

Exhibit No. 311

Exhibit No.:
Issue(s): Depreciation/AMI/
ONE CIS/CFP/Sibley
Witness/Type of Exhibit: Robinett/Surrebuttal
Sponsoring Party: Public Counsel
Case No.: ER-2022-0129 and ER-2022-0130

SURREBUTTAL TESTIMONY

OF

JOHN A. ROBINETT

Submitted on Behalf of the Office of the Public Counsel

EVERGY METRO, INC. D/B/A
EVERGY MISSOURI METRO
AND
EVERGY MISSOURI WEST, INC. D/B/A
EVERGY MISSOURI WEST

CASE NOS. ER-2022-0129 AND ER-2022-0130

August 16, 2022

TABLE OF CONTENTS

Testimony	Page
One CIS/CFP Allocation	1
AMI Meters	5
Depreciation	7
Sibley and Montrose Recovery	19

**SURREBUTTAL TESTIMONY
OF
JOHN A. ROBINETT
EVERGY MISSOURI METRO
EVERGY MISSOURI WEST**

CASE No. ER-2022-0129 and ER-2022-0130

1 **Q. What is your name and what is your business address?**

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

3 **Q. Are you the same John A. Robinett who filed direct and rebuttal testimony on behalf of**
4 **the Missouri Office of the Public Counsel (“OPC”) in this proceeding?**

5 A. Yes.

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

7 A. The purpose of this surrebuttal testimony is to discuss my concerns with how Staff has
8 allocated Evergy’s investment in ONE Customer Information System (“ONE CIS”) and
9 Customer Forward Program (“CFP”) between all of Evergy’s utility affiliates.
10 Additionally, I discuss Advanced Meter Infrastructure (“AMI”) investment and
11 accumulated reserves as a comparison against what Staff filed in its rebuttal accounting
12 schedules. Finally I will discuss Mr. John Spanos’ depreciation recommendation on the
13 inclusion of terminal net salvage in depreciation rates.

14 **ONE CIS/CFP Allocation**

15 **Q. How did Staff allocate ONE CIS and CFP?**

16 A. In my rebuttal testimony, I noted that Staff’s Evergy Missouri West accounting schedules
17 did not have plant-in-service values in the account for ONE CIS/CFP. Since that testimony
18 was filed, I have met with both Staff and Company and now have a better understanding
19 of how Staff is handling this asset. My initial assessment that Staff has not allocated plant

1 and reserve to Evergy Missouri West for ONE CIS/CFP was and remains completely
2 accurate. Since my testimony from rebuttal, however, I have become aware that Staff has
3 included a common billing expense in Evergy Missouri West, which is then carried over
4 to Evergy Missouri Metro as a revenue item that is meant to account for the ONE CIS/CFP
5 asset.

6 **Q. How exactly is this common billing expense meant to account for the ONE CIS/CFP**
7 **asset?**

8 A. My understanding is that all plant and reserve for the ONE CIS/CFP investments are
9 booked to Evergy Missouri Metro, but that the remaining Evergy utility subsidiaries
10 (including Evergy Missouri West and Evergy Kansas Central) are then assigned a common
11 billing expense item. This common billing expense item, from what I understand, is meant
12 to account for an allocated portion of the depreciation expense and return on investment
13 that Evergy Metro collects from its customers. A corresponding revenue item, which
14 should match the total amounts booked to all other Evergy utility subsidiaries as a common
15 billing expense item, is then assigned to Evergy Missouri Metro. Under this system, Evergy
16 Missouri Metro essentially “owns” the plant and the other Evergy utility subsidiaries are
17 paying Evergy Missouri Metro what amounts to a service fee to use that plant.

18 **Q. Is a common billing expense how you would handle the allocations of cost for ONE CIS**
19 **and the CFP?**

20 A. No. This proposal is unnecessarily complex and could easily result in an improper
21 allocation of costs. As was discussed in my rebuttal testimony, I would instead allocate and
22 transfer plant-in-service and accumulated reserves to the individual utilities and not place
23 100% in Evergy Missouri Metro and then bill out the expenses to the other entities.

1 **Q. How was the allocation done in 2018?**

2 A. My review of the 2018 Staff accounting schedules show that the original total company
3 value of plant-in-service for ONE CIS system was \$124,319,903. In that case, the ONE
4 CIS system was allocated between Evergy Missouri West, Evergy Missouri Metro, and
5 Evergy Kansas Metro. Evergy Missouri West was allocated 37.49% of the total plant-in-
6 service at a value of \$46,607,532. Evergy Missouri Metro was allocated 53.7835% of
7 \$77,712,371 (which is \$124,319,903 less the Evergy Missouri West value of \$46,607,532)
8 at a value of \$41,796,433 as its portion of ONE CIS.

9 **Q. What allocation method are you recommending?**

10 A. I propose to use customer count in order to reallocate portions of the ONE CIS/CFP
11 software to all the utility entities of Evergy. For this allocation the source of the customer
12 count that I used for the allocation process is the 2022 annual IRP update stakeholder
13 presentation in July 2022. Total Evergy customers from this presentation were 1,636,377.

Jurisdiction	Number of Retail Customers
Evergy Missouri Metro	300,843
Evergy Kansas Metro	269,170
Evergy Metro	570,013

Jurisdiction	Number of Retail Customers
Evergy Missouri West	336,644

Jurisdiction	Number of Retail Customers
Evergy Kansas Central	729,720

14

1 **Q. What has Staff included as the total investment in the ONE CIS and CFP software?**

2 A. Staff's 2022 accounting runs have a value of \$295,322,763 for plant-in-service before
3 allocations on the Evergy Missouri Metro run.

4 **Q. Is there any reserve recorded associated with the ONE CIS and CFP in Staff
5 accounting schedules?**

6 A. The Evergy Metro run has accumulated reserve of total Evergy Metro (Kansas and
7 Missouri) of \$48,019,072 when jurisdictionalized for Missouri, Evergy Missouri Metro has
8 reserves of \$25,241,417.

9 **Q. When you reallocate plant should you also reallocate reserve?**

10 A. No. Missouri Evergy customers should maintain the reserve that they have paid to date for
11 the ONE CIS software since the 2018 rate case.

12 **Q. Based on customer accounts what percentages should be allocated to Evergy Missouri
13 West and Evergy Missouri Metro?**

14 A. From the above chart, Evergy Missouri West has 336,644 of 1,636,377 customers or
15 20.57% of Evergy's total customers. Evergy Missouri Metro has 300,843 of the 1,636,377
16 customer of Evergy or 18.38% of the total number of customers.

17 **Q. What are the plant-in-service values you recommend for Evergy Missouri West and
18 Evergy Missouri Metro?**

19 A. Using the above percentages and applying those to the total company investment of
20 \$295,322,763, Evergy Missouri Metro would have a plant-in-service value of \$54,294,204
21 and Evergy Missouri West would have a plant-in-service balance of \$60,755,337.

1 **Q. Do you have concerns related to ONE CIS/CFP reserve balances for Evergy Missouri**
2 **Metro and West?**

3 A. Yes. My concern is that reserve previously collected for the ONE CIS system should
4 remain in Missouri reserves even if allocation moves more plant to Kansas from the
5 Missouri entities. The Missouri utilities should get credit for reserves already paid for ONE
6 CIS.

7 **AMI Meters**

8 **Q. What is the purpose of your AMI testimony?**

9 A. I am providing the Commission with the most up to date plant-in-service and accumulated
10 depreciation reserves in order to highlight a trend that worries me with the replacement of
11 AMI meters with AMI meters with remote disconnect ability.

12 **Q. How has the plant in service and depreciation reserve changed since Staff's 2018 True-**
13 **up accounting schedules for Evergy Missouri Metro?**

14 A. Account 370.02 Meters - AMI Distribution for Evergy Missouri Metro in the 2018 true-up
15 accounting schedules, which are through June 30, 2018, had a Missouri Jurisdictional plant-
16 in-service of \$33,812,886 with an accumulated reserve of \$4,081,223. Staff's direct
17 accounting schedules in this case for plant and reserves through May 31, 2022, Evergy
18 Missouri Metro plant-in-service is \$61,650,283 with an accumulated depreciation reserve of
19 \$3,211,002. Staff filed updated accounting schedules at rebuttal testimony but plant-in-
20 service and accumulated depreciation reserves remained the same as filed in direct testimony.

1 **Q. How has the plant in service and depreciation reserve changed since Staff's 2018 True-**
2 **up accounting schedules for Evergy Missouri West?**

3 A. Account 370.02 Meters - AMI Distribution for Evergy Missouri West in the 2018 true-up
4 accounting schedules which are through June 30, 2018, had a Missouri Jurisdictional plant-
5 in-service of \$21,777,871 with an accumulated reserve of \$1,230,040. Staff's direct
6 accounting schedules in this case for plant and reserves through May 31, 2022, Evergy
7 Missouri West plant-in-service is \$49,178,779 with an accumulated depreciation reserve of
8 \$2,472,035. Staff updated accounting schedules at the time of rebuttal testimony Evergy
9 Missouri West AMI distribution plant-in-service of \$49,632,316 with accumulated
10 depreciation reserves of \$3,716,327.

11 **Q. Were you able to find retirements of AMI meters?**

12 A. Yes, attached as Schedule JAR-S-1 are the historical retirement of dollars that have been
13 retired since the account was setup. These values are sourced from Evergy's depreciation
14 consultant's study. In Evergy Missouri Metro \$8,505,903 worth of retirements have been
15 experienced since 2015, while only \$280,155 of retirements have occurred at Evergy Missouri
16 West since 2016 for AMI meters.

17 **Q. What takeaways do you have from the plant and reserves for AMI Meters in Evergy**
18 **Missouri?**

19 A. As I previously discussed in my rebuttal testimony, plant-in-service has again more than
20 doubled since 2018 while depreciation reserves have again failed to increase at the rate as I
21 would have expected it to. This is likely caused by increased retirements of not fully

1 depreciated plant that are nearly outpacing the annual depreciation accruals. This results in
2 depreciation reserves being lower than they should be based on annual accrual additions.

3 **Depreciation**

4 **Q. What is Staff's position related to the inclusion of terminal net salvage in depreciation**
5 **rates for Evergy?**

6 A. Staff witnesses Mr. David T. Buttig, P.E. and Mr. Cedric E. Cunigan, PE recommend
7 depreciation rates for Evergy Missouri Metro and Evergy Missouri West that do not reflect
8 inclusion of terminal net salvage as it is speculative and unknown. Both Staff witnesses
9 even present the findings of the Commission in Case No. ER-2016-0285 in its Report and
10 Order for this same utility. The Commission stated:

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

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

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

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

22 **Q. Do you support either the Commission Staff's or Evergy's depreciation**
23 **recommendation?**

24 A. No. While I support Staff's position related to terminal net salvage, I have concerns about
25 their depreciation study. These are the same concerns that Mr. Greg Meyer has pointed out
26 in his direct testimony. My concern is related to the reduction in accumulated depreciation

¹ Case No. ER-2016-0285 Report and Order issued May 3, 2017, page 37.

1 reserve directly tied to the Sibley retirement and how Evergy books depreciation accrual
2 as one would for a mass asset (like poles and meters). This appears contrary to what the
3 Commission previously ordered with the adoption of the life span method dating back to
4 Case Nos. ER-2010-0355 and ER-2010-0356. Under the life span method, the generating
5 units should not be looked at as a fleet but as individual units with individual lives, not as
6 (or similar to) a mass asset.

7 The same issue on reserves is present in the Evergy Missouri Metro study as well,
8 but the reduction is less apparent as there is more plant to spread the undepreciated balance
9 of Montrose over and it was already a much smaller amount when compared to Sibley in
10 Evergy Missouri West.

11 **Q. At page 8 line 2 of Mr. Spanos' rebuttal he states OPC does not disagree with any**
12 **interim survivor curves, do you agree with his statement?**

13 A. No. As part of my direct testimony I only focused on the inclusion of terminal net salvage
14 in depreciation rates and discussed the Commission's historical approach. In my rebuttal
15 testimony I highlighted inconsistencies that exist between Mr. Spanos' depreciation study
16 projected retirement dates and the retirement dates of facilities in Evergy's integrated
17 resource plan.

18 **Q. Should the Commission approve depreciation rates that are adjusted to include future**
19 **unknown and estimated costs that the Company may incur for retirement and**
20 **dismantlement portions of terminal net salvage?**

21 A. No. This Commission has set rates on the principle that only known and measurable costs
22 should be included in rates. That is why interim net salvage was built into depreciation
23 rates because it is based on historical trends of how much cost-of-removal and salvage

1 value fluctuate when an asset is retired. The historical interim net salvage experienced has
2 been included into the depreciation rates that have previously been ordered by this
3 Commission and are in the depreciation rates currently being recommended by Staff. Only
4 costs that are known and measurable should be included in depreciation expense.

5 **Q. Does Evergy's historical net salvage data yield different rates for each generating**
6 **facility?**

7 A. No.

8 **Q. Why not?**

9 A. In order to understand this, one must uncrack the code from Mr. Spanos' rebuttal testimony.
10 At page 21 beginning at line 15 and continuing onto page 22, Mr. Spanos discusses the
11 reserve allocation that he performed as part of Case No. EC-2019-0200.

12 **Q: Please summarize the Company's proposal for the recovery of the**
13 **Net Book Value of the asset costs associated with Sibley Generating**
14 **Station.**

15 A: As a result of the calculations the Company performed from the
16 Commission's order in Case No. EC-2019-0200, the book reserve
17 (accumulated depreciation) associated with the Sibley Generating Station
18 as of June 30, 2018 was established as approximately \$327.2 million which
19 produced a Net Book Value (or costs to be recovered from that point in
20 time) of approximately \$145.7 million. This book reserve calculation
21 properly allocated the book reserve to the Sibley asset level based on the
22 theoretical reserve calculated for each steam unit based on the known life
23 parameters. **This calculation period was critical in that it was the first**
24 **time accumulated depreciation was specifically applied to the Sibley**
25 **location or unit level.** Based on the fact the Sibley Generating Station was
26 retired within a short period of time after the above calculations were set
27 forth, the continuation of the reserve development was calculated to
28 determine the amount of plant costs associated with the Sibley Generating
29 Station to be recovered as of June 30, 2021.

30 The depreciation study properly implemented the reserve
31 calculations relating to the Sibley Generating Station Net Book Value and
32 the assignment of book reserve to the location level for all units prior to the
33 retirement of the Sibley Generating Station, and the recorded book reserve
34 associated with the Sibley Generating Station as of June 30, 2021. The book
35 reserve of approximately negative \$288.1 million was only a simple reserve

1 allocation system process. Therefore, based on the appropriate practices
2 established as of June 30, 2018, approximately negative \$142.5 million of
3 the June 30, 2021 reserve identified on the fixed asset system was brought
4 forward to the account level of the remaining Evergy Missouri West
5 generating stations still in service using the same practice employed during
6 the calculations proposed as of June 30, 2018. **In other words, the proper
7 book reserve by account and by location was established. (Emphasis
8 added)**

9 The bolded statements tell the reader the following: Evergy maintains depreciation reserve
10 by account and by type of plant (*i.e.* steam production, nuclear production, other
11 production, transmission, distribution, and general plant) not by generating unit as one
12 should. Mr. Spanos performed an allocation of depreciation reserves from a pooled bucket
13 for steam generation in the complaint case to arrive at his net book value of \$145.7 million.
14 These statements are directly tied to his statement that it was the first time accumulated
15 depreciation was specifically applied to the Sibley location on a unit level. The second
16 bolded statement that the proper book reserve by account and by location was established
17 in the complaint case indicates that Mr. Spanos assigned reserves to each of the steam
18 generating units for the first time in the complaint case.

19 **Q. Is Mr. Spanos recommending net salvage components that differ by facility and
20 account?**

21 A. Yes.

22 **Q. Why is this improper to do in this case?**

23 A. The answer is twofold, first the historical data does not support net salvage values that
24 differ by facility but only by account. This is because in Mr. Spanos' depreciation study he
25 has all steam generating units in account 311 structures and improvements booked by the
26 account in total and does not break down account 311 for each individual steam generating
27 unit or steam units' common plant. This is true for accounts 312, 314, 315, and 316. This

1 can be seen in review of Schedule JJS-1 pages 309-323 in Evergy Missouri West and in
2 Evergy Missouri Metro on pages 257 to 274 of Schedule JJS-1. The same holds true for
3 Evergy Missouri Metro and Evergy Missouri West for the 340 series of accounts for other
4 production, with the only caveat being that wind generators have been separated in Evergy
5 Missouri Metro account 344.02.

6 Second, the only way to arrive at differing net salvage rates for each facility is the
7 inclusion of future unknown estimated expenditures that may occur. The inclusion of future
8 unknown and speculative costs is a divergence from current and historical Commission
9 depreciation and expense inclusion practices.

10 **Q. As it relates to depreciation what is Evergy asking of the Commission?**

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

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

16 A. The accepted practice in Missouri is to calculate net salvage using historical data
17 experienced, and not the future estimated costs of retirement or dismantlement costs. This
18 has been the practice of the Commission since at least 2005 when the Commission ordered
19 this approach in the *Third Report and Order* in Case No. GR-99-315² involving Laclede
20 Gas Company and the *Report and Order* from Case No. ER-2004-0570 involving the
21 Empire District Electric Company.

² *Third Report and Order* in Case No. GR-99-315 Issue Date: January 11, 2005

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

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

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

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

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

$$13 \text{ Depreciation Rate} = \frac{100\% - \% \text{ Net Salvage}}{\text{Average Service Life (years)}} \\ 14$$

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

26 *The accrual method has been used by Laclede and the Commission*
27 *to determine Laclede's depreciation rates since at least the early 1950s. It*
28 *is undisputed that using the accrual method for this purpose is supported*
29 *by the overwhelming weight of authority on such matters. In both*
30 *evidentiary hearings, Laclede and AmerenUE provided evidence showing*
31 *the widespread support among depreciation professionals and authoritative*
32 *texts for the traditional, or accrual, method of treating net salvage.*³

³ Case No. GR-99-315, Third Report and Order, p. 8 (internal citations omitted).

1 Similarly, the *Report and Order* from Case No. ER-2004-0570 states:
2

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

$$5 \text{ Depreciation Rate} = \frac{100\% - \% \text{ Net Salvage}}{6 \text{ Average Service Life (years)}}$$

7 *In this formula, net salvage equals the gross salvage value of the asset*
8 *minus the cost of removing the asset from service. The net salvage*
9 *percentage is determined by dividing the net salvage experienced for a*
10 *period of time by the original cost of the property retired during that same*
11 *period of time.*⁴

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

13 *Second, with respect to Terminal Net Salvage of Production Plant Accounts,*
14 *this Commission generally has not allowed the accrual of this item. The*
15 *reason is that generating plants are rarely retired and any allowance for*
16 *this item would necessarily be purely speculative. It is true that all*
17 *depreciation is founded upon estimates, but all estimates are not unduly*
18 *speculative. Just as utility companies plan rate cases around the projected*
19 *in-service dates of new plants, so Empire can plan around the retirement of*
20 *its generating plants so that the Net Salvage expense is incurred in a Test*
21 *Year. Another alternative is the device of the Accounting Authority Order.*
22 *As already discussed in connection with the Production Account Service*
23 *Life issue, there is no evidence that the retirement of any of Empire's plants*
24 *is imminent and the estimated retirement dates considered in this*
25 *proceeding are not persuasive. For these reasons, the Commission will not*
26 *allow the accrual of any amount for Terminal Net Salvage of Production*
27 *Plants.*⁵

28 It's my understanding that the accepted practice of not allowing the terminal net salvage
29 value in depreciation rates has been in place since these decisions were ordered in early
30 2005.

⁴ Case No. ER-2004-0570, *Report and Order*, p.52 (internal citations omitted).

⁵ Case No. ER-2004-0570, *Report and Order*, p.53

1 **Q. What does Evergy witness Spanos recommend?**

2 A. Mr. Spanos is seeking to include not only the value of historical net salvage but include an
3 additional portion for future unknown expenses related to the retirement of each generating
4 unit. As mentioned above this would be a significant change in the Commission's policy.

5 **Q. Do you agree with Mr. Spanos' statement on page 9 beginning at line 12 of his rebuttal**
6 **testimony that “Staff recommendation for terminal net salvage is therefore not**
7 **consistent with the USOA, nor is it consistent with the Commission's Order in**
8 **Laclede.”⁶?**

9 A. No. OPC would like to point out to the Commission that the Federal Energy Regulatory
10 Commission (“FERC”) Uniform System of Accounts (“USOA”) does not use any of the
11 following terms: interim net salvage, terminal net salvage, or final net salvage. Mr. Spanos
12 has not provided any substantive evidence to support his claim. I believe it is incumbent
13 for him to do so.

14 **Q. Does Mr. Spanos in his rebuttal testimony address some of the concerns raised about**
15 **what future cost estimates were included in the recommended depreciation rates for**
16 **Evergy?**

17 A. Yes. On page 11 of Mr. Spanos' rebuttal testimony he clarifies that only the retirement and
18 dismantlement components of the 1898 & Co. report were used for the study. He
19 additionally points out that environmental costs to remediate the facilities were not
20 included, making the values a conservative estimate.

⁶ Spanos Rebuttal Testimony p.9 l14-16

1 **Q. Does Mr. Spanos on page 8 of his rebuttal testimony properly state General**
2 **Instruction 22 of the FERC USOA for electric utilities?**

3 A. Yes he does. On lines 9 through 11 stating: *“Utilities must use a method of depreciation*
4 *that allocates in a systematic and rational manner the service value of depreciable property*
5 *over the service life of the property.”*

6 **Q. What does the term “service value” mean?**

7 A. Service value is defined in the FERC USOA as definition #37:
8 *Service value means the difference between original cost and net salvage value of electric*
9 *plant.*⁷

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

11 A. Net salvage value is defined also in the FERC USOA as definition #19:
12 *Net salvage value means the salvage value of property retired less the cost of removal.*⁸

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

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

⁷ FERC USOA for electric utilities definition #37

⁸ FERC USOA for electric utilities definition #19

1 **Q. Does Mr. Spanos in his rebuttal testimony discuss Commission decisions regarding**
2 **net salvage?**

3 A. Yes. Specifically, Mr. Spanos discusses the *Third Report and Order* from Case No. GR-
4 99-315 involving Laclede Gas Company.

5 **Q. Why does Mr. Spanos cite to Case No GR-99-315?**

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

10 *“The Commission finds that the fundamental goal of depreciation*
11 *accounting is to allocate the full cost of an asset, including its net salvage*
12 *cost, over its economic or service life so that utility customers will be*
13 *charged for the cost of the asset in proportion to the benefit they receive*
14 *from its consumption. The Commission further finds that the method utilized*
15 *by Laclede is consistent with that fundamental goal.”⁹*

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

18 A. No it does not.

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

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

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

$$24 \text{ Depreciation Rate} = \frac{100\% - \% \text{ Net Salvage}}{\text{Average Service Life (years)}}$$

25
26 *In this formula, net salvage equals the gross salvage value of the asset*
27 *minus the cost of removing the asset from service. The net salvage*
28 *percentage is determined by dividing the net salvage experienced for a*

⁹ Third Report an Order GR-99-315 p.9 (internal citations omitted).

1 period of time by the original cost of the property retired during that same
2 period of time. The Commission finds that many natural gas assets will have
3 a negative net salvage value and corresponding negative net salvage value
4 percentage, since the cost of removing the asset from service frequently
5 exceeds its gross salvage value. The Commission finds that many natural
6 gas assets will have a negative net salvage value and corresponding
7 negative net salvage value percentage, since the cost of removing the asset
8 from service frequently exceeds its gross salvage value

9 The accrual method has been used by Laclede and the Commission
10 to determine Laclede's depreciation rates since at least the early 1950s. It
11 is undisputed that using the accrual method for this purpose is supported
12 by the overwhelming weight of authority on such matters. In both
13 evidentiary hearings, Laclede and AmerenUE provided evidence showing
14 the widespread support among depreciation professionals and authoritative
15 texts for the traditional, or accrual, method of treating net salvage.¹⁰

16
17 **Q. Are there any other cases that you believe the Commission should be aware of that**
18 **Mr. Spanos does not discuss?**

19 A. Yes. Mr. Spanos fails to discuss the Commission decision in Case No. ER-2004-0570. This
20 is the order that approved net salvage being included as part of the depreciation rate instead
21 of being booked as an expense for an electric utility (The Empire District Electric
22 Company).

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

25 A. No. The Commission found that

26 *“this Commission generally has not allowed the accrual of this item.”*¹¹

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

28 *“Just as utility companies plan rate cases around the projected in-service*
29 *dates of new plants, so Empire can plan around the retirement of its*

¹⁰ Case No. GR-99-315, Third Report and Order, p. 8-9 (emphasis added).

¹¹ Case No. ER-2004-0570, Report and Order, p.53

1 *generating plants so that the Net Salvage expense is incurred in a Test Year.*
2 *Another alternative is the device of the Accounting Authority Order.”¹²*

3 The Commission further clarified its opinion regarding net salvage:

4 *“In a recent case, the Commission stated that the fundamental goal of*
5 *depreciation accounting is to allocate the full cost of an asset, including its*
6 *Net Salvage cost, over its economic or service life so that utility customers*
7 *will be charged for the cost of the asset in proportion to the benefit they*
8 *receive from its consumption. The Commission found in that case that the*
9 *traditional accrual method used by the utility was consistent with that*
10 *fundamental goal. It is the policy of this Commission to return to traditional*
11 *accounting methods for Net Salvage.”¹³*

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

14 A. Yes. The Commission’s Report and Order in the Empire Case No. ER-2004-0570 did not
15 allow for the collection of terminal net salvage to be included in depreciation rates. The
16 Commission stated *“For these reasons, the Commission will not allow the accrual of any*
17 *amount for Terminal Net Salvage of Production Plants.”¹⁴* The Commission further stated:
18 *“It is the policy of this Commission to return to traditional accounting methods for Net*
19 *Salvage.”¹⁵*

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

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

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

¹³ Case No. ER-2004-0570, Report and Order, p.54 (internal citations omitted).

¹⁴ Case No. ER-2004-0570, Report and Order, p.53

¹⁵ Case No. ER-2004-0570, Report and Order, p.54

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

3 A. I recommend that the Commission find that Evergy's studies provide insufficient support
4 for increasing depreciation rates for unknown and not measurable future costs that may or
5 may not be covered by the current and long accepted use of historical net salvage data.
6 Further, at this point in time, I do not recommend use of Staff's depreciation rates either as
7 their position may or may not be changing at surrebuttal depending on their final position
8 taken as to reserve balances for Evergy Missouri West for the final net book value of
9 Sibley. Staff's direct case included final net book value for Sibley that differed greatly from
10 its position in the 2018 rate case for Sibley. Ultimately I will likely support Staff's
11 recommendation if reserves are brought forward based on the 2018 accounting schedules
12 and depreciation rates are recalculated for the steam generating facilities.

13 **Sibley and Montrose Recovery**

14 **Q. Does Staff discuss the remaining net book value of Sibley and how that has affected the**
15 **plant-in-service and accumulated depreciation reserve?**

16 A. In Staff's rebuttal case, Mr. Keith Majors discusses Evergy's position, MECG's position, and
17 Staff's value from the 2018 rate case.

18 **Q. Does Staff discuss the remaining net book value of Montrose and how that has affected**
19 **the plant-in-service and accumulated depreciation reserve?**

20 A. No. I have not seen the discussion of Montrose's effect on accumulated depreciation reserves
21 for Evergy Metro. This is not surprising, though, as those units were much closer to being
22 fully accrued when they retired and there is more steam plant-in-service and accumulated
23 reserves in Evergy Metro to absorb the smaller unrecovered balance.

1 **Q. Do you have a recommendation that could solve this problem going forward?**

2 A Yes. Evergy could and should be tracking depreciation reserve by account and generating
3 unit. This change in depreciation accrual method should have been undertaken when Evergy
4 was authorized to move to the life span method as part of the 2010 rate cases.

5 **Q. Does this conclude your surrebuttal testimony?**

6 A. Yes, it does.

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

In the Matter of Evergy Metro, Inc. d/b/a Evergy)	
Missouri Metro’s Request for Authority to)	<u>Case No. ER-2022-0129</u>
Implement a General Rate Increase for Electric)	
Service)	

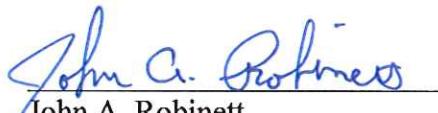
In the Matter of Evergy Missouri West, Inc. d/b/a)	
Evergy Missouri West’s Request for Authority to)	<u>Case No. ER-2022-0130</u>
Implement a General Rate Increase for Electric)	
Service)	

AFFIDAVIT OF JOHN A. ROBINETT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

John A. Robinett, of lawful age and being first duly sworn, deposes and states:

1. My name is John A. Robinett. I am a Utility Engineering Specialist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



 John A. Robinett
 Utility Engineering Specialist

Subscribed and sworn to me this 16th day of August 2022.



TIFFANY HILDEBRAND
 My Commission Expires
 August 8, 2023
 Cole County
 Commission #15637121



 Tiffany Hildebrand
 Notary Public

My Commission expires August 8, 2023.