COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A GENERAL ADJUSTMENT OF ITS RATES FOR ELECTRIC SERVICE; (2) APPROVAL OF TARIFFS AND RIDERS; (3) APPROVAL OF CERTAIN REGULATORY AND ACCOUNTING TREATMENTS; AND (4) ALL OTHER REQUIRED APPROVALS AND RELIEF	)))))))	CASE NO. 2025-00257

REBUTTAL TESTIMONY OF

JOHN J. SPANOS

ON BEHALF OF

KENTUCKY POWER COMPANY

December 19, 2025

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is John J. Spanos. My business address is 300 Sterling Parkway, Mechanicsburg, Pennsylvania, 17050 (formerly 207 Senate Avenue, Camp Hill, Pennsylvania, 17011).

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes. I previously submitted direct testimony on behalf of Kentucky Power Company ("Kentucky Power" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of the Office of the Attorney General of the Commonwealth of Kentucky and Kentucky Industrial Utility Customers witness Lane Kollen as it relates to the Company's depreciation rates proposed in this proceeding.

Q. WHAT ARE THE SUBJECTS OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony relates to depreciation issues, specifically the appropriate recovery methodology for generating facilities which includes the standard practice of recording decommissioning costs as a component of the depreciation rate and the most reasonable interim survivor curves and interim net salvage for generating facilities.

II. TERMINAL NET SALVAGE FOR PRODUCTION

Q. WHAT ARE MR. KOLLEN'S OBJECTIONS TO THE TERMINAL NET SALVAGE ESTIMATES FOR THE GENERATING FACILITIES?

A. Mr. Kollen has two objections to the development of the proper recovery of the full service value of generating facilities in this case. First, he claims decommissioning, or terminal net salvage, should be excluded from the depreciation rate for the steam (thermal) generating units. Second, Mr. Kollen excludes interim retirements and interim net salvage from proper recovery. I will address the terminal net salvage component in this section.

Q. WILL MR. KOLLEN'S PROPOSAL TO ELIMINATE TERMINAL NET SALVAGE PROPERLY ALLOCATE THE COMPANY'S COSTS OVER THE SERVICE LIVES OF THEIR GENERATING FACILITIES?

A. No. Not only should there be decommissioning costs included as part of the net salvage component in the depreciation rates but the net salvage costs need to be escalated so that the correct amounts are allocated over the lives of the plants. Mr. Kollen's proposal to remove terminal net salvage to the date of retirement would result in insufficient recovery of the Company's actual costs. As is the case for all assets, full recovery is determined based on the original cost at the time of installation plus the end of life cost (cost of removal minus gross salvage) to retire the asset. If the full cost at the time of retirement, which is in the future, is not determined then full recovery of the service value of the asset is not achieved.

Q. ARE MR. KOLLEN'S NET SALVAGE PROPOSALS BASED ON ACCEPTED DEPRECIATION PRACTICES IN THE INDUSTRY?

A. No. It is widely accepted that depreciation should include future net salvage costs, which are recovered on a straight-line basis and that those costs should be based on the expected cost to retire the Company's assets at the time of retirement or removal. This applies not only to decommissioning costs but to the costs of all plant assets.

Q. SHOULD NET SALVAGE BE BASED ON THE FUTURE COSTS EXPECTED TO BE INCURRED, NOT ON TODAY'S COSTS?

A. Yes. Because net salvage must be based on future costs, decommissioning costs for net salvage must also be estimates of the future cost at the time of decommissioning. For this reason, if decommissioning estimates are developed using the cost to decommission a plant today, then these costs must be escalated to the time period in which they are expected to be incurred to achieve adequate recovery.

Q. SHOULD NET SALVAGE BE RECOVERED IN TODAY'S COST (THAT IS, THE COST IN TODAY'S DOLLARS)?

A. No. In order to recover the service value of the Company's assets, net salvage must be determined at the cost that will be incurred in the future when the plant is retired. When using the straight-line method of depreciation, these costs are recovered ratably, or in equal amounts each year, over the life of the Company's plant.

Q. IS RECOVERING THE FUTURE COST OF NET SALVAGE CONSISTENT WITH THE FEDERAL ENERGY REGULATORY COMMISSION'S UNIFORM SYSTEM OF ACCOUNTS (FERC USOA)?

A. Yes. The FERC USOA specifically defines net salvage as follows:

> 19. Net salvage value means the salvage value of property retired less the cost of removal.

Cost of removal is defined as:

> 10. Cost of removal means the cost of demolishing, dismantling, tearing down or otherwise removing electric plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation. (See General Instruction 25).

Finally, cost is defined as (emphasis added):

> 9. Cost means the <u>amount of money actually paid</u> for property or services. When the consideration given is other than cash in a purchase and sale transaction, as distinguished from a transaction involving the issuance of common stock in a merger or a pooling of interest, the value of such consideration shall be determined on a cash basis.

Read together, it should be clear from these definitions that the USOA specifies cost of removal, as part of net salvage, must be recovered through depreciation expense and is the actual amount paid at the time the retirement occurs. Because net salvage will occur in the future, it is an estimate of the future cost that must be included in depreciation rates.

Q. DO GENERALLY ACCEPTED DEPRECIATION CONCEPTS SUPPORT THAT THE NET SALVAGE IN DEPRECIATION SHOULD BE INCLUDED AT THE COST THAT WILL BE INCURRED?

A. Yes. Including the future cost of net salvage for plant accounts is consistent with established depreciation concepts. Depreciation is a cost allocation concept, in which the full cost of an asset (original cost less net salvage) is allocated on a straight-line basis over the period of time an asset will be in service.

Q. DO ANY AUTHORITATIVE DEPRECIATION TEXTS SUPPORT THAT THE NET SALVAGE AMOUNT SHOULD REPRESENT THE FUTURE COST?

A. Yes. Two preeminent depreciation texts are the National Association of Regulatory Utility Commissioners' Public Utility Depreciation Practices (typically referred to as "NARUC[1]") and *Depreciation Systems* by Wolf and Fitch (Wolf and Fitch[2]). Both texts are clear that net salvage should be included in depreciation as a future cost. NARUC states the following:

> [U]nder presently accepted concepts, the amount of depreciation to be accrued over the life of an asset is its original cost less net salvage. Net salvage is difference between the gross salvage that will be realized when the asset is disposed of and the cost of retiring it.[3] (Emphasis added)

NARUC also explains that:

> The goal of accounting for net salvage is to allocate the net cost of an asset to accounting periods, making due allowance for the net salvage, positive or negative, that will be obtained when the asset is retired. This concept carries with it the premise that property ownership includes the responsibility for the property's ultimate

1 National Association of Regulatory Utility Commissioners, *Public Utility Depreciation Practices* (1996).
2 Frank K. Wolf and W. Chester Fitch, *Depreciation Systems* (1994).
[3] NARUC Manual at 18.

> abandonment or removal. Hence, if users benefit from its use, they should pay their pro rata share of the costs involved in the abandonment or removal of the property and also receive their pro rata share of the benefits of the proceeds received.[4] (Emphasis added)

Wolf and Fitch explain that:

> The matching principle specifies that all cost incurred to produce a service should be matched against the revenue produced. Estimated future costs of retiring an asset currently in service must be accrued and allocated as part of the current expenses.[5]

Q. MR. KOLLEN ADDRESSES THE CONCEPT OF INTERGENERATIONAL EQUITY ON PAGE 34 OF HIS TESTIMONY. IS HIS ASSESSMENT ACCURATE?

A. No. First, the decommissioning cost is a component of the full service value of an asset. Per the definition of depreciation, the full service value of an asset which includes its removal at the end of life, needs to be recovered over the life of the asset systematically and rationally. Therefore, delaying recovery does not promote intergenerational equity as Mr. Kollen states in his testimony. It does the exact opposite. It requires generations of customers that did not benefit from the asset while in service to pay for the decommissioning of the asset. It also means that generations of customers who do get benefit from the generating facility are not paying their fair share of the service value of that facility. He then goes on in his testimony to say not only will future customers need to pay for the decommissioning of the retired generating plant but also the new facilities that replace it.

[4] NARUC Manual at 18.
[5] Wolf and Fitch, p. 7.

Second, the development of depreciation rates are based on many estimates. Suggesting that the decommissioning costs are different than the estimation of future costs of other asset classes such as poles is completely inappropriate and contradicts the entire concept of depreciation and the matching principle. Depreciation is an estimation process, so when Mr. Kollen claims that terminal net salvage costs should be disallowed simply because they represent costs to be incurred many years in the future and need to be estimated,[6] that is an erroneous statement.

Q. IS THERE ANY REASON THAT DECOMMISSIONING COSTS SHOULD BE RECOVERED ANY DIFFERENTLY THAN MASS PROPERTY NET SALVAGE?

A. No. Decommissioning costs as well as the mass property net salvage (cost of removal and gross salvage) are all end of life costs. Each, by definition, are part of the recovery of the full service value of the asset over the entire life of the assets. Additionally, the percentages that are established are based on informed judgment that includes statistical information and estimates of the future. Therefore, the decommissioning (terminal net salvage) component should be included in the depreciation rate just like all other net salvage percentages for each of the other asset classes.

6 Kollen Direct Testimony, p. 34, 8-21

III. INTERIM RETIREMENTS AND INTERIM NET SALVAGE

Q. HAS MR. KOLLEN PROPERLY REFLECTED HOW DEPRECIATION RATES ARE DETERMINED IN DEPRECIATION STUDIES FOR RATE CASES?

A. No. Depreciation studies are the development of depreciation rates to be applied into the future. Two of the primary parameters in determining each account's depreciation rate is the survivor curve and the net salvage percentage. For every account, an estimate of the life characteristics includes a survivor curve which represents life estimation for the future and a net salvage percentage. As described by all authoritative texts, this includes a combination of statistical analysis and informed judgment. Two of the key authoritative texts in which this concept is described are the Public Utility Depreciation Practices by the National Association of Regulatory Utility Commissioners (NARUC) and Depreciation Systems by Wolf and Fitch. The process that I have conducted in the Depreciation Study follows the requirements as presented in those texts.

Q. IS MR. KOLLEN'S DISCUSSION ON INTERIM RETIREMENTS ACCURATE?

A. No. Mr. Kollen mischaracterizes the process of projecting interim retirements and interim net salvage in his testimony.[7] He says, "Witness Spanos used the estimated interim retirements to effectively shorten the average remaining lives for the production plant accounts, which increased the depreciation rates and depreciation expense."[8] This is an incorrect and very misleading statement by Mr. Kollen. The

7 Kollen Direct Testimony, p. 37, 3-16
8 Kollen Direct Testimony, p. 37, 10-13

interim retirements were projected using the interim survivor curves for the production plant accounts[9], which Mr. Kollen has not disputed as part of his testimony. Put a different way, Mr. Kollen is arguing against retirements that were projected based on survivor curves that he doesn't disagree with. The interim survivor curves are based on historical analysis and informed judgment. He also does not explain how projecting interim retirements using an approved survivor curve would lead to an increase in depreciation. It is unclear what two depreciation amounts he is comparing that is creating this "increase" in his opinion.

There are also several issues with his statement, "Witness Spanos added the estimated future interim net salvage to the actual net book value of the plant accounts to increase the costs recovered through the depreciation rates, thus further increasing the depreciation rates and expense."[10] The estimated interim net salvage percentage is not applied to the actual net book value, it is applied to the original cost of the assets. This is because the original cost is the amount that will be retired in the future, thus it is the amount that will experience interim net salvage in the future. As stated previously in my testimony, the service value of an asset is the original cost less net salvage and the full service value should be collected through depreciation.

9 Based on historical Company data and shown on pages VII-2 through VII-16 of the Depreciation Study
10 Kollen Direct Testimony, p. 37

Q. HAVE THERE BEEN INTERIM RETIREMENTS TO DATE THAT ARE SUPPORT FOR INTERIM SURVIVOR CURVES FOR GENERATING ACCOUNTS?

A. Yes. Part III of the Depreciation Study discusses the process for determining survivor curves and in the case of generating accounts, the interim survivor curve. Part VII sets forth the statistical support for the interim survivor curves. These interim survivor curves support the historical indications and the need to include interim survivor curves for generating assets and the expectation that these curves are reasonable expectations to occur into the foreseeable future for determining depreciation rates. For example, Account 312.00, Boiler Plant Equipment, has a recommended interim survivor curve of 60-R0.5. See page VII-5 of the Depreciation Study. The 60-R0.5 survivor curve is supported by statistical data from the transactional period, 1999-2024 related to 1963-2024 vintages. This shows that approximately 55 percent of the assets over that period have been retired/replaced. Mr. Kollen has proposed the historical indications going forward will completely stop and all existing assets will stay in service until the date of retirement. That would be an unprecedented change for life characteristics for boiler plant equipment.

Q. HAS THERE BEEN NET SALVAGE TO DATE THAT ARE SUPPORT FOR INTERIM NET SALVAGE PERCENTAGES FOR GENERATING ACCOUNTS?

A. Yes. Part IV of the Depreciation Study discusses the process for determining net salvage percentages and, in the case of generating accounts, the interim net salvage.

Part VIII sets forth the statistical support for the interim net salvage. These net salvage data provide historical indications of what the Company has experienced related to net salvage in the past. The data also supports the need to include interim net salvage for generating assets and the expectation that the interim net salvage component is a reasonable expectation to occur into the foreseeable future for determining depreciation rates of each account. For example, Account 312.00, Boiler Plant Equipment, has a recommended interim net salvage component of negative 30 percent. See page VIII-2 of the Depreciation Study. The negative 30 percent is supported by statistical data from the transactional period, 2001-2024. The statistical support shows $122.2 million of retirements over the 24 year period and this includes $43.4 million of cost of removal and $4.3 million of gross salvage. The data supports interim net salvage for Account 312.00 of negative 30 percent. Mr. Kollen has proposed not only that the annual retirements will stop, but the associated cost of removal of those retirements will also not be incurred. Again, quite a change from what has been experienced in the last 24 years. That would be an unprecedented change for the standard operation of a generating facility.

Q. DOES MR. KOLLEN'S DISCUSSION RELATED TO ESTIMATED INTERIM RETIREMENT AND INTERIM NET SALVAGE APPLY TO HOW DEPRECIATION RATES SHOULD BE DEVELOPED?

A. No. The process of determining depreciation rates for regulatory ratemaking purposes presented in the Depreciation Study are consistent with standard utility practice. Mr. Kollen appears to try to correlate the interim retirements and interim net salvage calculations as future components. This is very misleading. The process for determining interim retirements and interim net salvage for generating facilities is the same as all mass property accounts. There are no future entries calculated into rates. There are just estimations of what retirements should be anticipated into the future based on historical indications.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

VERIFICATION

The undersigned, John J. Spanos, being duly sworn, deposes and says he is the President of Gannett Fleming Valuation and Rate Consultants, LLC, that he has personal knowledge of the matters set forth in the foregoing testimony and the information contained therein is true and correct to the best of his information, knowledge, and belief after reasonable inquiry.

John J. Spanos

John J. Spanos

Commonwealth of Pennsylvania)
) Case No. 2025-00257
County of Cumberland)

Subscribed and sworn to before me, a Notary Public in and before said Commonwealth and County, by John J. Spanos, on December 18, 2025.

Notary Public

My Commission Expires February 20, 2027

Notary ID Number 1143028

Commonwealth of Pennsylvania - Notary Seal
Cheryl Ann Rutter, Notary Public
Cumberland County
My commission expires February 20, 2027
Commission number 1143028
Member, Pennsylvania Association of Notaries