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Software Depreciation Rates
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Sponsoring Party: Public Counsel
Case No.: GR-2014-0152

SURREBUTTAL TESTIMONY

OF

WILLIAM ADDO

Submitted on Behalf of the Office of the Public Counsel

**LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
D/B/A LIBERTY UTILITY**

CASE NO. GR-2014-0152

August 15, 2014

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**SURREBUTTAL TESTIMONY
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WILLIAM ADDO**

**LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORPORATION
d/b/a LIBERTY UTILITIES.**

CASE NO. GR-2014-0152

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. William Addo, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

4
5 Q. ARE YOU THE SAME WILLIAM ADDO THAT HAS PREVIOUSLY FILED
6 REBUTTAL TESTIMONY IN THIS CASE?

7 A. Yes.

8
9 **II. PURPOSE OF TESTIMONY**

10 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

11 A. The purpose of this Surrebuttal Testimony is to respond to the Rebuttal Testimony of
12 Liberty Utilities (Midstates Natural Gas) Corporation d/b/a Liberty Utilities ("Liberty
13 Utilities" or "Company") witness, Mr. James Fallert, regarding corporate hardware and
14 software depreciation rates. This testimony will also respond to the Rebuttal Testimony
15 of the Missouri Public Service Commission ("MPSC" or "Commission") Staff witness,
16 Ms. Lisa K. Hanneken, regarding the MPSC Staff's revised revenue requirement
17 recommendation as it relates to accumulated depreciation reserve balances/cost of
18 removal, and the Infrastructure System Replacement Surcharge ("ISRS").

1 III. CORPORATE HARDWARE AND SOFTWARE DEPRECIATION RATES.

2 Q. WHAT IS THE ISSUE?

3 A. This issue pertains to the appropriate depreciation rates to be utilized for corporate
4 hardware and software in the determination of rates in this case.

5
6 Q. DID THE COMPANY PERFORM A DEPRECIATION STUDY IN THIS
7 PROCEEDING?

8 A. No.

9
10 Q. WHEN DID LIBERTY UTILITIES LAST PRESENT A DEPRECIATION STUDY TO
11 THE COMMISSION?

12 A. Liberty Utilities has not presented a depreciation study to the Commission since
13 acquiring its Missouri properties from Atmos Energy Corporation ("Atmos") in the year
14 2012, in Case No. GM-2012-0037; however, Liberty Utilities agreed, as part of the
15 Unanimous Stipulation and Agreement in Case No. GM-2012-0037, to adopt Atmos'
16 depreciation rates in anticipation of filing a depreciation study within 5 years, or 3 years
17 prior to the Company's next rate case.

18 The excerpt below is from the Unanimous Stipulation and Agreement in Case No. GM-
19 2012-0037, page 8, paragraph (10) a:

1 For purposes of accruing depreciation expense, Liberty-Mid-States shall
2 adopt the currently ordered depreciation rates for Atmos approved by the
3 Commission in File No. GR-2006-0387 and attached as Schedule JAR-1
4 (Appendix 1).

5 And, on page 8, paragraph (10) d, the Unanimous Stipulation and Agreement states:

6
7 Staff recognizes the Depreciation Study submitted by Atmos is sufficient
8 for meeting the requirement of 4 CSR 240-3.275. The Signatories
9 acknowledge that this study shall be deemed to meet Liberty-Midstates'
10 requirement to perform a depreciation study within 5 years or 3 years prior
11 to the next rate case.

12 Schedule JAR-1(Appendix 1) is attached to this testimony.

13
14 Q. WHAT DEPRECIATION RATES IS LIBERTY RECOMMENDING FOR
15 CORPORATE HARDWARE AND SOFTWARE IN THIS CASE?

16 A. On page 10, lines 17 through 19, of the Rebuttal Testimony of Company's witness, Mr.
17 James Fallert, he states:

18 The Company recommends continuation of the 14.29% rate (7 years) for
19 system hardware and software and implementation of the rate of 18.98%
20 (5.3 years) for PC hardware and software. These rates are consistent with
21 rates used by Atmos and provide a realistic useful life for these systems.
22

1 Q. IS THE OFFICE OF THE PUBLIC COUNSEL ("PUBLIC COUNSEL" OR "OPC")
2 OPPOSED TO THE COMPANY'S RECOMMENDATION?

3 A. Yes.
4

5 Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL IS OPPOSED TO THE COMPANY'S
6 RECOMMENDATION.

7 A. My review of Atmos' 2006 rate case, Case No. GR-2006-0387, shows the Commission
8 ordered depreciation rates for the Uniform System of Accounts ("USOA") Account 399,
9 Other Tangible Property, for each of the then Atmos' seven rate districts as follows;
10 Butler 4.75 percent, Kirksville 4.75 percent, SEMO 4.75 percent, United Cities Gas 5.00
11 percent, Palmyra 5.00 percent, Neelyville 5.00 percent, and Rich Hill/Hume 4.75 percent.
12 In Atmos' 2010 rate case, Case No. GR-2010-0192, both the Unanimous Stipulation and
13 Agreement agreed upon by all the parties and the Commission's Order approving the
14 Unanimous Stipulation and Agreement, were silent on depreciation rate changes.
15 Subsequently, in Case No. GM-2012-0037, Liberty Utilities adopted the depreciation
16 rates consistent with the 2006 rates. Nowhere in the course of reviewing Commission
17 authorized depreciation rates for Atmos did I come across the depreciation rates that Mr.
18 James Fallert proposed in his testimony. The fact that Mr. Fallert posited on page 10,
19 lines 4 through 5, of his Rebuttal Testimony that "This rate was adopted consistent with
20 rates used by Atmos **although we have been unable to identify an ordered rate for**

1 **corporate hardware and software,”** (Emphasis added by Public Counsel) gives
2 credence to Public Counsel’s position that the depreciation rates being proposed by Mr.
3 Fallert are not Commission ordered rates. Therefore, OPC recommends that the
4 Commission reject Mr. Fallert’s recommendation.

5
6 Q. WHAT DEPRECIATION RATES IS THE MPSC STAFF RECOMMENDING FOR
7 CORPORATE HARDWARE AND SOFTWARE IN THIS CASE?

8 A. The MPSC Staff is recommending a depreciation rate of 4.75 percent for each of Liberty
9 Utilities’ rate districts.

10
11 Q. WHAT IS THE PUBLIC COUNSEL’S RECOMMENDATION REGARDING THIS
12 ISSUE?

13 A. First, Public Counsel believes that even though the seven rate districts enumerated earlier
14 in this testimony were consolidated into three rate districts in the 2010 case, the ordered
15 depreciation rates adopted by Liberty Utilities, including USOA Account 399, should
16 remain in full force until such time that the Company performs and presents a
17 depreciation study to the Commission.

18
19 Second, though three of the seven rate districts enumerated above have depreciation rates
20 for USOA Account 399 set at 5.00 percent, which is 25 basis points above the 4.75

1 percent being proposed by the MPSC Staff, Public Counsel believes that the MPSC
2 Staff's proposed 4.75 percent rate is reasonable because it is representative of a
3 Commission ordered rate for USOA Account 399 within each district. For example, the
4 NEMO district includes the combined areas of Kirksville, UCG, and Palmyra, which
5 have Commission ordered depreciation rates of 4.75%, 5.0%, and 5.0% respectively. The
6 SEMO district includes the combined areas of the former SEMO with Neelyville, which
7 have Commission ordered depreciation rates of 4.75% and 5.0% respectively. Lastly, the
8 WEMO district includes the combined areas of Butler and Rich Hill, which have
9 Commission ordered depreciation rates of 4.75% for both areas. The 4.75%
10 recommended by the Staff is reflected in at least one former service area within each of
11 the three districts, and for this reason, it is my opinion that 4.75% is a reasonable rate for
12 USOA Account 399 in all districts.

13
14 **IV. REVISED REVENUE REQUIREMENT**

15 Q. DOES PUBLIC COUNSEL AGREE WITH MS. HANNEKEN REGARDING THE
16 MPSC STAFF'S REVISED REVENUE REQUIREMENT FILED CONCURRENTLY
17 WITH ITS REBUTTAL TESTIMONY?

18 A. No. Public Counsel believes that the MPSC Staff's revised revenue requirement
19 is reflective of negative accumulated depreciation reserve balances and/or

1 inappropriate reductions in accumulated reserve balances resulting from Liberty
2 Utilities' ratemaking treatment of cost of removal and salvage amounts.

3
4 Q. PLEASE EXPLAIN THE RATEMAKING TREATMENT THAT LIBERTY UTILITIES
5 AFFORDS TO COST OF REMOVAL AND SALVAGE.

6 A. It appears that Liberty Utilities only records accrued cost of removal and salvage amounts
7 without reflecting any true-up adjustments when the Company incurs actual cost of
8 removal and salvage. The Company then subtracts these accrued amounts from
9 respective accumulated depreciation reserve balances to derive "net accumulated
10 depreciation reserve balances;" which in turn is used to off-set Plant-in-Service. Public
11 Counsel believes that this method of accounting for cost of removal and/or salvage is
12 inappropriate. Accrued cost of removal and salvage must always be trued-up to reflect
13 actual costs.

14
15 Q. WHAT IS THE IMPACT OF LIBERTY UTILITIES' METHOD OF ACCOUNTING
16 FOR COST OF REMOVAL ON REVENUE REQUIREMENT?

17 A. Information made available to Public Counsel indicates that an amount of approximately
18 \$8.4 million represents the accrued cost of removal as of the end of the update period in
19 this case. Liberty Utilities has been unable to provide evidence showing that the \$8.4
20 million was trued-up to reflect the actual cost of removal, despite Public Counsel's

1 request for proof that the \$8.4 million includes anything other than the accrued cost of
2 removal. In addition, Liberty Utilities' records show a pattern of accruals and
3 adjustments for identical amounts in consecutive months, which is inconsistent with how
4 actual cost of removal would be reflected. In reality, the actual costs of removal would
5 vary from month to month, and Liberty Utilities' consistent accounting entries raises
6 suspicion that the actual costs of removal are not being properly accounted for. Without
7 further evidence from Liberty Utilities, it is my opinion that the Commission must
8 assume that the \$8.4 million amount has no imbedded actual cost of removal amounts,
9 which implies that accumulated depreciation reserve balances should be increased by
10 \$8.4 million, and rate base decreased by the same amount. Revenue requirement will
11 ultimately decrease with this increase to the accumulated depreciation reserve balance.
12 The only way this result could be avoided is if Liberty Utilities comes forward with
13 additional evidence showing that actual costs of removal are reflected in the \$8.4 million
14 total accrual for all three districts.

15
16 Q. DOES PUBLIC COUNSEL HAVE OTHER CONCERNS THAT IMPACT STAFF'S
17 REVISED REVENUE REQUIREMENT?

18 A. Yes. Public Counsel proposes an additional decrease to Liberty Utilities' revenue
19 requirement to remove certain costs that were improperly included in the Company's
20 ISRS. These include costs incurred replacing or repairing infrastructure that had been

1 damaged, and costs incurred repairing leaks that under GAAP should have been treated
2 as an expense item and not included in the ISRS.

3
4 Q. WHAT ADJUSTMENTS DO YOU RECOMMEND AT THIS TIME REGARDING
5 LIBERTY UTILITIES' COSTS INCURRED REPLACING OR REPAIRING
6 DAMAGED INFRASTRUCTURE?

7 A. In its response to Public Counsel's Data Request Number 10, Liberty Utilities stated that
8 its "analysis indicates that the total cost of third party damages was approximately
9 \$492,000 of capital investments for the three ISRS filings." These investments should be
10 removed from the ISRS calculation. In addition, any and all ISRS recovery relating to
11 third party damages that Liberty Utilities charged its customers, should be returned to
12 ratepayers. These adjustments should be reflected as a decrease to the revenue
13 requirement stated in Ms. Hanneken's testimony. Furthermore, whether the damages
14 should be treated as an expense or capital cost needs further evaluation. On advice of
15 counsel, these adjustments are necessary because costs incurred replacing or repairing
16 damaged infrastructure are not an eligible ISRS cost. The full value of Public Counsel's
17 proposed adjustment may not be recommended to the Commission until all evidence has
18 been entered into the record following the evidentiary hearing.

1 Q. WHAT ADJUSTMENTS DO YOU RECOMMEND AT THIS TIME REGARDING
2 LIBERTY UTILITIES' COSTS INCURRED REPAIRING LEAKS?

3 A. In its response to Public Counsel's Data Request Number 1200, Liberty Utilities
4 provided a spreadsheet that quantified the total leak repairs included in the three ISRS
5 filings at \$1,016,304 for all three rate districts. Liberty Utilities has been unable to
6 provide Public Counsel with the amount of leak repairs expense incorporated into
7 existing base rates, which could be used to ensure that Liberty Utilities was not
8 recovering these same expenses in both base rate and the ISRS. These investments
9 should be removed from the ISRS calculation. In addition, any and all ISRS recovery
10 relating to leak repairs that Liberty Utilities charged its customers, should be returned to
11 ratepayers. Furthermore, whether the leak repairs should be treated as an expense or
12 capital cost needs further evaluation. These adjustments should be reflected as a decrease
13 to the revenue requirement stated in Ms. Hanneken's testimony. Without additional
14 evidence from Liberty Utilities indicating that Liberty Utilities properly recognized that
15 an adequate level of infrastructure investments were expensed rather than capitalized,
16 Liberty Utilities will be unable to meet its burden of proving that any amount of the
17 \$1,016,304 should have been included in the ISRS. For this reason, I recommend that the
18 Commission disallow the entire \$1,016,304 from Liberty's ISRS amount and that the
19 associated ISRS revenues already recovered by the Company be returned to ratepayers.
20

Surrebuttal Testimony of William Addo
Case No. GR-2014-0152

1 | Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 | A. Yes, it does.

Atmos Energy Corporation and Liberty Energy Corp.
File No. GM-2012-0037

Liberty Energy (Mid-States) Corp.
Schedule of Ordered Depreciation Rates from Atmos GR-2006-0387

Account Number	Plant Description	Butler	Kirksville	SEMO	UGG	Pal	Neelyville	Rich Hill
301	Organization							
302	Franchises and consents			0.00%	4.71%	4.71%	4.71%	0.00%
303	Miscellaneous intangible plant				20.00%	20.00%	20.00%	
311	Liquefied petroleum gas equipment				4.98%	4.98%	4.98%	
365.1	Land and land rights							
365.2	Rights-of-way	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
366	Structures and improvements	3.24%	3.24%	3.24%	0.00%	0.00%	0.00%	
367.01	Mains	1.53%	1.53%	1.53%	1.33%	1.33%	1.33%	2.72%
367.02	Mains	1.53%	1.53%	1.53%	1.33%	1.33%	1.33%	2.72%
369	Measuring & regulating station equipment	3.60%	3.60%	3.60%	1.89%	1.89%	1.89%	0.00%
370	Communication equipment	0.00%	0.00%	4.36%	4.36%	4.36%	4.36%	0.00%
374.01	Land and land rights	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
374.02	Land and land rights	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
375	Structures and improvements	2.33%	2.33%	2.50%	4.37%	4.37%	4.37%	0.00%
376.01	Mains	1.53%	1.53%	1.53%	3.43%	3.43%	3.43%	2.67%
376.02	Mains	1.53%	1.53%	1.53%	3.43%	3.43%	3.43%	2.67%
377	Compressor station equipment	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
378	Measuring & regulating station equipment- General	3.00%	3.00%	3.01%	1.89%	1.89%	1.89%	2.38%
379	Measuring & regulating station equipment- City gate	3.21%	3.21%	3.15%	1.89%	1.89%	1.89%	0.00%
380	Services	5.00%	5.00%	5.00%	5.13%	5.13%	5.13%	3.14%
381	Meters	2.16%	2.16%	2.16%	2.52%	2.52%	2.52%	2.71%
382	Meter installations	3.00%	3.00%	2.96%	3.91%	3.91%	3.91%	2.71%
383	House regulators	4.55%	4.55%	4.19%	3.24%	3.24%	3.24%	2.38%
384	House regulatory installations	3.33%	3.33%	3.33%	0.00%	0.00%	0.00%	0.00%
385	Industrial measuring & regulating station equipment	3.60%	3.60%	3.60%	1.89%	1.89%	1.89%	0.00%
387	Other equipment	0.00%	0.00%	0.00%	5.52%	5.52%	5.52%	0.00%
389	Land and land rights	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
390	Structures and improvements	5.00%	5.00%	5.00%	1.00%	1.00%	1.00%	5.00%
391	Office furniture and equipment	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	4.75%
391.2	Office furniture and equipment				10.00%	10.00%	10.00%	
392	Transportation equipment	10.39%	10.39%	10.39%	10.00%	10.00%	10.00%	10.39%
393	Stores equipment	4.50%	4.50%	4.01%	5.00%	5.00%	5.00%	4.50%
394	Tools, shop, and garage equipment	4.50%	4.50%	4.33%	3.29%	3.29%	3.29%	4.50%
395	Laboratory equipment	4.00%	4.00%	3.69%	3.85%	3.85%	3.85%	4.00%
396	Power operated equipment	7.92%	7.92%	7.71%	13.81%	13.81%	13.81%	0.00%
397	Communication equipment	4.54%	4.55%	4.36%	12.00%	12.00%	12.00%	4.54%
398	Miscellaneous equipment	3.60%	3.60%	3.60%	10.00%	10.00%	10.00%	3.60%
399	Other tangible property	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	4.75%