

Exhibit No.:  
Issue: Depreciation  
Witness/Type of Exhibits: Liberda Direct  
Sponsoring Party: KCPL  
Case No.: HO-86-139

DIRECT TESTIMONY OF

James K. Liberda

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. HO-86-139

OFFICIAL CASE FILE  
KANSAS CITY POWER & LIGHT COMPANY

Exhibit No. 2  
Date 7/6/87 Case No. HO-86-139  
Reporter [Signature]

DIRECT TESTIMONY  
OF  
JAMES K. LIBERDA

Supervisor, Corporate Planning Engineering  
KANSAS CITY POWER & LIGHT COMPANY

Case No. HO-86-139  
(October 1986)

1 Q. PLEASE STATE YOUR NAME AND ADDRESS.

2 A. James K. Liberda. My business address is 1330 Baltimore Avenue,  
3 Kansas City, Missouri.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. I am employed by Kansas City Power & Light Company (KCPL or Company)  
6 as Supervisor of Corporate Planning Engineering.

7 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

8 A. I was graduated from North Dakota State University in Fargo, North  
9 Dakota, with a Bachelor of Science degree in Industrial Engineering in  
10 1968. From 1968 to 1978 I served as an officer in the United States  
11 Air Force. In 1978 I received a Master of Arts degree in Business  
12 Administration from the University of Nebraska and was hired by the  
13 Kansas City Power & Light Company as a Corporate Planning Engineer. I  
14 was promoted to my current position in 1983.

15 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

16 A. The purpose of this testimony is to recommend depreciation rates for  
17 KCPL's Steam Heat Production, Distribution and General plant accounts  
18 and amortization rates for certain electric heating equipment to be  
19 installed on customer's premises.

1 Q. WHAT SCHEDULES ARE YOU SPONSORING?

2 A. I am sponsoring Exhibit No. \_\_ (JKL), Schedule 1, which was prepared by  
3 me or under my direct control and supervision.

4 Q. WHAT DEPRECIATION RATES ARE YOU RECOMMENDING?

5 A. Please refer to Exhibit No. \_\_ (JKL), Schedule 1, which sets forth the  
6 recommended depreciation rates by FERC account.

7 Q. WHAT IS THE BASIS FOR THESE RATES?

8 A. These rates are based on a remaining life methodology. These are the  
9 rates which must be applied to the average plant balance of each  
10 account for the years 1987-1990 to fully depreciate the plant balances  
11 and budgeted additions for each account by the end of the year 1990.

12 Q. WHY IS IT NECESSARY TO FULLY DEPRECIATE THESE AMOUNTS BY THE END OF  
13 THE YEAR 1990.

14 A. The "Downtown Steam Service Plan" filed as part of this case (KCPL  
15 Exhibit No. \_\_ (BJB), Schedule 1), explains KCPL's intention to  
16 discontinue steam service from Grand Avenue in 1990. Upon termination  
17 of steam service from Grand Avenue the steam production and  
18 distribution systems will no longer be used and will be retired from  
19 service. Upon retirement, any difference between the book investment  
20 and depreciation reserve for each steam heat account would have to be  
21 recorded as a loss. Consequently, KCPL desires to depreciate the  
22 remaining unrecovered investment over the remaining useful life  
23 (1987-1990) of the system.

24 Q. WHY DID YOU CONSIDER BUDGETED ADDITIONS IN DEVELOPING THE DEPRECIATION  
25 RATES?

1 A. Budgeted additions represent additions to the steam system necessary  
2 to continue service through 1990. If these additions are not  
3 considered in developing depreciation rates, then those additions will  
4 not be adequately depreciated and the company will suffer a book loss.

5 Q. PLEASE EXPLAIN HOW THE DEPRECIATION RATES WERE CALCULATED.

6 A. A computer model was developed which calculates the depreciation rate  
7 for each steam heat account. Inputs to this model include the plant  
8 and allocated reserve balances at December 31, 1985, the depreciation  
9 rates currently authorized and the budgeted additions for the years  
10 1986 through 1990. Average plant balances were calculated for 1986  
11 through 1990. It was assumed that the depreciation rates currently in  
12 use per the Commission's May 21, 1986 order in Case No. HR-86-90 would  
13 be used only through the end of 1986. A 1986 depreciation accrual was  
14 calculated and an end of year 1986 reserve balance was established. A  
15 net plant balance at the end of 1986 was determined by subtracting  
16 the reserve balance from the plant balance. The depreciation rate for  
17 1987 through 1990 was calculated by dividing the total of the net  
18 balance plus the sum of the additions for 1987 through 1990 by the sum  
19 of the average plant balances for 1987 through 1990. This  
20 depreciation rate is the rate that, when applied to each year's  
21 average plant balance, results in the book investment equaling the  
22 depreciation reserve for the steam heat accounts by the end of 1990.

23 Q. DO THE PROPOSED DEPRECIATION RATES FOR THE PRODUCTION ACCOUNTS INCLUDE  
24 A COMPONENT FOR THE DECOMMISSIONING OF GRAND AVENUE STATION?

1 A. The proposed rates would fully depreciate only KCPL's investment in  
2 Grand Avenue. They do not include any provision for the  
3 decommissioning cost of Grand Avenue.

4 Q. HOW SHOULD THIS DECOMMISSIONING COST BE RECOVERED?

5 A. The decommissioning cost for a specific plant should ideally be  
6 recovered through depreciation, over the entire life of the plant.  
7 Depreciation accruals for an original investment should equal the  
8 original investment less any net salvage, divided by the life of the  
9 plant. Net salvage is gross salvage less cost of removal. When the  
10 cost of removal exceeds gross salvage the net salvage is negative.  
11 This negative salvage amount plus the original plant cost should be  
12 recovered over the life of the plant from the customers who benefit  
13 from the plant.

14 Q. IN ITS DOWNTOWN STEAM SERVICE PLAN, KCPL PROPOSES TO PROVIDE CURRENT  
15 STEAM CUSTOMERS WITH ON-SITE ELECTRIC STEAM BOILERS AND ELECTRIC SPACE  
16 HEATING EQUIPMENT. IS THE COST OF THESE BOILERS AND HEATING EQUIPMENT  
17 INCLUDED IN THE COST OF SERVICE TO STEAM CUSTOMERS?

18 A. KCPL will own these boilers or heating equipment until 1995 unless  
19 customers choose to purchase them earlier at original cost less  
20 depreciation. The depreciation expense for these boilers or equipment  
21 is not included in the cost of service to steam heat customers at this  
22 time.

23 Q. HOW DOES KCPL PROPOSE TO DEPRECIATE OR AMORTIZE THE COST OF THE  
24 ELECTRIC STEAM BOILERS AND ELECTRIC SPACE HEATING EQUIPMENT?

1 A. KCPL plans to amortize the cost of each boiler over the period of time  
 2 between the date when it is placed into service and year-end 1995.  
 3 Each vintage of boilers would then have its own amortization rate as  
 4 shown on the table below.

5	Vintage	Remaining	Amortization
6	<u>Year</u>	<u>Life</u>	<u>Rate</u>
7	1986	10	10.00%
8	1987	9	11.11
9	1988	8	12.50
10	1989	7	14.29
11	1990	6	16.67

12 Q. WHY DOES KCPL WANT TO ESTABLISH AN AMORTIZATION RATE FOR ELECTRIC  
 13 STEAM BOILERS AND HEATING EQUIPMENT BEFORE THIS EQUIPMENT IS  
 14 INSTALLED?

15 A. Since electric boilers and heating equipment are capital costs it is  
 16 appropriate to spread those costs over the economic lives of the  
 17 equipment. By establishing rates now, these costs can be spread over  
 18 a longer period of time. If rates are established at some later date,  
 19 that time period will be shorter. In addition, amortizing or  
 20 depreciating these costs also allows a prorated purchase price  
 21 estimate to be determined. Original cost less depreciation is the  
 22 proposed purchase price for customers who chose to purchase the  
 23 boilers or heating equipment before 1995.

24 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

25 A. Yes.

AFFIDAVIT

STATE OF MISSOURI  
COUNTY OF JACKSON

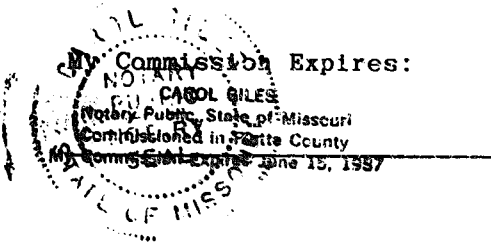
)  
) ss.  
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James K. Liberda, being first duly sworn, on his oath states: that he has participated in the preparation of the foregoing written testimony, in question and answer form, consisting of 5 pages, to be presented to the Public Service Commission of the State of Missouri in Case No. HO-86-139; that the answers therein contained were given by him; that he has knowledge of the matters set forth in said answers; and that such answers are true to the best of his knowledge and belief.

James K. Liberda  
James K. Liberda

Subscribed and sworn to before me this 23rd day of September, 1986.

Carol Giles  
Notary Public



Proposed Steam Heat Depreciation Rates

<u>Production Accounts</u>	<u>Plant Balance</u> <u>Dec. 31, 1985</u>	<u>Reserve</u> <u>Dec. 31, 1985</u>	<u>Proposed</u> <u>Rates</u>
711 - Structures and Improvements	3,923,029	3,650,231	.88%
712 - Boiler Plant Equipment	10,872,920	9,321,878	3.02%
715 - Accessory Equipment	1,011,832	880,663	4.09%
716 - Miscellaneous Plant Equipment	381,789	242,127	8.11%
	<u>16,189,570</u>	<u>14,094,899</u>	

Distribution Accounts

761 - Structures and Improvements	73,289	37,661	11.53%
762 - Heat Station Equipment	193,527	205,382	0.00%
766 - Underground Conduit	4,830,773	2,314,240	17.34%
769 - Services	370,850	240,148	15.98%
770 - Meters and Installations	212,625	55,388	19.01%
	<u>5,681,064</u>	<u>2,852,819</u>	

General Accounts

791 - Office Furniture and Equipment	1,167	1,403	0.00%
794 - Tools, Shop, and Garage Equipment	2,778	3,706	0.00%
798 - Miscellaneous Equipment	153	216	0.00%
	<u>4,098</u>	<u>5,325</u>	