

BEFORE THE
STATE OF KANSAS
STATE CORPORATION COMMISSION

STATE CORPORATION COMMISSION

OCT 08 2008

 Docket
Room

In the Matter of the Applications of)
Westar Energy, Inc., and Kansas Gas)
and Electric Company for Approval to) Docket No. 08-WSEE-1041-RTS
Make Certain Changes in their)
Charges for Electric Service)

CROSS-ANSWERING TESTIMONY OF
MICHAEL J. MAJOROS, JR.

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD
KANSAS INDUSTRIAL CUSTOMERS
UNIFIED SCHOOL DISTRICT #259

October 8, 2008

1 **Introduction**

2 **Q. State your name, position, and business address.**

3 A. My name is Michael J. Majoros, Jr. I am Vice President of Snavely King Majoros
4 O'Connor & Bedell, Inc. ("Snavely King"), located at 1111 14th Street, N.W., Suite
5 300, Washington, D.C. 20005.

6 **Q. Did you submit direct testimony in this proceeding?**

7 A. Yes, I submitted direct testimony on September 29, 2008. That testimony
8 contained a description of my firm and summaries of my qualifications and
9 experience.

10 **Subject and Purpose of Cross Answering Testimony**

11 **Q. What is the subject of your testimony?**

12 A. Depreciation is the subject of my testimony.

13 **Q. What is the purpose of your testimony?**

14 A. My testimony addresses the depreciation aspects of the direct testimony of staff
15 witnesses Dunkel, McClanahan and Smith, and Walmart witness Selecky. I will
16 compare and contrast their recommendations with the Company's and my
17 recommendations.

18 **Summary of Westar's Depreciation Requests**

19 **Q. Would you briefly remind the Commission of Westar's basic requests on**
20 **depreciation?**

21 A. Yes, Mr. John Spanos of Gannett Fleming sponsors depreciation studies for
22 Westar North and Westar South. Although his studies only include steam and
23 wind production plant they would increase annual depreciation expense by \$9.7

1 million for Westar North and \$10.2 million for Westar South, relative to currently
2 approved depreciation rates.¹ Westar also proposes several adjustments driven
3 by the fact that on several occasions it did not implement KCC ordered
4 depreciation rates. It did not adopt the ordered depreciation rates because they
5 would have caused it “to be out of compliance with Generally Accepted
6 Accounting Principles (GAAP).”²

7 **Summary of Majoros Depreciation Recommendations**

8 **Q. Please remind the Commission of your basic depreciation-related**
9 **recommendations.**

10 A. I concluded that Westar failed to meet its burden of proof by virtue of filing an
11 incomplete depreciation study to support a significant increase. Consequently, I
12 recommend that the KCC not approve Westar’s incomplete depreciation study
13 because it will increase production plant depreciation on a selective basis without
14 considering other major plant functions.

15 **Q. What are your recommendations concerning Westar’s depreciation-related**
16 **regulatory assets?**

17 A. I concluded that Westar’s rationale for these regulatory assets is faulty and that
18 their approval would constitute retroactive ratemaking. I recommend that Westar
19 reclassify these adjustments to accumulated depreciation where they should
20 have been in first place, and that the KCC disallow the related amortization

¹ Kongs, pp. 5-6.

² Kongs, pp. 6-9.

1 because it is not necessary; it will be picked-up when Westar files a complete
2 depreciation study.

3 **Staff's Depreciation Recommendations**

4 **Q. Will you summarize staff witness Dunkel's depreciation recommendations**
5 **in this proceeding?**

6 A. Yes, Mr. Dunkel recommends that the KCC reject Westar's use of depreciation
7 rates in this filing that are different from the KCC-approved depreciation rates.
8 Mr. Dunkel also recommends, "that no change in the existing KCC-approved
9 depreciation rates be made at this time."³ Mr. Dunkel cites to the following
10 failings in the Company's proposals:

- 11 • Mr. Spanos's study is selective and excludes many major accounts.
- 12 • Mr. Spanos's proposals include terminal net salvage in defiance of the
13 KCC July 31, 2007 Order following the Remand in Docket No. 05-WSEE-
14 981-RTS.⁴
- 15 • Mr. Spanos uses deprecation reserves based on management-selected
16 depreciation rates rather than KCC ordered deprecation rates.

17 **Q. What does staff witness McClanahan recommend?**

18 A. Mr. McClanahan reiterates staff's opposition to the use of "management-
19 approved" as opposed to "commission-approved" depreciation rates. Mr.
20 McClanahan points out that Westar's use of management-approved depreciation
21 rates necessitates "proforma adjustments in [Westar's] rate case application to

³ Dunkel Direct, 5.

⁴ Dunkel Direct, 2 – 3.

1 reconcile and restate depreciation expense and accumulated depreciation to
2 Commission approved levels.”⁵

3 **Q. What does staff witness Smith recommend?**

4 A. Staff witness Smith recommends reclassification to accumulated depreciation for
5 two of Westar’s proposed regulatory assets resulting from its use of GAAP
6 depreciation rates instead of commission-approved rates. Mr. Smith has left the
7 component relating to depreciation differences from August 2001 to March 2002
8 as a regulatory asset since the Commission previously approved that treatment.⁶

9 **Walmart’s Depreciation Recommendations**

10 **Q. Will you summarize Walmart’s depreciation recommendations in this**
11 **proceeding?**

12 A. Yes, Mr. Selecky concludes that Westar based its proposed depreciation rates
13 on understated plant lives and overstated negative net salvage ratios, thus
14 rendering them excessive. Mr. Selecky proposes reductions to Mr. Spanos’s
15 filed rates and the resulting expense and revenue requirement.

16 **Conclusions**

17 **Q. Do you agree with the Staff and/or Mr. Selecky?**

18 A. Yes, I agree with most of their recommendations. I have not checked Mr.
19 Selecky’s calculations because I, like Mr. Dunkel, recommend rejection of
20 Westar’s incomplete study in its entirety. Partial studies are not appropriate for
21 revenue requirement proceedings. Depreciation expense is one large number

⁵ McClanahan Direct, 6.

⁶ Smith Direct, 4.

1 consisting of many subcomponents. A partial study only tells a partial story
2 about the propriety of the overall number. I also agree with both Mr. Selecky and
3 Mr. Dunkel that Mr. Spanos appears to have included terminal net salvage in his
4 proposed depreciation rates by applying his proposed factors to total plant
5 balances.

6 I also agree with Mr. McClanahan and Mr. Smith regarding Westar's
7 depreciation-related regulatory assets. Westar should reclassify all these
8 amounts back to accumulated depreciation. I recognize that the KCC previously
9 approved the component relating to August 2001 to March 2002; however,
10 reclassifying them to accumulated depreciation does not negate that approval.
11 The reclassification will have the same ratemaking effect as amortizing them over
12 the remaining life of existing plant as a part of remaining life depreciation.
13 Westar should reclassify all of these amounts to eliminate this issue from future
14 cases. It is an affront to the KCC's authority.

15 **Q. Does this conclude your cross-answering testimony?**

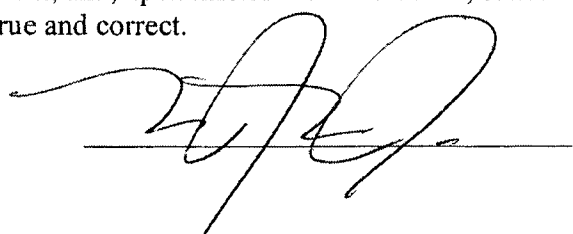
16 **A.** Yes, it does.

VERIFICATION

WASHINGTON,)
) ss:
DISTRICT OF COLUMBIA)

I, Michael J. Majoros, Jr., of lawful age, being first duly sworn upon his oath states:

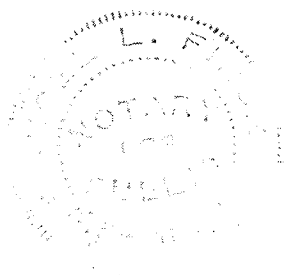
That he is an attorney for the Citizens' Utility Ratepayer Board, that he has read the above and foregoing document, and, upon information and belief, states that the matters therein appearing are true and correct.



SUBSCRIBED AND SWORN to before me this 8th day of October, 2008.

Angel G. Finck
Notary Public

My Commission expires: March 14, 2011.



CERTIFICATE OF SERVICE

08-WSEE-1041-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, or hand-delivered this 8th day of October, 2008, to the following:

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A handwritten signature in cursive script that reads "Shonda Smith". The signature is written in black ink and is positioned above a horizontal line.

Shonda Smith