

Exhibit No.:
Issue:
Witness:
Type of Exhibit:
Sponsoring Party:
Case No.:
Date Testimony Prepared:

Accounting Authority Order
Greg R. Meyer
Surrebuttal Testimony
Missouri Energy Consumers Group
EC-2019-0200
July 8, 2019

FILED
August 2, 2019
Data Center
Missouri Public
Service Commission

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

**The Office of the Public Counsel and
the Midwest Energy Consumers Group,**

Complainants,

v.

**KCP&L Greater Missouri Operations
Company,**

Respondent.

Case No. EC-2019-0200

Surrebuttal Testimony of

Greg R. Meyer

On behalf of

Midwest Energy Consumers Group

July 8, 2019



mecg Exhibit No. 2
Date 8/7/19 Reporter TR
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STATE OF MISSOURI

COUNTY OF ST. LOUIS

SS

Affidavit of Greg R. Meyer

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Midwest Energy Consumers Group in this proceeding on their behalf.

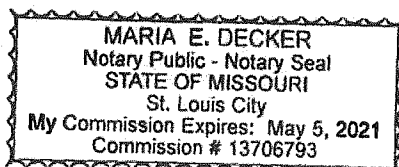
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in the Missouri Public Service Commission, Case No. EC-2019-0200.

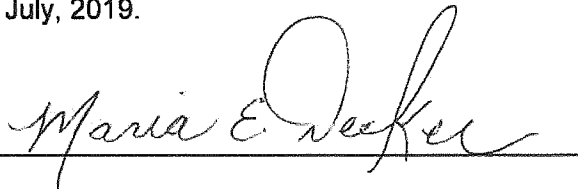
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.



Greg R. Meyer

Subscribed and sworn to before me this 8th day of July, 2019.





**The Office of the Public Counsel and
the Midwest Energy Consumers Group,

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The Office of the Public Counsel and
 the Midwest Energy Consumers Group,
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 v.
 KCP&L Greater Missouri Operations
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Case No. EC-2019-0200

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 Q ARE YOU THE SAME GREG R. MEYER WHO PREVIOUSLY FILED DIRECT
5 TESTIMONY IN THIS PROCEEDING?

6 A Yes. I have previously filed direct testimony in this matter.

7 Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN
8 YOUR PRIOR TESTIMONY?

9 A Yes. This information is included in Appendix A to my direct testimony.

10 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

11 A I am testifying on behalf of Midwest Energy Consumers Group ("MECG").

1 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

2 A I will address several points raised in the rebuttal testimonies of KCP&L Greater
3 Missouri Operations Company's ("KCPL-GMO") witnesses Darrin Ives, Ronald Klote,
4 Chris Rogers, and John Spanos as well as the cross-rebuttal testimony of Staff
5 witness Mark Oligschlaeger as it relates to the retirement of the Sibley units and the
6 effects that retirement has on customers' rates.

7 My surrebuttal testimony will address the following points:

- 8 ➤ Contention by KCPL-GMO that the relief sought by the MECG is "inappropriate"
9 or "vague".
- 10 ➤ The extraordinary nature of the Sibley retirement should not be determined based
11 upon industry experience. General Instruction 7 is focused on whether the activity
12 is extraordinary for the company, not whether it is extraordinary for the industry.
- 13 ➤ The precise quantification of the impact of the deferral request does not need to
14 be known at this time, and it is unfair to require such a standard given the
15 documentation available to parties for purposes of this petition filing. Precise
16 quantification of the Accounting Authority Order ("AAO") request has not been a
17 standard for past AAO requests.
- 18 ➤ The undepreciated value of the Sibley units is not relevant to the requested AAO,
19 but in any event the value is material.
- 20 ➤ An event that is anticipated and communicated well in advance does not prohibit
21 that event from being extraordinary.
- 22 ➤ The requested AAO was made without regard to KCPL-GMO's earnings. The
23 Commission has previously held that earnings are irrelevant to deferral requests.
24 The AAO requested by MECG is simply to capture those costs which are no
25 longer being incurred by KCPL-GMO.
- 26 ➤ A discussion of the Staff's cross-rebuttal testimony describing many of the
27 similarities of the MECG position as well as Staff's faulty conclusion that the
28 retirement of the Sibley unit is not extraordinary.

INTRODUCTION

1

2 **Q DO YOU HAVE ANY INITIAL THOUGHTS ON THE KCPL-GMO AND STAFF**
3 **OPPOSITION TO THE REQUEST FOR AN ACCOUNTING AUTHORITY ORDER?**

4 **A Yes. In recent years, Missouri has seen a rapid increase in electric rates. Since**
5 2006, while the national average electric rate has increased 31.7%, the Missouri
6 average electric rate has increased 67.9%.¹ Specifically, through the AAO, MECG
7 seeks to provide the Commission with the opportunity to consider all financial aspects
8 associated with the retirement of Sibley at a common point in time. That is, when the
9 Commission considers the potential recovery of and on the undepreciated Sibley
10 investment, this AAO will also allow it to consider the savings associated with the
11 retirement of Sibley. By opposing the AAO, KCPL-GMO seeks to use these savings
12 to inflate current profits. By precluding a future Commission from considering such
13 savings in a rate case, it will lead to even higher future rates for KCPL-GMO
14 customers.

15 The problem is compounded when one recognizes that Ameren currently is
16 scheduled to retire several coal, gas and oil fired generating facilities in the future. A
17 Commission decision to reject this AAO will send the clear message that a utility
18 should be allowed to time the retirement of a generating unit simply for purposes of
19 attaining profits. Just as the Commission decision to grant the AAO for the Sibley
20 rebuild in 1991 charted a new path for the construction and renovation of power
21 plants in Missouri, this case will set the course for how utilities are to treat unit
22 retirements in the future.

¹EEl Typical Bills and Average Rates Report.

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1 inclusion in customers' rates. The costs that MECG requests be included in the
2 regulatory liability would be the operating and maintenance costs, property taxes,
3 depreciation,² and return on the investment. These costs would be captured in the
4 AAO's regulatory liability and addressed in the next KCPL-GMO rate case.

5 If these costs are not captured, customers will be paying rates for costs which
6 do not currently exist on KCPL-GMO's financial books. MECG is simply trying to
7 capture those costs that are no longer incurred by KCPL-GMO due to the retirement
8 of the Sibley units.

9 **Q HAVE THERE BEEN REQUESTS IN THE PAST TO DEFER SAVINGS**
10 **ASSOCIATED WITH COSTS THAT WERE INCLUDED IN PAST RATES, BUT NO**
11 **LONGER INCURRED BY THE UTILITY?**

12 **A** Yes. In Case No. EU-2015-0094, the Commission Staff requested an AAO to capture
13 the savings associated with the discontinuance of the Department of Energy ("DOE")
14 quarterly fee for spent nuclear fuel storage.

15 **Q IN THAT CASE DID THE COMMISSION STAFF CONCLUDE THAT THE**
16 **DISCONTINUANCE OF THIS EXPENSE REPRESENTED AN EXTRAORDINARY**
17 **EVENT?**

18 **A** Yes. Specifically, in his direct testimony in that case, Mr. Oligschlaeger asserted that
19 "Staff considers the abrupt termination of these payments after KCPL incurred these
20 costs for close to 30 years to be unusual, unique and non-recurring, and hence
21 extraordinary."

²KCPL-GMO has already agreed to defer depreciation expenses to a regulatory liability.

1 Q DID KCPL AGREE WITH THE COMMISSION STAFF?

2 A KCPL agreed to record a regulatory liability for the discontinuance of the expense if
3 certain other conditions were agreed on. However, at least implicitly, KCPL did
4 appear to recognize this was an extraordinary event. Therefore, the assertion by
5 Mr. Klote that the deferral of cost savings is inappropriate is unfounded.

6 **Extraordinary is Not Determined by the Industry**

7 Q IN BOTH MR. IVES' AND MR. ROGERS' TESTIMONIES, THEY ARGUE THAT
8 SINCE RETIRING GENERATING PLANTS HAS BECOME MORE COMMON IN
9 THE INDUSTRY, THAT THE ACTUAL RETIREMENT OF A GENERATING UNIT BY
10 KCPL-GMO IS NOT EXTRAORDINARY. DO YOU AGREE WITH KCPL-GMO'S
11 NEW ARGUMENT THAT AN EVENT SHOULD ONLY BE CONSIDERED
12 "EXTRAORDINARY" FROM A COMPARISON TO THE INDUSTRY?

13 A Absolutely not. This argument is flawed for several reasons. First, it appears that
14 GMO is asserting that, for an item to be considered extraordinary, the industry must
15 not be encountering the same events that led to the extraordinary treatment for the
16 specific utility. That argument is not credible and is not suggested as a requirement
17 from General Instruction 7 of the Uniform System of Accounts. I have included the
18 relevant portion of General Instruction 7 below:

19 *7. Extraordinary Items.*

20 Those items related to the effects of events and transactions which
21 have occurred during the current period and which are of unusual
22 nature and infrequent occurrence shall be considered extraordinary
23 items. Accordingly, they will be **events and transactions of**
24 **significant effect which are abnormal and significantly different**
25 **from the ordinary and typical activities of the company**, and which
26 would not reasonably be expected to recur in the foreseeable future.
27 (Emphasis added)

1 I can find nowhere in that instruction where the industry is mentioned. In fact,
2 the only mention is to a **company** and, even then, the reference does not mention
3 companies in plural format. It is clear from an unbiased review of General
4 Instruction 7 that the criterion for determining extraordinary is not within the electric
5 industry, but within a specific electric utility company.

6 Furthermore, the Uniform System of Accounts looks to the "ordinary and
7 typical activities of the company" in determining whether an event is extraordinary.
8 As such, Mr. Rogers' analysis regarding the frequency of generating unit retirements
9 in the industry is entirely irrelevant as far as the Uniform System of Accounts is
10 concerned. In this regard, the only statistic that matters is whether the retirement of
11 generating units is extraordinary ("unusual and infrequent") to KCPL-GMO, not
12 whether it is "unusual and infrequent" in the industry. For this reason, I provided
13 evidence in my direct testimony showing that KCPL-GMO has not retired a generating
14 unit in over 30 years.

15 Indeed, the entirety of Mr. Rogers' testimony focuses on the frequency with
16 which generating retirements occur within the electric industry over the last 30 years
17 without any consideration of whether the retirement of generating units is "unusual
18 and infrequent" for KCPL-GMO specifically.

19 **Q HAS THE COMMISSION GRANTED AAOs IN THE PAST FOR POWER PLANTS**
20 **ACTIVITIES THAT WERE USUAL AND FREQUENT IN THE INDUSTRY AT THE**
21 **TIME?**

22 **A** Yes. As I mentioned in my direct testimony, the Commission has previously granted
23 AAOs to KCPL-GMO associated with the construction and renovation of power
24 plants. As I asserted then at page 12 of that testimony:

1 It seems illogical for the Commission to find that the construction of a
2 generating unit is extraordinary and the renovation of a generating unit
3 is extraordinary, but the retirement of the unit is not extraordinary. The
4 Commission has repeatedly found such activities to be extraordinary in
5 order to protect stockholders. It would fundamentally be unfair for the
6 Commission to defer costs in order to protect utility shareholders when
7 a unit is constructed or renovated, but then deny deferral accounting
8 when it comes time to protect ratepayers when the unit is retired.

9 The AAOs granted for the construction and renovation of power plants were
10 for activities that were usual and frequent in the industry at the time. For instance, in
11 2011, GMO sought and was granted an AAO to defer depreciation and return (also
12 known as construction accounting) associated with the construction of Iatan 2. The
13 construction of power plants was usual and frequent in the industry at the time. Data
14 compiled by the United States Energy Information Administration shows that, for the
15 30-year period from 1981-2011,³ 261 coal plants were constructed. In addition, 149
16 nuclear plants, 622 combined cycle plants and 1,703 combustion turbines were
17 constructed. Clearly then, the construction of power plants was not “unusual and
18 infrequent” in the industry. Nevertheless, GMO argued and, by granting the AAO, the
19 Commission apparently agreed that the activity was extraordinary. Therefore,
20 contrary to GMO’s current argument, the Commission can and has granted AAOs for
21 events that are usual and frequent in the industry.

22 **Q HAS THE COMMISSION GRANTED OTHER AAOs TO MISSOURI UTILITIES**
23 **EVEN THOUGH THOSE EVENTS WERE OCCURRING IN THE INDUSTRY?**

24 **A** Yes. In 2012, KCPL and GMO sought and were granted an AAO for costs associated
25 with the enactment of the Missouri renewable energy standard (Case No. EU-2012-
26 0131). The U.S. Energy Information Administration reported that as of February 3,
27 2012, 38 states had Renewable Portfolio Standards that were either mandatory or

³This period of time was chosen consistent with timeframes used in Mr. Rogers’ testimony.

1 goals. Clearly, the existence of Renewable Portfolio Standards was common in the
2 electric industry in 2012, yet KCPL and GMO argued that they were extraordinary to
3 their particular situation.

4 Furthermore, Missouri Gas Energy was granted an AAO to defer costs
5 associated with Y2K modifications (Case No. GO-99-258). It is well known that Y2K
6 issues were concerns of all regulated utilities.

7 If indeed the standard was based upon whether an activity was “extraordinary”
8 within the industry, as GMO now contends, then the recent Tax Cuts and Jobs Acts of
9 2017 (“TCJA”) that changed the federal corporate income tax rate from 35% to 21%
10 would not have been an extraordinary event.

11 Noticeably, however, the Commission reached the exact opposite conclusion.
12 In addressing the impact of the TCJA on Empire District Electric the Commission
13 found that the TCJA was extraordinary to justify deferral through an AAO.

14 Witnesses for Empire, Staff and Public Counsel all agreed the passage
15 of the federal tax cut act meets the Commission’s standards for
16 issuance of an accounting authority order in that it is unusual, unique,
17 non-recurring and material. . . . Even if Section 393.137.3 does not
18 apply to Empire, it would still be appropriate for the Commission to
19 exercise its authority to order Empire to establish an AAO for that
20 period. (Report and Order, Case No. ER-2018-0366, issued August
21 15, 2018, pages 21 and 22).

22 Based on the testimonies of both Mr. Ives and Mr. Rogers, however, the
23 Commission’s decision was apparently incorrect. Specifically, Mr. Ives and Mr.
24 Rogers would seemingly argue that, even though the event was extraordinary to
25 GMO as a specific company, it was not extraordinary within the industry. As such,
26 GMO would apparently assert that the benefits of the TCJA should not have been
27 deferred.

28 Clearly then, given the Commission’s decision with regard to extraordinary
29 events involving the TCJA, renewable energy standards, and Y2K costs, the fact that

1 an event was usual and frequent in the industry does not mean it is not extraordinary
2 for a Missouri utility and therefore subject to an AAO deferral. Although these events
3 were occurring in the industry, the Commission determined that they were
4 extraordinary to the particular Missouri utility.

5 Q HAS KCPL-GMO PREVIOUSLY CLAIMED IN THIS CASE THAT THE STANDARD
6 SHOULD BE BASED UPON WHETHER THE EVENT IS "EXTRAORDINARY" TO
7 KCPL-GMO?

8 A Yes. On March 4, 2019, MECG issued a number of data requests to KCPL-GMO. In
9 its March 14, 2019 objection to several of those data requests, KCPL-GMO
10 noticeably claimed that some of those data requests were irrelevant as they do not
11 concern whether the retirement is extraordinary to "the Company." Noticeably, prior
12 to developing its current position in rebuttal testimony (i.e., that extraordinary is based
13 upon the industry, not the company), KCPL-GMO clearly demonstrated the belief that
14 the extraordinary standard is based upon KCPL-GMO, not the industry in general.

15 GMO objects to data requests as they seek information that is not
16 relevant and not reasonably calculated to lead to the discovery of
17 admissible evidence regarding whether the retirement of Sibley Station
18 and its units is unusual, abnormal, and significantly different from
19 the ordinary and typical operations of the Company where it would
20 be appropriate for the Commission to impose deferral accounting, and
21 the quantification of any such deferral if ordered by the Commission.
22 (emphasis added).

1 **Quantification of Savings**

2 **Q IN THE TESTIMONY OF KCPL-GMO WITNESS KLOTE, MR. KLOTE ALLEGES**
3 **THAT THE QUANTIFICATION OF “COST SAVINGS” IS OVERSIMPLIFIED,**
4 **ERRONEOUS AND OVERSTATED. PLEASE COMMENT.**

5 **A First, I contend that Mr. Klotz is intentionally attempting to confuse or muddy the issue**
6 **with as many arguments as possible in an attempt to have the Commission throw up**
7 **its hands and deny the AAO. I am confident the Commission will not fall victim to this**
8 **issue strategy. The quantification of the AAO request can be easily performed if the**
9 **deferral is ordered by the Commission.**

10 **Q WHAT WAS THE PURPOSE OF YOUR QUANTIFICATION OF COST SAVINGS?**

11 **A As I mentioned in my direct testimony (page 15), “my calculation [of cost savings] is**
12 **very conservative and only for purposes of showing that the deferred amount will**
13 **exceed the Commission’s historical materiality standard.” Specifically, in that**
14 **testimony, I show that, based solely on two factors (depreciation expense and rate of**
15 **return), the savings associated with the extraordinary event exceeds the 5%**
16 **materiality standard occasionally utilized by the Commission. While there are**
17 **undoubtedly other savings associated with this extraordinary event, namely operation**
18 **and maintenance expense and property taxes, I have not attempted to quantify those**
19 **savings at this time.**

1 Q HAS THE COMMISSION PREVIOUSLY DIRECTED PARTIES TO PERFORM
2 QUANTIFICATION OF EXPENSES WHICH WOULD BE SIMILAR TO THE
3 QUANTIFICATION OF COSTS ASSOCIATED WITH THIS AAO?

4 A Yes. The Commission has routinely directed parties to perform this same kind of
5 work previously when it has ordered rate case scenarios to be performed to
6 determine the revenue requirement for a rate case. This required parties to share
7 information to ultimately value certain issues. The process to quantify savings
8 associated with the retirement of the Sibley units would work along these same lines.
9 In compliance with a Commission order establishing the regulatory liability, GMO
10 would quantify its view of the savings. This quantification would be audited by the
11 parties and, if a dispute arose which could not be reconciled, that issue could be
12 presented to the Commission for resolution. As was pointed out by KCPL-GMO, the
13 next rate case will not be filed for several years, which would allow the parties ample
14 time to quantify costs from the requested AAO. Therefore, quantification of these
15 savings should easily be performed before the next rate case.

16 Along the same lines, Mr. Klote criticizes me for seeking the deferral of any
17 property tax savings. This is precisely the reason why the parties should be required
18 to meet and quantify the issues at hand. I have reviewed the testimony of Mr. Klote
19 on this subject and am still not convinced that property tax savings will not be
20 achieved through the retirement of the Sibley units. Nevertheless, a discussion on
21 this issue can occur between the parties once the Commission grants the requested
22 AAO. Furthermore, similar discussions can be held on the other issues Mr. Klote
23 presents in his testimony – namely, labor expense, fuel costs, and operation and
24 maintenance expenses.

1 I am extremely confident that if the circumstances were switched wherein
2 KCPL-GMO had to quantify costs included in customers' rates for special regulatory
3 treatment, the ability to quantify those costs would be characterized as simply a small
4 exercise by KCPL-GMO. Simply stated, the costs to operate the Sibley units that are
5 currently in customers' rates can be quantified once the deferral is ordered by the
6 Commission.

7 **Q HAS THE COMMISSION HISTORICALLY REQUIRED THAT COSTS BE KNOWN**
8 **AT THE TIME A DEFERRAL REQUEST IS MADE?**

9 A No. In fact, in several cases utilities have sought the deferral of costs associated with
10 storms without any quantification of the costs. For instance:

- 11 ➤ EU-2011-0387 - Empire District Electric - Tornado
- 12 ➤ GU-2011-0392 - Missouri Gas Energy - Tornado
- 13 ➤ EU-2008-0141 - Union Electric - Ice Storm
- 14 ➤ EU-2002-1048 - KCPL - Ice Storm

15 In addition to the above cases, in its AAO application associated with
16 renewable energy costs (Case No. EU-2012-0131), KCPL and GMO simply stated
17 that "[t]he Applicants estimate that 2012 payments will total approximately \$6 million
18 for the two companies combined." (emphasis added).

19 Still again, when KCPL requested an AAO for flood costs in 2012 (Case No.
20 EU-2012-0130), it did not provide an exhaustive quantification of costs. Instead,
21 KCPL estimated these costs but pointed out that "[t]his amount will be revised
22 once final costs are determined." (emphasis added).

23 Clearly, KCPL-GMO is engaging in some hypocrisy by claiming that my
24 quantification of cost savings must be exact prior to the Commission considering such
25 a deferral.

1 **Undepreciated Sibley Investment**

2 **Q THERE ARE SEVERAL NUMBERS PROVIDED REGARDING THE**
3 **UNDEPRECIATED VALUE (NET BOOK VALUE) FROM THE RETIREMENT OF**
4 **THE SIBLEY UNITS. PLEASE COMMENT.**

5 **A The undepreciated values from the retirement of the Sibley units range from**
6 **\$145.7 million provided by KCPL-GMO witness John Spanos to \$300 million as**
7 **reflected in the Staff's cost of service calculation in KCPL-GMO's last rate case. As**
8 **an initial matter, it is important to point out that the quantification of the undepreciated**
9 **investment (a/k/a net book value) of the Sibley units is completely irrelevant to the**
10 **determination of whether the retirement of the Sibley units is an "extraordinary" event**
11 **to GMO. In either event, as Mr. Oligschlaeger recognizes at page 7 of his testimony,**
12 **the amount is material.**

13 I mentioned the undepreciated investment in my direct testimony as I believe
14 that GMO will eventually seek to recover the undepreciated investment from
15 ratepayers at some point in the future. In that testimony (page 13), I point out that,
16 based upon Staff's true-up accounting schedules from the recently completed rate
17 case, the undepreciated investment in the Sibley units was approximately
18 \$300 million. Given the possibility that GMO will seek to recover this undepreciated
19 investment, I asserted that the Commission should grant this AAO so that it can
20 consider all aspects of costs and savings at the same time.

21 In his testimony, Mr. Spanos provides a net book value calculation of
22 \$145.7 million. While irrelevant to the immediate determination, I believe that it is
23 important to explain these figures so that the Commission has a complete
24 understanding of the accounting actions that GMO has taken once it retired the Sibley
25 units.

1 **Q PLEASE EXPLAIN.**

2 A Mr. Spanos' \$145.7 million net book value estimate is based on an analysis of the
3 accumulated depreciation reserve that "theoretically" should have been recovered if
4 depreciation rates had historically been exactly correct. As Mr. Spanos recognizes
5 then, this "theoretical" reserve will not be the same as the actual book reserve or the
6 same as the allocated reserve. On the other hand, the \$300 million that I calculated
7 was determined from the Staff's cost of service calculation in GMO's last rate case.

8 **Q REGARDLESS OF THE TOTAL, WILL RATEPAYERS BE REQUIRED TO PAY IN**
9 **RATES THE VALUE OF THE UNDEPRECIATED PLANT (NET BOOK VALUE)**
10 **FOR THE SIBLEY UNITS?**

11 A Potentially. Ratepayers may be required to pay \$300 million of undepreciated
12 investment in rates still existing following the retirement of the Sibley units.⁴

13 **Q HAS KCPL-GMO INDICATED THAT IT WILL SEEK RECOVERY OF THE**
14 **UNDEPRECIATED VALUE THROUGH THE APPLICATION OF DEPRECIATION**
15 **RATES ON ITS CURRENT GENERATORS?**

16 A No. MEGC submitted a data request asking how KCPL-GMO would recover the
17 undepreciated value from the Sibley plant retirement. KCPL-GMO responded that it
18 had not made a final decision regarding that issue.

⁴MEGC reserves the right to challenge the value and recovery of the undepreciated reserve balance (net book) in KCPL-GMO's next rate case.

1 **Q DOES THE STAFF RECOGNIZE THE POSSIBILITY THAT GMO MAY SEEK**
2 **ACCELERATED RECOVERY OF THIS REMAINING UNDEPRECIATED**
3 **INVESTMENT?**

4 **A Yes. On page 7 of Mr. Oligschlaeger's testimony, he makes the following statement:**

5 Yes. If GMO were to request enhanced or accelerated recovery of the
6 unrecovered balance of Sibley unit net plant costs in its next rate case,
7 I would expect other parties to argue that such costs should, at a
8 minimum, be offset by past GMO cost savings amounts.

9 Although Staff claims that the retirement of the Sibley units is not
10 extraordinary, Mr. Oligschlaeger seems to hedge his position. If KCPL-GMO seeks to
11 request enhanced or accelerated recovery of the unrecovered balance, then
12 apparently Staff agrees that the retirement is extraordinary and that capturing the cost
13 savings sought by the MEEG and OPC would be permissible. Namely, depending on
14 the cost recovery mechanism for the undepreciated value of the Sibley units the
15 capturing of cost savings may be appropriate.

16 **Q DO YOU SEE ANY POTENTIAL PITFALLS FROM MR. OLIGSCHLAEGER'S**
17 **POSITION?**

18 **A Yes. If indeed KCPL-GMO seeks expedited recovery of the undepreciated balance**
19 either through a direct recognition or an alternative mechanism that attempts to hide
20 the recovery, KCPL-GMO may argue that any recognition of past savings is
21 inappropriate unless these costs savings are properly deferred through a regulatory
22 liability. In either event, the method by which KCPL-GMO seeks to recover the
23 undepreciated investment will not be known until the next rate case. If the Staff then
24 decides that the savings should be considered, it will be difficult to calculate those
25 savings. Such a calculation needs to be more timely instead of after the fact.

1 Q YOU DISCUSSED EARLIER IN YOUR TESTIMONY THAT STAFF HAD SOUGHT
2 AN AAO FOR DISCONTINUED DOE CHARGES FOR SPENT NUCLEAR FUEL. IN
3 THAT CASE, DID STAFF DISCUSS THE IMPORTANCE OF CAPTURING THOSE
4 COST SAVINGS CURRENTLY IN AN AAO RATHER THAN SIMPLY WAITING
5 UNTIL THE NEXT RATE CASE?

6 A Yes. In that case, the Staff filed the direct testimony of two witnesses: Mark
7 Oligschlaeger and Keith Majors. In his direct testimony, pages 9-10, Mr.
8 Oligschlaeger makes the following statements:

9 Q. If the financial impact of the reduction to zero of the DOE fee KCPL
10 incurs is given deferral treatment, is it possible that in KCPL's next
11 general rate case the Commission may nonetheless decide not to
12 give any ratemaking treatment to the deferred amounts?

13 A. That is possible. KCPL, and any other party, would have the right
14 to argue for that rate treatment, and in that event the Commission
15 could ultimately determine that position is reasonable. However, if
16 deferral is not ordered at this time, the Commission's power to
17 direct any specific ratemaking treatment for a significant portion of
18 the current and ongoing over recovery in rates by KCPL of the
19 DOE funding amount will be **permanently lost**.⁵

20 Q. What are the benefits of an order requiring KCPL to defer the
21 financial impact of this cost reduction?

22 A. Deferral of the financial impact of this event will allow consideration
23 by the Commission of a number of alternatives for handling this
24 cost reduction in an appropriate manner in KCPL's next general
25 rate case.⁶

26 Clearly, Mr. Oligschlaeger has previously recognized the importance of
27 capturing the cost savings for future consideration in a rate case. However, now Mr.
28 Oligschlaeger is willing to forgo that customer protection and roll the dice that KCPL-
29 GMO will not seek enhanced recovery of the undepreciated value – a significant risk
30 to KCPL-GMO customers. The MEGC and OPC are simply trying to avoid that risk

⁵Case No. EU-2015-0094, Direct Testimony of Mark L. Oligschlaeger, page 10, emphasis added.

⁶*Id.*, page 9.

1 and address the issue in KCPL-GMO's next rate case, with all cost savings captured
2 in a regulatory liability.

3 **Q IN THAT SAME CASE DID THE STAFF DISCUSS THE DIFFERENCE BETWEEN**
4 **AN ONGOING EXPENSE AND THE DISCONTINUANCE OF AN EXPENSE?**

5 A Yes. In Case No. EU-2015-0094, Staff witness Mr. Oligschlaeger had the following
6 questions and answers:

7 Q. Should "normal" regulatory lag be addressed by AAOs?

8 A. No. AAOs should not be used to shield utilities from the financial
9 impacts of ordinary fluctuations in the levels of revenues, expenses
10 and rate base they actually experience compared to the level built
11 into their rates, as the rate of return awarded to utilities is intended,
12 in part, to compensate the utilities for that risk. Likewise, AAOs
13 should not be used to flow cost of service savings to customers
14 related to normal utility operations outside of the context of general
15 rate cases, as such a practice would seriously diminish the utility's
16 incentive to be more efficient and productive over time.

17 Q. Is the subject matter of this application an example of normal
18 "regulatory lag?"

19 A. No. If the concern was a fluctuation in the ongoing amount paid to
20 DOE for spent nuclear fuel storage purposes, either up or down,
21 due to revisions to the estimated storage costs, that would be an
22 example of normal regulatory lag. Any such change should only be
23 evaluated for accounting or rate purposes in a general rate case,
24 along with the myriad of other fluctuations in KCPL's revenues,
25 expenses and rate base. However, the reduction of the DOE fees
26 ordered in May 2014 was an unusual and unique event that, in
27 effect, eliminated this item from KCPL's cost of service in its
28 entirety for now and the foreseeable future. As such, the financial
29 impact of that extraordinary event is eligible for deferral treatment
30 according to the long-standing criteria set out by this Commission
31 for AAOs.⁷

⁷*Id.*, pages 11-12.

1 **An Anticipated and Communicated Event Can Still Be Extraordinary**

2 Q IN ITS TESTIMONY, KCPL-GMO SEEKS TO LIMIT THE EXTRAORDINARY
3 STANDARD TO EXCLUDE EVENTS THAT WERE “ANTICIPATED AND
4 COMMUNICATED WELL IN ADVANCE.” (KLOTE REBUTTAL, PAGE 24). DOES
5 THE UNIFORM SYSTEM OF ACCOUNTS CONSIDER WHETHER AN EVENT IS
6 “ANTICIPATED AND COMMUNICATED WELL IN ADVANCE” IN DETERMINING
7 WHETHER THAT EVENT IS EXTRAORDINARY?

8 A No, the concepts of whether an event is “anticipated and communicated well in
9 advance” has no relevance to whether an event is extraordinary for purposes of
10 General Instruction 7 of the Uniform System of Accounts.

11 Q HOW HAS THE COMMISSION INTERPRETED THE UNIFORM SYSTEM OF
12 ACCOUNTS’ USE OF THE TERM EXTRAORDINARY AS USED IN GENERAL
13 INSTRUCTION 7?

14 A The Uniform System of Accounts, General Instruction 7, clearly employs an
15 “extraordinary” standard. Specifically, that instruction provides that “all items of profit
16 and loss” are to be recognized in the current period. That said, the instruction then
17 provides for the possibility of deferral of cost/savings for “extraordinary” events –
18 those events that are of “unusual nature and infrequent occurrence.”

19 The Commission has steadfastly applied this extraordinary standard. For
20 instance, in its Report and Order in Case No. ER-2012-0174, the Commission
21 pointed out that the language in this general instruction “examines an event’s:

- 22 • Time (during current period);
- 23 • Effect (significant);

1 ● Rarity (unusual, infrequent, not foreseeably recurring, activities abnormal
2 and significantly different from the ordinary and typical)."

3 Addressing the request to defer increases in transmission costs, the Commission
4 continued on to point out that:

5 "Rare" does not describe cost increases in the utility business
6 generally. Specifically, Applicants' evidence shows the following as to
7 transmission. Transmission is an ordinary and typical, not an abnormal
8 and significantly different, part of Applicants' activities. Also, Applicants
9 showed that paying more for transmission than in the previous year is
10 a foreseeably recurring event, not an unusual and infrequent event.
11 Thus, "items related to the effects of" transmission cost increases are
12 not rare and, therefore, are not extraordinary.

13 Noticeably, at no time did the Commission utilize KCPL-GMO's self-serving standard
14 of "anticipated and communicated well in advance."

15 **Q HAS THE COMMISSION PREVIOUSLY GRANTED AAOs FOR EVENTS THAT**
16 **WERE DEEMED TO BE EXTRAORDINARY EVEN THOUGH THEY WERE**
17 **"ANTICIPATED AND COMMUNICATED WELL IN ADVANCE"?**

18 **A**Yes. One form of deferred accounting that is anticipated and communicated well in
19 advance would relate to the use of Construction Accounting which allows for the
20 deferral of depreciation and return on investment associated with large construction
21 projects. For instance, the Commission has granted deferral of these costs for GMO
22 associated with the construction of latan 2 and Ameren for environmental upgrades at
23 the Sioux facility. These construction projects were anticipated and communicated
24 well in advance, but subjected to deferral accounting.

1 Q HAS THE COMMISSION GRANTED AN AAO SPECIFIC TO GMO FOR AN EVENT
2 THAT WAS ANTICIPATED AND COMMUNICATED WELL IN ADVANCE?

3 A Yes. GMO sought and was granted an AAO for the deferral of costs associated with
4 the life extension of Sibley and the renovation to burn low sulfur western coal. In its
5 testimony, GMO (then Missouri Public Service) repeatedly asserted that the parties
6 knew about this project well in advance and had communicated this information
7 repeatedly. For instance, in its direct testimony, GMO referred the Commission to the
8 fact that the Sibley rebuild had been occurring since 1989 and that GMO had already
9 received one AAO for deferral of costs. As GMO recognized in its opening statement
10 “[t]he Commission, of course, is familiar with the Sibley projects.” Nevertheless, on
11 the basis that this event was extraordinary, the Commission granted GMO an
12 accounting authority order despite the fact that the event had been communicated
13 well in advance to the parties.

14 Repeatedly, the Commission has made a finding that an event was
15 extraordinary despite the fact that the event was “anticipated and communicated well
16 in advance.”⁸ Obviously then, given the clear language of the Uniform System of
17 Accounts as well as previous Commission AAO decisions, KCPL-GMO is mistaken to
18 attempt to equate the concept of extraordinary with the notion that an event was
19 “anticipated and communicated well in advance.”

⁸ Other instances of the Commission granting the deferral of costs even though an activity was anticipated and communicated well in advance include Case No. EU-2012-0131 (KCPL / GMO deferral of renewable energy standard costs); WO-98-223 (St. Louis County Water deferral of water main replacement costs); EO-91-247 (GMO deferral of AM / FM mapping costs); GO-99-258 (MGE deferral of Y2K costs); GU-2007-0138 (Spire deferral of coal weather rule costs); and numerous cases related to gas pipeline replacement costs. In each case, the activity in question was anticipated and communicated well in advance.

1 Q GIVEN YOUR DISCUSSION OF THE PREVIOUS SIBLEY AAO TREATMENTS, DO
2 YOU BELIEVE THE COMMISSION SHOULD CONSIDER THOSE PAST AAOs
3 WHEN DECIDING THIS CASE?

4 A Yes, most definitely. I have a hard time reconciling the facts that the Sibley units
5 were given AAO treatment for life extension and plant renovations to burn low sulfur
6 coal, events that were clearly "anticipated and communicated well in advance," yet an
7 AAO associated with its final retirement is being argued as non-extraordinary
8 because it was "anticipated and communicated well in advance". If the costs to
9 extend the life of the Sibley units were extraordinary, surely the final retirement of
10 those units would also be extraordinary. I can think of no reason to deviate from
11 previous Commission decisions.

12 **KCPL-GMO Earnings are Irrelevant**

13 Q AT PAGES 20-24, MR. KLOTE CRITICIZES YOUR FAILURE TO CONSIDER
14 KCPL-GMO'S EARNINGS IN YOUR TESTIMONY. DO YOU AGREE WITH HIS
15 CRITICISM?

16 A No. In the request to establish a regulatory liability for the cost savings from the
17 retirement of the Sibley units, I did not even investigate the current earnings of
18 KCPL-GMO as the Commission has repeatedly held that current earnings are
19 irrelevant to an AAO request.

20 For instance, in 1991, the Commission considered GMO's request to grant an
21 AAO for the deferral of costs associated with the Sibley life extension and conversion
22 to western coal. At the time, the Staff proposed several criteria that should be
23 considered in any AAO case. Among those criteria, Staff proposed that the
24 Commission analyze whether the utility is earning above its authorized rate of return.

1 In rejecting Staff's consideration of the utility's earnings, the Commission noted that
2 "Staff's emphasis on whether the utility was earning above its authorized rate of
3 return" is a "rate case issue and best left for rate case review."

4 Thus, while KCPL-GMO's attempts to expand the scope of this matter to
5 include a consideration of earnings, the Commission has previously rejected such a
6 consideration. In fact, I am unaware of any AAO docket in which the Commission has
7 considered the utility's earnings.

8 **Q WHILE IRRELEVANT TO THE IMMEDIATE INQUIRY, DO YOU QUESTION GMO'S**
9 **QUANTIFICATION OF ITS EARNINGS?**

10 **A** Yes. On October 31, 2018, the Commission issued an Order Approving Stipulations
11 and Agreements which reduced KCPL-GMO's rates by \$24 million annually. That
12 rate reduction was based on a true-up period of the 12 months ended June 30, 2018.
13 Mr. Klote's assertion that KCPL-GMO was now earning less than its authorized return
14 on equity must indicate that KCPL-GMO's current operations are not reflective of
15 normal operations or conditions. It is hard to reconcile agreeing to a recent rate
16 reduction while also arguing an inability to earn an authorized return on equity.

17 **Q DO YOU HAVE ANY OTHER CONCERNS WITH MR. KLOTE'S CLAIM THAT**
18 **KCPL-GMO IS UNABLE TO EARN ITS AUTHORIZED RETURN?**

19 **A** Yes. KCPL-GMO has the use of several special regulatory tools which assist in its
20 ability to earn its authorized return on equity. First, KCPL-GMO has a fuel adjustment
21 clause ("FAC") which allows it to capture fuel cost increases/decreases as they occur
22 and reflect those fuel cost changes in customer rates. Second, KCPL-GMO has
23 recently adopted the provision in Senate Bill 564 ("SB 564") which would allow it to

1 defer depreciation and rate of return on 85% of its investment in plant in service in
2 between rate cases.

3 These two special regulatory tools cover a substantial portion of KCPL-GMO's
4 cost of service. In that regard, KCPL-GMO's ability to earn its authorized return on
5 equity should be greatly enhanced.

6 In addition, it is my understanding that KCPL-GMO has recently made a
7 presentation to the Commission discussing the significant level of cost savings that
8 has resulted from the merger of Great Plains Energy and Westar.

9 Given the savings from the merger and the shareholder protections from the
10 FAC and SB 564, it is hard to imagine why KCPL-GMO could not earn its authorized
11 rate of return.

12 **Q AS A GENERAL RULE DO YOU SUPPORT THE CONCEPT THAT**
13 **NON-EXISTENT EXPENSES BUILT INTO CUSTOMER RATES SHOULD BE USED**
14 **TO BOLSTER A UTILITY'S EARNINGS?**

15 **A** No.

16 **Q WERE THESE COST SAVINGS THE RESULT OF KCPL-GMO BEING MORE**
17 **EFFICIENT OR PRODUCTIVE?**

18 **A** No. These cost savings resulted entirely from the opportunistic retirement of the
19 Sibley units after the recent KCPL-GMO rate case was completed.

1 Q HAS GMO PREVIOUSLY ASSERTED THAT INFORMATION REGARDING ITS
2 EARNINGS IS IRRELEVANT?

3 A Yes. Based upon its answer to the petition in this case, in which KCPL-GMO raised
4 questions about earnings, MECG issued some data requests designed to inquire into
5 savings programs implemented since the rate case which would cause an increase in
6 KCPL-GMO's earnings. In its objection to those data requests, KCPL-GMO claimed
7 that matters regarding KCPL-GMO earnings were "not relevant".

8 *GMO objects to data requests as they seek information that is*
9 *not relevant and not reasonably calculated to lead to the*
10 *discovery of admissible evidence* regarding whether the
11 retirement of Sibley Station and its units is unusual, abnormal, and
12 significantly different from the ordinary and typical operations of the
13 Company where it would be appropriate for the Commission to
14 impose deferral accounting, and the quantification of any such
15 deferral if ordered by the Commission. (emphasis added).

16 **Staff's Cross-Rebuttal**

17 Q HAVE YOU READ THE CROSS-REBUTTAL TESTIMONY OF STAFF WITNESS
18 OLIGSCHLAEGER?

19 A Yes, I have.

20 Q DOES MR. OLIGSCHLAEGER AGREE THAT THE RETIREMENT OF THE SIBLEY
21 UNITS ARE EXTRAORDINARY?

22 A Yes and no. Mr. Oligschlaeger initially testifies that the retirement of the Sibley units
23 is not an extraordinary event. However, on page 7 of his testimony,
24 Mr. Oligschlaeger hedges his position when he discusses the position that
25 KCPL-GMO may seek special ratemaking treatment for the unrecovered net book
26 value of the Sibley units. Then Mr. Oligschlaeger has the following response:

1 Q. In the event GMO seeks in its next rate case some kind of special
2 ratemaking treatment for the unrecovered net book value of the
3 Sibley units, could the prior cost savings accumulated by GMO
4 since the Sibley retirements become potentially relevant?

5 A. Yes. If GMO were to request enhanced or accelerated recovery of
6 the unrecovered balance of Sibley unit net plant costs in its next
7 rate case, I would expect other parties to argue that such costs
8 should, at a minimum, be offset by past GMO cost savings
9 amounts.

10 Clearly, Mr. Oligschlaeger is hedging his position if KCPL-GMO seeks
11 expedited recovery of the undepreciated value of the Sibley units. In that regard,
12 Mr. Oligschlaeger is indirectly admitting that the retirement of the Sibley units is
13 indeed an extraordinary event.

14 Q ON PAGE 4 OF HIS CROSS-REBUTTAL TESTIMONY, STAFF WITNESS
15 OLIGSCHLAEGER CLAIMS THAT A UTILITY IS "CONSTANTLY RETIRING
16 PLANT ITEMS". THEREFORE, MR. OLIGSCHLAEGER CONCLUDES THAT THIS
17 RETIREMENT SHOULD NOT BE CONSIDERED EXTRAORDINARY. DO YOU
18 AGREE?

19 A No. The argument presented by Mr. Oligschlaeger is very flawed. I would agree with
20 Mr. Oligschlaeger that the retirement of KCPL-GMO plant probably occurs on a daily
21 basis. However, to then take the leap that because KCPL-GMO retires plant every
22 day, that the final retirement of the Sibley units is a common day occurrence is
23 without merit. The retirement of computers to the final retirement of the Sibley units
24 after 49 plus years of operation is not comparable by any means. As was pointed out
25 by KCPL-GMO witnesses, the final retirement of the Sibley units was anticipated and
26 communicated well in advance of the actual final retirement. When was the last time
27 that the retirement of Company computers, power lines, pole transformers or even

1 general plant was communicated well in advance. The ongoing retirement of pieces
2 of KCPL-GMO plant are not communicated well in advance, they are simply retired.

3 **Q WHAT MAKES THE RETIREMENT OF THE SIBLEY UNITS DIFFERENT THAN**
4 **OTHER PIECES OF PLANT?**

5 A First and foremost is the infrequency of the final retirement of the Sibley units. These
6 units have been in service for over 49 plus years and will only experience one final
7 retirement. It would be almost impossible to determine the number of computers that
8 KCPL-GMO has retired during the life of the Sibley units. As I discussed in my direct
9 testimony, KCPL-GMO has not performed a final retirement on a generating unit in
10 over 30 years. The retirement of a generating unit happens on a very infrequent
11 basis when compared with other utility property. Furthermore the financial impact
12 from the retirement can be significantly higher than the normal daily retirement of
13 other KCPL-GMO plant. In this case, I have calculated that the undepreciated value
14 of the Sibley units is approximately \$300 million. This amount is material as indicated
15 by Staff and is considerably more than one would experience in the everyday
16 retirements of plant. To attempt to persuade this Commission that everyday
17 retirements of plant is comparable to the final retirement of a generating unit does a
18 disservice to this Commission.

19 The final retirement of the Sibley units is an extraordinary event. These units
20 were placed in service in the 1960s. These units will only be retired once, and that
21 occurred in November 2018. Retiring generating units with lives ranging from 49 to
22 59 years cannot be argued to be recurring. KCPL-GMO tries to cloud this issue by
23 arguing that plant retirements are routine today. General Instruction 7 focuses on the
24 company. Looking at KCPL-GMO as a single entity, there can be no argument that

1 retiring generating units with 49- to 59-year lives is not a recurring event for
2 KCPL-GMO.

3 **Q ARE THERE AREAS OF AGREEMENT BETWEEN MECG AND THE STAFF?**

4 **A** Yes. I believe there are several areas of agreement including:

- 5 ➤ The undepreciated value of the Sibley units is a material amount.
- 6 ➤ The deferral of cost savings may be appropriate.
- 7 ➤ The fact that the previous rate case provided for a black box settlement
8 does not make the quantification of savings associated with Sibley
9 impossible.⁹
- 10 ➤ The earnings of KCPL-GMO are not relevant to the AAO request.¹⁰
- 11 ➤ The retirement of the Sibley units is extraordinary given certain
12 circumstances. Note, the MECG claims the retirement of the Sibley units
13 is extraordinary without consideration for certain circumstances.
- 14 ➤ Contrary to GMO's assertion that AAOs should not be extended to events
15 that are "anticipated and communicated well in advance," Mr.
16 Oligschlaeger has acknowledged in response to Data Request 35 that
17 AAOs should be limited to "unanticipated costs."

18 **Q PLEASE DESCRIBE THE LARGEST DIFFERENCE BETWEEN THE MECG AND**
19 **THE STAFF.**

20 **A** Besides the argument of the retirement of plant that I previously discussed, the timing
21 for the capturing of cost savings remains at issue. As previously indicated, the Staff
22 has suggested that quantification of cost savings could be pursued by a party if
23 KCPL-GMO sought special ratemaking treatment for the unrecovered net book value
24 of the Sibley units. The MECG is simply requesting that ratemaking treatment now
25 (AAO), to avoid the legal argument of cost savings quantification in a future

⁹ See, response to Data Request No. 52.

¹⁰ See, response to Data Request No. 45.

1 ratemaking proceeding. The MEEG is not willing to wait and risk the possibility of
2 significant amounts of ratepayer funds being classified as unrecoverable due to its
3 reluctance to argue for the deferral of those cost savings today.

4 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5 **A Yes, it does.**

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