

Exhibit No.: 47
Issue: Depreciation
Witness: Thomas J. Sullivan
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Sponsoring Party: Missouri Gas Energy

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Case No.: GR-2004-0209

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Service Commission

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Before the Public Service Commission
of the State of Missouri

Supplemental Rebuttal Testimony

Of

Thomas J. Sullivan

On Behalf of Missouri Gas Energy

Jefferson City, Missouri

June 2004

1 **Q. Please state your name and business address.**

2 A. Thomas J. Sullivan, 11401 Lamar, Overland Park, Kansas 66211.

3 **Q. Are you the same Thomas J. Sullivan who filed rebuttal testimony**
4 **in this case on behalf of Missouri Gas Energy (“MGE” or**
5 **“Company”)?**

6 A. Yes, I am.

7 **Q. Why are you providing supplemental rebuttal testimony?**

8 A. As indicated on Page 18-19 of my rebuttal testimony, MGE requested (of Staff)
9 access to Mr. Adam’s analyses for Laclede (Company’s Data Request No. 42 and
10 Schedule TJS-2). At the time that my rebuttal testimony was prepared, Staff had
11 not provided a complete response to that request. Since that time, Staff has
12 provided a supplemental response to the Company’s Data Request No. 42.

13 **Q. What did Staff provide in its supplemental response to Data**
14 **Request No. 42?**

15 A. Staff provided Laclede’s CPR data through 1996 in the Gannet Fleming format.
16 Gannett Fleming is the depreciation software that Staff uses for retirement
17 analysis. The diskettes provided referred to Case GR.-96-193. Salvage and cost
18 of removal data were also provided.

19 **Q. Why is Laclede’s data important in this MGE case?**

20 A. In the present case, Ms. Mathis recommends an average service life of 44 years
21 for MGE Services. Her recommendation is based on Mr. Adam’s

1 recommendation in Case No. GR-2001-292. In Case No. GR-2001-292, Mr.
2 Adam asserted that Laclede's 44-year ASL is also reasonable for MGE Services.

3 **Q. What would access to Laclede's data allow you to do?**

4 A. As I discussed on Page 19, Lines 4-17 of my rebuttal testimony, the data would
5 allow me to:

- 6 1. Compare Laclede to MGE to determine whether the two companies are
7 comparable to the point of almost being interchangeable, as Staff would
8 suggest.
- 9 2. Possibly run retirement analyses to isolate the period over which both
10 companies were performing safety line replacements ("SLRP").
- 11 3. Verify the reasonableness of the 44-year ASL for Laclede.

12 **Q. What did you do with Laclede's CPR data?**

13 A. I ran retirement, or actuarial, analyses on Services, Accounts 380.10 (Steel) and
14 380.2 (Plastic).

15 **Q. What were the results of your retirement analyses?**

16 A. For both Accounts 380.10 and 380.20, I found an ASL of 42-years to be
17 reasonable. This compares to Mr. Adam's findings of a 45-year ASL for Account
18 380.1 and a 44-year ASL for Account 380.2. The results of my analyses are
19 presented as Schedule TJS-14.

20 **Q. What do you conclude from the results of your retirement**
21 **analyses of Laclede's Account 380?**

1 A. Based on the results of my analyses, a 42-year ASL is reasonable for Laclede's
2 Account 380-Services.

3 **Q. Does your conclusion mean that a 42-year ASL is appropriate for**
4 **MGE Services?**

5 A. No, it does not. The 42-year ASL is reasonable for Laclede based on the Laclede
6 data.

7 **Q. What other analyses did you perform?**

8 A. I compared the level of investment in Services made by Laclede and MGE during
9 1989-1996. I understand that during this period both utilities were fully engaged
10 in safety line replacement programs ("SLRP"). SLRP continued through 2000,
11 however I limited my comparison only through 1996 due to the limitation of
12 detailed Laclede data that was provided by Staff in response to Data Request No.
13 42.

14 **Q. What did you find?**

15 A. My additional analyses support my initial conclusion that Laclede and MGE are
16 not comparable as I discussed on Page 20, Lines 4-16 of my rebuttal testimony.
17 As shown in Schedule TJS-15, according to Laclede's CPR at the end of 1989,
18 Laclede's plant investment in Services was \$146,483,010, which amounts to
19 about 1.8 times MGE's investment of \$81,112,071. However, during the period
20 1990-1996, MGE added Services investment of \$120,888,240, which amounts to
21 nearly two times the \$62,158,258 in investment added by Laclede.

1 Viewed from a little different perspective, Laclede's additions during the
2 1990-1996 period amounted to 42 percent of the plant balance at the beginning of
3 the period. MGE's additions during the same period amounted to nearly 150
4 percent of the beginning of period plant balance.

5 **Q. How do the level of retirements compare between Laclede and**
6 **MGE?**

7 A. MGE experienced a much greater level of retirements than Laclede. As shown in
8 Schedule TJS-15, Line 12, Laclede's retirements during the 1990-1996 period
9 amount to 6 percent of the plant balance at the beginning of the period. MGE's
10 retirements during the same period amount to 19 percent of the beginning of
11 period plant balance, or over 3 times the rate experienced by Laclede.

12 **Q. What did you conclude from these comparisons?**

13 A. These comparisons clearly demonstrate that there have been fundamental
14 differences between the nature of Laclede and MGE Service investment. These
15 comparisons do not support Staff's hypothesis that Laclede is similar to MGE.
16 Second, MGE's retirement rate significantly exceeded Laclede's during the
17 period when comparable data is available. This higher retirement rate indicates a
18 shorter life for Services for MGE relative to Laclede.

19 **Q. Does this conclude your supplemental rebuttal testimony?**

20 A. Yes, it does.

BLACK & VEATCH ENGINEERS/ARCHITECTS 06/14/:4 PAGE 187
 ACTUARIAL ANALYSIS COMPANY # 21 ACCOUNT # 380
 SIMULATED IOWA CURVE APPLIED TO SURVIVOR CURVE DEVELOPED
 BY THE RETIREMENT RATE METHOD 74 FITTING POINTS

LACLEDE, SERVICES 3801
 380 SERVICES

ANALYSIS PLACEMENT BAND 1923 1996
 ANALYSIS BALANCE BAND 1964 1996

(1) RANK	(2) CURVE TYPE	(3) AVERAGE LIFE	(4) SQUARED DIFFERENCE	(5) INDEX OF VARIATION
1	L0	42.22	0.49193E+03	47.65
2	L0.5	42.22	0.56405E+03	51.02
3	O2	43.52	0.63947E+03	54.33
4	S-.5	40.56	0.81725E+03	61.42
5	SC	39.96	0.82246E+03	61.61
6	R0.5	40.56	0.10109E+04	68.31
7	L1	42.22	0.12608E+04	76.28
8	SO	41.38	0.19484E+04	94.83
9	L1.5	42.22	0.25643E+04	108.79
10	R1	40.97	0.27323E+04	112.30
11	O3	52.13	0.34020E+04	125.31
12	S0.5	41.80	0.34778E+04	126.70
13	L2	42.22	0.46663E+04	146.76
14	R1.5	41.38	0.48269E+04	149.26
15	S1	41.80	0.57583E+04	163.03
16	O4	65.00	0.57612E+04	163.07
17	R2	41.38	0.80059E+04	192.23
18	S1.5	41.80	0.83065E+04	195.81
19	L3	42.22	0.10746E+05	222.71
20	R2.5	41.38	0.11299E+05	228.37
21	S2	41.80	0.11555E+05	230.95
22	R3	41.38	0.15566E+05	268.04
23	S3	41.80	0.18175E+05	289.64
24	L4	42.22	0.20148E+05	304.95
25	R4	41.38	0.23359E+05	328.35
26	S4	41.80	0.26916E+05	352.47
27	L5	41.80	0.29108E+05	366.54
28	R5	41.38	0.32845E+05	389.36
29	S5	41.38	0.35209E+05	403.13
30	S6	41.38	0.42564E+05	443.24
31	SQ	42.44	0.58321E+05	518.84

AVERAGE TOP FIVE 41.70

AVERAGE TOP TEN 41.58

BLACK & VEATCH ENGINEERS/ARCHITECTS 06/14/:4 PAGE 116
 ACTUARIAL ANALYSIS COMPANY # 21 ACCOUNT # 380
 SIMULATED IOWA CURVE APPLIED TO SURVIVOR CURVE DEVELOPED
 BY THE RETIREMENT RATE METHOD 48 FITTING POINTS

LACLEDE, SERVICES 3802
 380 SERVICES

ANALYSIS PLACEMENT BAND 1949 1996
 ANALYSIS BALANCE BAND 1964 1996

(1) RANK	(2) CURVE TYPE	(3) AVERAGE LIFE	(4) SQUARED DIFFERENCE	(5) INDEX OF VARIATION
1	R3	42.22	0.17512E+04	73.60
2	R2.5	42.65	0.18955E+04	76.57
3	R4	42.22	0.21146E+04	80.88
4	S2	43.96	0.23974E+04	86.11
5	R2	43.08	0.24081E+04	86.30
6	S1.5	44.62	0.25084E+04	88.08
7	S3	43.08	0.25161E+04	88.22
8	L3	45.52	0.25472E+04	88.76
9	L2	48.35	0.28328E+04	93.61
10	L4	43.96	0.28436E+04	93.79
11	S1	45.52	0.28810E+04	94.40
12	R1.5	44.40	0.31346E+04	98.47
13	L1.5	50.07	0.31807E+04	99.19
14	S0.5	46.91	0.33368E+04	101.59
15	S4	42.65	0.34389E+04	103.14
16	L1	52.65	0.38596E+04	109.26
17	R5	42.65	0.39705E+04	110.82
18	S0	49.08	0.40082E+04	111.35
19	R1	46.45	0.41272E+04	112.99
20	L5	43.52	0.41307E+04	113.04
21	L0.5	56.20	0.44408E+04	117.20
22	S-.5	52.65	0.50112E+04	124.50
23	S5	43.08	0.51270E+04	125.93
24	L0	60.59	0.51961E+04	126.78
25	R0.5	51.09	0.52871E+04	127.88
26	O2	65.98	0.62099E+04	138.59
27	SC	58.50	0.62117E+04	138.61
28	O3	95.17	0.66185E+04	143.08
29	O4	127.29	0.68184E+04	145.23
30	S6	43.52	0.75654E+04	152.97
31	SQ	51.36	0.32885E+05	318.93

AVERAGE TOP FIVE 42.83

AVERAGE TOP TEN 43.97

Missouri Gas Energy
Analysis of MGE's Account 380 Investment Compared to Laclede

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J] Laclede ⁽¹⁾	[K]	[L]
MGE											
Line No.	Year	Beginning Balance	Additions	Retirements	Transfers/Adj	Ending Balance	Beg. Bal.	Additions	Retirements	Adj.	Ending Bal.
1	1987	66,535,405	5,247,891	547,248	(2,252)	71,233,796	125,655,112	7,498,765	661,892	0	132,491,985
2	1988	71,233,796	5,232,196	1,082,965	(2,412)	75,380,615	132,491,985	7,391,350	626,741	-495	139,256,099
3	1989	75,380,615	5,974,783	224,688	(18,639)	81,112,071	139,256,099	8,011,464	782,164	-2,389	146,483,010
4	1990	81,112,071	19,552,514	3,109,855	(34,589)	97,520,141	146,483,010	7,292,174	761,644	-372	153,013,168
5	1991	97,520,141	16,471,586	1,918,419	(541,804)	111,531,504	153,013,168	8,319,336	923,454	-1,037	160,408,013
6	1992	111,531,504	17,312,702	2,247,798	(758,768)	125,837,640	160,408,013	8,194,389	1,365,948	-6,485	167,229,969
7	1993	125,837,640	15,531,128	1,799,170	(27,963)	139,541,635	167,229,969	9,045,931	1,141,762	-38,244	175,095,894
8	1994	139,541,635	17,318,472	1,141,206	(238,083)	155,480,818	175,095,894	9,342,690	1,542,589	-1,881	182,894,114
9	1995	155,480,818	18,214,631	2,064,532	(1,509,986)	170,120,931	182,894,114	9,622,448	1,267,872	-13,765	191,234,925
10	1996	170,120,931	16,487,207	3,098,103	501	183,510,536	191,234,925	10,341,290	1,546,323	4,565	200,034,457
11	Sum of 1990-1996 Additions		120,888,240	15,379,083	(3,110,692)			62,158,258	8,549,592	(57,219)	
12	Percent of 1989 Ending Balance		149%	19%	-4%			42%	6%	0%	

(1) Staff Response to DR No. 42

1.80