

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Southern)	
Missouri Gas Company, L.P. for a Variance)	Case No. GE-2011-0096
And Waiver from the Provisions of)	
4 CSR 240-3.275)	

STAFF RECOMMENDATION IN SUPPORT OF WAIVER

COMES NOW the Staff of the Commission (Staff) and for its Recommendation in Support of Waiver states: Southern Missouri Gas d/b/a Southern Missouri Natural Gas (SMNG or Company) requested a waiver from Commission Rule 4 CSR 240-3.275. Staff supports SMNG's request for waiver from the requirement "each gas utility subject to the commission's jurisdiction shall submit a depreciation study." 4 CSR 240-3.275. SMNG is a relatively new pipeline, so it has insufficient property retirements to perform a statistically valid depreciation study. Staff further states:

1. On October 4, 2010, Southern Missouri Gas Company (SMGC or Company) filed its Application for a Variance and Waiver (Application) from the provisions of Commission Rule 4 CSR 240-3.275. In its Application for waiver, SMNG asks the Commission to allow the Company to file its depreciation study, database and property unit catalog beyond the dates required under the rule.

2. On October 5, 2010, the Commission issued its *Order Directing Filing* ordering the Staff, no later than October 12, 2010, to either file its Recommendation or a Status Report stating when it will file its recommendation. This filing is in response to that *Order*.

3. SMGC is required under Commission Rule 4 CSR 240-3.275 to file a depreciation study and must submit the following:

4 CSR 240-3.275 Submission Requirements for Gas Utility Depreciation Studies

PURPOSE: This rule sets forth the requirements regarding the submission of depreciation studies by gas utilities.

(1) Each gas utility subject to the commission's jurisdiction shall submit a depreciation study, database and property unit catalog to the manager of the commission's energy department and to the Office of the Public Counsel, as required by the terms of subsection

(1)(B).

(A) The depreciation study, database and property unit catalog shall be compiled as follows:

1. The study shall reflect the average life and remaining life of each primary plant account or subaccount;

2. The database shall consist of dollar amounts, by plant account or subaccount, representing—

A. Annual dollar additions and dollar retirements by vintage year and year retired, beginning with the earliest year of available data;

B. Reserve for depreciation;

C. Surviving plant balance as of the study date; and

D. Estimated date of final retirement and surviving dollar investment for each warehouse, propane/air production facility, liquefied natural gas facility, underground natural gas storage facility, general office building or other large structure; and

3. The property unit catalog shall contain a description of each retirement unit used by the utility.

(B) A gas utility shall submit its depreciation study, database and property unit catalog on the following occasions: ...

2. Before five (5) years have elapsed since the last time the commission's staff received a depreciation study, database and property unit catalog from the utility. ...

4. SMGC is a relatively new company compared to other Missouri natural gas local distribution companies. As is expected with a newer company, SMNG has had very few plant-in-service retirements.

5. In order for either the Company or Staff to perform an actuarial study that will yield statistically valid answers, a minimum of fifteen percent (15%) retirements of plant-in-service is required.

6. The depreciation Staff of the Engineering & Management Services Department (EMSD) has analyzed the continuing property record for SMNG. Findings from this study show

that none of the accounts for SMNG are approaching fifteen percent (15%) of plant retired. Fifteen percent (15%) retirements of plant-in-service is the minimum value necessary to perform an actuarial based depreciation study that will yield meaningful results.

7. An actuarial study or a surrogate is required to set just and reasonable rates. Since SMGC has not had enough retirements to do an actuarial study, Staff examined rates of similar utilities in the area in order to set surrogate rates for the plant accounts.

8. At some point in the future the Company will experience enough retirements to perform a depreciation study.

9. Since there is a lack of sufficient data to perform the depreciation study, Staff recommends SMNG be granted a **temporary** waiver for Rule 4 CSR 240-3.275 regarding Submission Requirements for Gas Utility Depreciation Studies.

10. Since the last rates of record date back to case GA-94-127, EMSD Staff further requests the Commission to re-order the depreciation rates as stated in the attached depreciation rate schedule. (Attachment A.)

11. Staff supports granting a temporary waiver as requested in the Company's Application, subject to certain conditions:

- a) First, this waiver will apply only to a rate case filed in the calendar year 2010.
- b) Second, SMGC will not propose changes to its depreciation rates as a part of its 2010 rate case.
- c) The Company shall retain the current depreciation rates, as shown in Attachment A.

These rates were agreed to in Case No. GA-94-127.

- d) The Company shall maintain mortality records in compliance with Commission Rule 4 CSR 240-40.040 Uniform System of Accounts-Gas Corporations and 4 CSR 240-3.235 and 4 CSR 240-3.275 Submission Requirements for Gas Utility Depreciation Studies.
- e) The Company shall account for all payments from other parties when the Company is required to remove, relocate, rearrange, reroute, or otherwise make changes in utility property, other than for purposes of rendering utility service, as credits to the depreciation reserve in compliance with Commission Rule 4 CSR 240-040 Uniform System of Accounts-Gas Corporations and the Company shall appropriately identify amounts in its Annual Reports.
- f) The Company shall establish and adopt accounting policies or procedures for separating/allocating removal costs of plant that is being retired from costs to install new plant.
- g) The Company shall continue to keep a separate accounting of their amounts accrued for recovery of their initial investment in plant from the amounts accrued for the cost of removal, consistent with the Commission's Third Report and Order in Laclede Case No. GR-99-315.

12. The Staff recommends the Commission grant SMNG a temporary waiver from compliance with Rule 4 CSR 240-3.275, subject to conditions, until the Company's next rate case in which this system is included, or until Parties to this case file a recommendation concerning a more permanent approach to establishing future depreciation rates.

13. Based on its review of the Company's Application, Staff recommends granting of this waiver because it will not harm the ratepayer or the Company. Further, depreciation expense will remain consistent with the expenditure of capital.

14. Staff does not oppose the Company's Motion For Expedited Treatment.

WHEREFORE, Staff respectfully requests that the Commission approve Staff's recommendation to grant SMGC a temporary waiver 4 CSR 240-3.275 subject to the conditions noted above and following:

- (1) This temporary waiver will apply until the Commission orders otherwise and,
- (2) SMGC shall not propose changes to its depreciation rates as a part of its 2010 rate case.

Respectfully submitted,

/s/ Lera L. Shemwell
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 12th day of October, 2010.

/s/ Lera L. Shemwell

Southern Missouri Gas Company
DEPRECIATION RATES
Case No. GA-94-127 Reaffirmed GE-2011-0096

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	Net Salvage	Avg Service Life (years)
	<u>TRANSMISSION PLANT</u>			
366	Structures and improvements.	2.00%	0.0%	50
367	Mains.	2.00%	0.0%	50
368	Compressor station equipment.	2.00%	0.0%	50
369	Measuring and regulating station equipment.	2.00%	0.0%	50
370	Communication equipment.	2.00%	0.0%	50
371	Other equipment.	2.00%	0.0%	50
	<u>DISTRIBUTION PLANT</u>			
375	Structures and improvements.	2.00%	0.0%	50
376	Mains.	2.00%	0.0%	50
377	Compressor station equipment.	2.00%	0.0%	50
378	Measuring and regulating station equipment-General.	2.00%	0.0%	50
379	Measuring and regulating station equipment-City gate check stations.	2.00%	0.0%	50
380	Services.	2.00%	0.0%	50
381	Meters.	2.00%	0.0%	50
382	Meter installations.	2.00%	0.0%	50
383	House regulators.	2.00%	0.0%	50
384	Home regulatory installations.	2.00%	0.0%	50
385	Industrial measuring and regulating station equipment.	2.00%	0.0%	50
386	Other property on customer's premises.	2.00%	0.0%	50
387	Other equipment.	2.00%	0.0%	50
	<u>GENERAL PLANT</u>			
390	Structures and improvements.	2.00%	0.0%	50
391	Office furniture and equipment.	5.00%	0.0%	20
391.1	Computer equipment.	12.90%	10.0%	7
392	Transportation equipment.	12.90%	10.0%	7
393	Stores equipment.	4.00%	0.0%	25
394	Tools, shop and garage equipment.	5.00%	0.0%	20
395	Laboratory equipment.	5.00%	0.0%	20
396	Power operated equipment.	6.70%	20.0%	12
397	Communications equipment	6.70%	0.0%	15
398	Miscellaneous equipment.	5.00%	0.0%	20

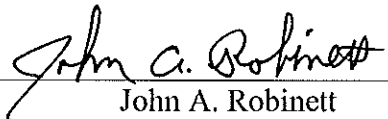
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AFFIDAVIT OF JOHN A. ROBINETT

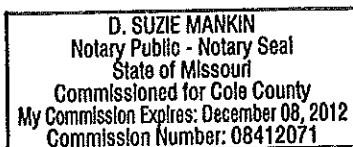
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

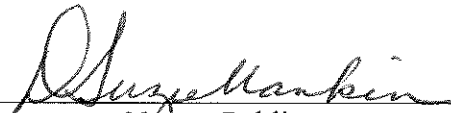
John A. Robinett, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



John A. Robinett

Subscribed and sworn to before me this 12th day of October, 2010.





Notary Public