Case No. GR-99-315 for Laclede Gas Company ("Laclede"), and ruled that net salvage should be included in depreciation. The Commission stated:

> The Commission finds that the fundamental goal of depreciation accounting is to allocate the full cost of an asset, including its net salvage cost, over its economic or service life so that utility customers will be charged for the cost of the asset in proportion to the benefit they receive from its consumption. The Commission further finds that the method utilized by Laclede is consistent with that fundamental goal.[3]

Q. Does Staff agree that net salvage should be included in depreciation?

A. Yes, in general Staff appears to agree with this concept, as evidenced by Staff's recommendations in this case (and in other cases). Staff has recommended net salvage estimates for all of the Company's transmission, distribution and general plant accounts. Staff has also recommended interim net salvage estimates for the Company's production plant accounts. Staff's transmission, distribution and general plant net salvage estimates, as well as Staff's interim net salvage estimates, are therefore consistent with the Commission's decision in Laclede.

However, Staff has not included terminal net salvage in their recommendations despite the fact that Staff has acknowledged that terminal net salvage is likely to occur in the future as I will explain. Staff's recommendation for terminal net salvage is therefore not consistent with the Uniform System of Accounts, nor is it consistent with the Commission's Order in Laclede. Staff's recommendation is also not consistent with its recommendations in this case for other accounts and for interim net salvage.

[3] Case No. GR-99-315, Third Report and Order, Issued January 11, 2005, p. 9 ("Laclede Order").

Q. Why has Staff excluded terminal net salvage from its recommended depreciation rates?

A. Staff only provides two justifications for this recommendation.[4] The first is that the Commission did not allow terminal net salvage in a previous case for a different utility. The second is that the Company's book reserve currently exceeds its theoretical reserve for production plant accounts. Neither of these justifications support deviating from the Commission's stated objective of depreciation as set forth in the Laclede Order.

Q. Please address Staff's reason for excluding terminal net salvage based on prior decisions of the Commission.

A. Staff cites the Commission's Report and Order in Case No. ER-2004-0570 ("Empire Order") for The Empire District Electric Company ("Empire"). Staff's testimony gives the impression that the Commission's order in the Empire case would disallow terminal net salvage in all cases. However, a more detailed reading of the Empire case makes clear that the Commission's decision in that case, issued more than a decade ago, was based on assumptions that experience has shown to be incorrect. Given the circumstances today, as well as more recent Commission decisions regarding life span property, the Empire decision for terminal net salvage should not apply to KCP&L's current case.

Staff quotes a portion of a sentence from page 53 of the Empire Order. However, a more complete citation also provides the Commission's reasoning in the Empire case. Specifically, the Commission stated:

> [W]ith respect to Terminal Net Salvage of Production Plant Accounts, this Commission generally has not allowed the accrual of this item. The reason is that generating plants are rarely retired and any allowance for

[4] Staff Report, p. 166.

this item would necessarily be purely speculative. It is true that all depreciation is founded upon estimates, but all estimates are not unduly speculative. Just as utility companies plan rate cases around the projected in-service dates of new plants, so Empire can plan around the retirement of its generating plants so that the Net Salvage expense is incurred in a Test Year. Another alternative is the device of the Accounting Authority Order. As already discussed in connection with the Production Account Service Life issue, there is no evidence that the retirement of any of Empire's plants is imminent and the estimated retirement dates considered in this proceeding are not persuasive. For these reasons, the Commission will not allow the accrual of any amount for Terminal Net Salvage of Production Plants. (Emphasis added)

Q. Why did the Commission not allow for terminal net salvage in the Empire case?

A. As the underlined passages cited above demonstrate, the Commission's primary reason for not allowing terminal net salvage was that at the time of the Empire decision the Commission did not agree in concept with the use of the life span method. As I have noted previously, the Commission did not allow the use of the life span method prior to Case No. ER-2010-0036. Thus, in the Empire case, the Commission did not just reject the use of terminal net salvage but also rejected the use of final retirement dates for power plants.

However, in the time since the Empire decision the Commission has reversed its opinion and has accepted the use of the life span method as appropriate for power plants. The Commission's reasoning for excluding terminal net salvage in the Empire case therefore no longer applies. Since the life span method is used, terminal net salvage must also be included in order to be consistent with the Uniform System of Accounts and the Commission's decision in Laclede.

Q. In the passage from the Empire case you have cited above, the Commission stated that "generating plants are rarely retired and any allowance for this item would necessarily be purely speculative." Has experience since the Empire decision shown that generating plants are retired and that they experience terminal net salvage?

A. Yes. In the time since the Commission issued the Empire Order the number of retirements of coal-fired power plants has increased significantly, due in part to changing environmental regulations. There are also a number of plants expected to retire in the coming years. As a result, there is far more evidence of the ultimate disposition of these facilities upon their retirement than was available at the time of the Empire decision. The retirement of these plants has typically resulted in costs not only related to the dismantlement of the physical power plants, but also significant costs related to the clean-up of the site.

Q. In the current depreciation study for KCP&L, how were the terminal net salvage costs determined?

A. As described in my direct testimony, KCP&L retained the firm Sega, Inc. to perform a detailed study of the expected retirement and dismantlement costs for the Company's power plants. The results of this report ("Sega report") are set forth in Chris Rogers' direct testimony, Schedule CRR-2. The Sega report determined the costs expected to be incurred upon the retirement and dismantlement of the Company's plants. These costs were based on a thorough review of the activities associated with the terminal net salvage for these facilities. Further, the terminal net salvage used for the depreciation study are based only on the retirement components of the Sega report, and do not include other costs for site remediation that may potentially occur. The terminal net salvage costs used

for depreciation are therefore conservative estimates of the terminal net salvage costs. The net salvage costs included in the depreciation study are not speculative estimates of terminal net salvage, but are instead costs that the Company is very likely to incur.

Q. Can you provide an example of a power plant owned by a Missouri electric company that has been retired and experienced significant terminal net salvage costs?

A. Yes. The Venice Plant, operated until its closure by AmerenMO, provides an example with which both Staff and I are familiar. Staff and I have both toured the site of the Venice Plant subsequent to its decommissioning and dismantlement. This example is instructive not only because it provides an illustration of the terminal net salvage costs involved with power plants, but also because the site continues to be used for generation by AmerenMO. This example therefore provides evidence that terminal net salvage should be expected even if a generating site can be reused for other purposes after the closure of the facility.

Q. What was the experience of AmerenMO with the Venice Plant?

A. The Venice Power Plant was a six unit coal-fired power plant (which was converted to burn oil and gas in the 1970s) sited on the east bank of the Mississippi River near St. Louis. The plant was owned and operated by AmerenMO. The total capacity of the plant was 474 MW. In 2002, the plant was retired. Decommissioning and dismantlement occurred in the years subsequent to the retirement and was completed in 2013. Total costs expended by AmerenMO to retire the Venice Plant were approximately $36.3 million, which was offset by about $12.1 million in gross salvage. Thus, the total terminal net salvage cost for Venice was approximately $24.2 million. This amount

includes not only the demolition of the plant itself, but also significant costs to close and remediate the ash pond for the site.

Q. Has Staff recognized that Venice has experienced terminal net salvage costs?

A. Yes. In the Staff Report for AmerenMO's most recent rate case, Case No. ER-2014-0258, Staff discusses the Venice Plant:

> The Venice steam production plant was retired in 2002, and environmental cleanup, demolition, and disposal were completed in 2013. During three visits over the past several years, Staff has observed the progression of the removal of the steam production plant at Venice. The cost of removal and salvage for these large plants often continues for many years, and is recorded to the company's plant depreciation reserves. The Venice steam plant accounts currently show an accumulated depreciation reserve deficit of $17,219,969.[5]

Q. Were the terminal net salvage costs of the Venice Plant recovered over the life of the plant?

A. No. Because the Commission had not allowed for the recovery of terminal net salvage through depreciation expense, the terminal net salvage costs for Venice were not recovered over the plant's life. Current customers are paying for these costs, even though they are not receiving service from Venice.[6]

The experience for Venice should demonstrate why it is important that terminal net salvage be recovered prospectively through depreciation expense over the life of each generating facility. Under Staff's proposal to exclude terminal net salvage from depreciation, future customers will have to pay for the terminal net salvage costs of these

[5] Case No. 2014-0258, Staff Cost of Service Report, p. 151, lines 21-27.

[6] In Case ER-2014-0258, Staff's proposal was to offset the unrecovered Venice costs with accumulated depreciation reserves from certain general plant accounts. I should point out that mathematically Staff's proposal for Venice has the effect of recovering the Venice costs over the recovery period of these general plant accounts, as current customers will now pay more depreciation for the general plant assets. Thus, even with these reserve transfers current customers must pay higher rates due to the fact that earlier generations of customers did not pay the full cost of the Venice Plant.

plants – costs that Staff recognizes will occur. This is unfair to future customers, as they will be paying costs related to assets that are retired and no longer providing service.

Q. Has Staff also recognized that other Missouri power plants should be expected to have terminal net salvage costs?

A. Yes. In Case No. ER-2014-0258 Staff not only acknowledged the costs incurred at Venice, but recognized that other plants will experience terminal net salvage when retired. In the surrebuttal testimony of Arthur Rice in that case, Staff not only acknowledged future terminal net salvage costs for AmerenMO's Meramec plant, but provided a rough estimate of those future costs:

> At this time Staff has only a very rough estimate of a cost for terminal net salvage of the Meramec steam plant, (retirement and removal cost corrected for salvage receipts). Based on this limited information, Staff estimates the cost at approximately $100 million, (15% of the current plant in service for the Meramec steam plant).[7]

Because Staff has recognized that there are terminal net salvage costs for Meramec, I would expect that they would also recognize that KCP&L will incur similar costs for its steam plants.

Q. How does Staff's estimate of terminal net salvage for the Meramec steam plant compare to the estimates KCP&L has proposed in this proceeding?

A. KCP&L's estimates are very conservative estimates of terminal net salvage when compared to Staff's (admittedly rough) estimate of Meramec's terminal net salvage costs.

Table 2 of KCP&L's depreciation study (which can be found on pages VIII-2 through VIII-5 of the study) provides the total terminal net salvage estimates included in the depreciation rates recommended in the study. As can be seen on page VIII-3 of the study, the total terminal net salvage estimated for all of KCP&L's steam production

plants is approximately $40.3 million. This is only about 40% of the cost Staff estimates for just one of AmerenMO's power plants. This should emphasize that KCP&L's terminal net salvage estimates are conservative estimates of the future costs the Company should be expected to incur.

Q. One argument that has been made against the inclusion of terminal net salvage in depreciation is that generating sites can be reused for future generation. Does AmerenMO still use the Venice site for power generation?

A. Yes, it does. There are gas-fired generating units in operation on the site. The decommissioning activities, such as the closure of ash ponds, were not required in order to use the site for new generation and thus, cannot be charged to it. Indeed, much of the site is not used for generation, as newer gas plants require a much smaller footprint than coal-fired power plants. For example, the site of the ash pond, which represented a significant portion of the terminal net salvage costs, is not used for generation. Instead, this site is currently a grass field with wells to monitor the closed ash pond.

Q. How does the experience of the Venice Plant impact the inclusion of terminal net salvage in this case?

A. The facts surrounding the experience of the Venice Plant demonstrate that significant costs should reasonably be expected upon the final retirement of coal-fired power plants. These costs are not speculative, and instead experience shows that terminal net salvage costs will occur.

First, consider the argument that the Company's plants can be reused for other purposes (such as future generation). Such a scenario has in fact occurred with the Venice site. The coal facility at this site was retired in 2002, and the site continues to be

[7] Case No. ER-2014-0036, surrebuttal testimony of Arthur Rice, p. 5, lines 15-18.

used for other types of generation. AmerenMO has spent a net amount of approximately $24.2 million removing the retired power plant and remediating the site. Thus, this experience reveals that even when the site will be reused for new generation there will still be significant costs incurred for the retirement of the old plant. These costs therefore should be included prospectively in depreciation rates.

The costs and activities associated with the retirement of the ash pond at Venice are also instructive. These are activities that are highly likely to be required upon the retirement of the Company's power plants. Recent breaches of ash ponds at sites owned by the Tennessee Valley Authority and by Duke Energy, in which the contents of the ash ponds entered waterways, have increased scrutiny related to the remediation of the ash ponds at coal plants across the country. It should therefore be expected that the costs incurred at the KCP&L's existing coal fleet at a minimum be similar in scope to the activities that were undertaken at Venice.

Q. Can you provide examples from other jurisdictions of power plants that have been or are planned to be decommissioned?

A. Yes. There are many recent examples of plants that either have been or will be decommissioned and dismantled. Examples include:

- Black Hills Power will decommission its Ben French, Osage and Neil Simpson I plants.
- Black Hills Colorado Electric is in the process of decommissioning its Canon City (W.N. Clark) plant and units 5 and 6 at its Pueblo plant.

- Duke Energy plans to decommission a number of sites in the Carolinas, and activities related to the retirements of these sites include asbestos removal, demolition and the closure of ash ponds.
- Dominion Virginia Power is in the process of decommissioning coal units at its Chesapeake Energy Center, North Branch and Yorktown sites.
- PacifiCorp is in the process of decommissioning its Carbon coal power plant.

Q. Will any of these sites continue to be used for power generation?

A. Yes. Some of these facilities have other existing generating facilities on location.

Q. Staff's other reason for recommending the exclusion of terminal net salvage is due to an "over accrual" Staff identifies for production plant accounts. Can you address this Staff argument?

A. Yes. I would first point out that around half of the $480 million amount Staff cites is related to specific circumstances at Hawthorn Unit 5 and Iatan Unit 2 that should not be considered to be an "over accrual" Because the Company has accounted for these costs correctly based on the specific circumstances for Hawthorn Unit 5 and Iatan 2. Further, as I have noted previously the terminal net salvage costs included in KCP&L's depreciation rates are likely to be conservative estimates of the terminal net salvage costs for these facilities. The "over accrual" Staff presents is nothing more than a theoretical number based on current estimates of service life and net salvage. If terminal net salvage costs are higher than currently estimated or if power plants are retired earlier than anticipated it is possible that the Company actually has an "under accrual."

However, independent of the actual amounts of any theoretical over- or under-accrual, Staff's argument that "there will remain sufficient accumulated reserves to

address foreseeable future terminal cost of removal requirements"[8] is incorrect. Staff (and the Company) have recommended remaining life depreciation rates. Remaining life depreciation rates are designed to recover the estimated service value (original cost less net salvage) of an asset over its service life. Since Staff has recommended no terminal net salvage, Staff's depreciation rates will not recover any amount for terminal net salvage over the lives of the Company's power plants. To the extent there is any "over accrual," remaining life depreciation rates reflect the amount of depreciation already recovered to date and are calculated to result in only the full recovery of the estimated service values of the Company's assets. Thus, using Staff's recommended remaining life depreciation rates, which incorporate no terminal net salvage, at the time a facility is retired there will not be reserves for the terminal net salvage costs of the facility.[9] Future customers would have to pay for the terminal net salvage costs of a facility from which they do not receive any benefit.

Q. What do you conclude regarding terminal net salvage?

A. Depreciation principles as set forth in the Uniform System of Accounts and the Commission require that net salvage is included in depreciation expense. The exclusion of net salvage costs results in intergenerational inequity because future customers will be required to pay for the costs of retired assets that are no longer providing service. Despite the fact that Staff has recognized that terminal net salvage costs will occur in the future, Staff has proposed to exclude these costs from depreciation. Staff's recommendation therefore does not meet the requirements of the Uniform System of

[8] Staff Report, p. 166, lines 9-11.

[9] Staff's discussion appears to present the implication that reserves from other facilities may be able to be used for terminal net salvage costs. However, this would result in a deferral and future customers would pay for the retirement costs of a plant no longer providing service.

Accounts or the Commission and will produce intergenerational inequity. For these reasons, the Commission should reject Staff's proposal and accept the depreciation rates proposed in the depreciation study.

II. UNRECOVERED METERS COSTS

Q. Please explain the unrecovered legacy meters costs for KCP&L.

A. As Staff discusses on page 170 of the Staff Report, KCP&L has initiated a program to replace the Company's existing legacy meters with AMI meters. The expectation is that when this program is completed, there will be approximately $8.7 million of unrecovered costs related to the legacy meters. That is, at the time all of the legacy meters will be retired there will still be approximately $8.7 million in costs left to be recovered.[10]

Q. What has the Company proposed regarding the $8.7 million in costs?

A. The Company has proposed to amortize these unrecovered costs over a ten year period. This period of time is short enough that many of the customers who pay for service for this ten year period will have received service from the retired meters. However, it is not too short so as to result in significant rate shock.

Q. What has Staff proposed?

A. Staff has proposed an "alternate method" under which accumulated depreciation reserves for Account 364 Poles, Towers and Fixtures would be transferred to the meters account to offset the unrecovered costs. Staff's justification for this proposal appears to be based on a perceived theoretical "over accrual" for Account 364.

[10] This assumes that we maintain the 40 year average service life and do not accelerate recovery equal to the shorter program completion.

Q. Do you agree with Staff's proposal?

A. No. In general, the most appropriate approach for addressing any theoretical reserve imbalance (or "over accrual") for an account such as Account 364 is with the remaining life technique, which has a "self-correcting" mechanism to handle any reserve imbalances.

Q. Why does Staff argue that there is an "over accrual" for Account 364?

A. Staff's perceived "over accrual" is based on a comparison of the book reserve to the theoretical reserve for this account. The theoretical reserve is calculated using the current service life and net salvage estimates for this account. Based on the current depreciation study and plant balances as of December 31, 2013, the book reserve for this account is about $90.0 million and the theoretical reserve is about $79.9 million.

Q. Does the book reserve exceeding the theoretical reserve for this account mean that too much has been collected in depreciation for this account?

A. No. The theoretical reserve is simply a point in time calculation based on the current estimates of service life and net salvage. The Company periodically performs new depreciation studies and the service life and net salvage estimates are updated to reflect the information available at the time. It is possible that these estimates could change in future studies, and the resulting theoretical reserve will therefore change in future studies. Additionally, the book reserve will change in future studies due to reserve activity (retirements, accruals, cost of removal, etc.) that will occur.

Q. Is it possible that in future studies the theoretical reserve could exceed the book reserve for this account?

A. Yes. In fact, based on the historical data for this account it is very possible that the net salvage estimate for this account could be much more negative in future studies. A more negative net salvage estimate would have the effect of increasing the theoretical reserve and reducing any perceived theoretical "over accrual." The current net salvage estimate is negative 50 percent, which corresponds to the overall average net salvage for the full period of available historical net salvage data.[11] However, cost of removal has trended higher in recent years. The most recent ten year average of net salvage is negative 107 percent. The most recent five year average is negative 149 percent. If these trends continue, then more negative net salvage estimates than the proposed negative 50 percent will be necessary for this account. It is therefore likely that future studies will show a higher theoretical reserve, and that Staff's perceived "over accrual" may actually become an "under accrual."

Q. Given the possibility that the theoretical reserve could exceed the book reserve in future studies, is it appropriate to use depreciation reserves for Account 364 to address the unrecovered costs of legacy meters?

A. No. It is likely that if Staff's proposal would result in an "under accrual" in future studies for Account 364 to become an even larger "under accrual." In my opinion it is therefore not appropriate to address the unrecovered meters costs with the reserves for Account 364.

[11] The net salvage analysis for this account is presented on pages VIII-55 and VIII-56 of the depreciation study.

Q. You have discussed the use of the remaining life technique previously for Account 364. Can the remaining life technique be used to recover the costs related to meters?

A. No. The unrecovered costs for stranded meters are by definition related to assets that will have already been retired. Thus, there is no remaining life for these assets. Stranded meter costs must therefore be recovered over a period of time longer than their service lives. Transferring these costs to or from any other distribution plant accounts will have the effect of recovering the unrecovered meters costs over the remaining lives of the other distribution assets (namely Account 364), which represents a period of time much longer than the remaining life of the stranded meters—which is zero.

Q. Under Staff's proposal, what is the period of time over which the meters costs will be recovered?

A. Staff proposes to address the unrecovered meter costs with reserves from Account 364, Poles, Towers and Fixtures. The estimated remaining life for this account is 29.3 years. Thus, Staff's proposal will in effect recover the stranded meters costs over 29.3 years.

Q. Will such a proposal result in intergenerational inequity?

A. Yes, it will. Staff's proposal means that customers will still be paying for retired meters almost 30 years from now. These future customers will also be paying a return on the costs that will not yet be recovered related to meters.

Given the length of the recovery inherent to Staff's proposal, it is probable that a large percentage of the customers almost 30 years from now will not have received any benefit from the retired legacy meters. Yet these customers will still be paying for the return of and a return on these meters costs.

Q. Are there any other considerations that help to demonstrate the inequity of this proposal?

A. Yes. The average service life estimate for the new AMI meters is 20 years. Thus, in nearly 30 years not only will customers be paying for the retired meters at issue in this proceeding, they will be paying for the second generation of smart meters that have replaced them. A 30 year amortization period is simply too long to be equitable.

Q. What do you conclude regarding Staff's recommendation for this account?

A. Staff's proposal should not be accepted by the Commission. Staff's proposal will recover the costs of retired meters over a period of time that I consider too long to be equitable. Additionally, it is very possible that Staff's proposal will result in an "under accrual" of Account 364 in future studies. For these reasons, it is more appropriate to recover the costs of retired meters over a 10 year period, as proposed in the depreciation study.

III. ACCUMULATED FUTURE COST OF REMOVAL

Q. Please address Staff's discussion of "Accumulated Future Cost of Removal" that begins on page 169 of the Staff Report.

A. Staff's discussion in this section of the Staff Report appears to be based on a misunderstanding regarding an interrogatory response KCP&L provided to Staff. KCP&L does maintain the information related to net salvage in accumulated depreciation that Staff discusses on page 169 of the Staff Report. This misunderstanding has lead Staff to believe that KCP&L does not follow SFAS 143 Accounting for Asset Retirement Obligations ("ARO"). Company witness Ryan A. Bresette discusses KCP&L's implementation of SFAS 143 in his rebuttal testimony.

Q. Can you explain the response to the data request cited by Staff on page 169 of the Staff Report?

A. Yes. Staff Data Request No. 137 references Mr. Spanos' Depreciation Study and asks for the amount of book reserve related to net salvage. KCP&L's interpretation of this data request was that Staff had requested the amount of accumulated net salvage that would result from the depreciation study, which would be a theoretical amount based on the estimates provided in the depreciation study. The theoretical reserve amounts exclude ARO. Consequently, the response to the data request was based on the parameters in the depreciation study which required the qualifying statement in the response related to the theoretical estimate.

Q. Has KCP&L been recording the amounts of net salvage in the depreciation reserve since 2003?

A. Yes, they have. This is a financial reporting practice.

Q. Does using AmerenMO 12% of depreciation reserves as net salvage have any relevance to KCP&L?

A. Not at all. As previously stated, the amounts were established based on the particular parameters for each company which were not the same and the net salvage components and activity have been different since that time as well.

IV. CONCLUSION

Q. Does this conclude your rebuttal testimony?

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-2014-0370

AFFIDAVIT OF JOHN J. SPANOS

COMMONWEALTH OF PENNSYLVANIA)
) ss
COUNTY OF CUMBERLAND)

John J. Spanos, being first duly sworn on his oath, states:

1. My name is John J. Spanos. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC as a Senior Vice President. I have been retained to serve as an expert witness to provide testimony on behalf of Kansas City Power & Light Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of Twenty (20) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

John J. Spanos
John J. Spanos

Subscribed and sworn before me this 4th day of May, 2015.

Notary Public

My commission expires: February 20, 2019

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2019
MEMBER, PENNSYLVANIA ASSOCIATION OF NOTARIES