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GR-2017-0215

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Service Commission

REBUTTAL TESTIMONY

OF

JOHN A. ROBINETT

Submitted on Behalf of the Office of the Public Counsel

**LACLEDE GAS COMPANY
MISSOURI GAS ENERGY**

CASE NO. GR-2017-0215

CASE NO. GR-2017-0216

October 17, 2017

OPC Exhibit No. 412
Date 12-15-17 Reporter A.F.
File No. GR-2017-0215
GR-2017-0216

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's)
Request to Increase Its Revenues for Gas) Case No. GR-2017-0215
Service)

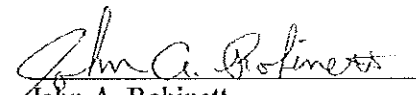
In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) Case No. GR-2017-0216
Increase Its Revenues for Gas Service)

AFFIDAVIT OF JOHN A. ROBINETT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

John A. Robinett, of lawful age and being first duly sworn, deposes and states:


1. My name is John A. Robinett. I am a Utility Engineering Specialist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


John A. Robinett
Utility Engineering Specialist

Subscribed and sworn to me this 17th day of October 2017.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037


Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

TABLE OF CONTENTS

<u>Testimony</u>	<u>Page</u>
Combined Heat and Power (CHP)	1
Retirement Work in Progress (RWIP)	3
Staff's Depreciation Study and Recommendation	5

**REBUTTAL TESTIMONY
OF
JOHN A. ROBINETT
LACLEDE GAS COMPANY
MISSOURI GAS ENERGY**

CASE NO. GR-2017-0215 and GR-2017-0216

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

2 A. John A. Robinett, PO Box 2230, Jefferson City, Missouri 65102.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Utility Engineering
5 Specialist.

6 **Q. Are you the same John A. Robinett that filed direct testimony on behalf of the OPC in
7 this proceeding?**

8 A. Yes.

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The purpose of my rebuttal testimony is to address the direct testimony of the Missouri
11 Department of Economic Development, Division of Energy ("DE") witness Jane
12 Epperson's proposal for a \$5.1 million dollar pilot program proposal for ten combined heat
13 and power projects. I will also discuss the Retirement Work in Progress adjustment
14 proposed by Laclede Gas Company (Laclede), Missouri Gas Energy (MGE), and the
15 Missouri Public Service Commission (Commission) Staff (Staff). Finally, I address Staff's
16 recommendation to increase customers' rates based on a flawed depreciation study.

17 **Combined Heat and Power (CHP)**

18 **Q. What is OPC position on DE's proposed CHP pilot program?**

19 A. OPC recommends the Commission reject DE's proposal as it relates to ratepayer-funded
20 expenditures specific to the proposed CHP pilot program (or otherwise), and unique
21 economic development/special contract riders. OPC does, however, support DE's
22 exploratory partnership with Spire to investigate future CHP summits to consider the
23 relevance of CHP within the context of a regulated natural gas utility in the Midwest.

1 **Q. Is DE's proposed CHP pilot program a cost-effective or prudent use of ratepayer funds?**

2 A. No. The CHP proposed pilot program requires all ratepayers to subsidize private businesses
3 so those businesses can "consider" CHP "as an option."¹ DE's proposes to have all customers
4 financially subsidize CHP so that non-residential customers (small industrial/ commercial
5 ratepayers such as hospitals, universities, water, and wastewater treatment facilities) can
6 consider whether CHP is an option. In contrast, to the CHP proposal, DE's proposed status
7 quo funding level (\$1.7 million annually or \$5.1 for a three-year period) for low-income
8 weatherization is a program, which does produce financial and societal benefits to all
9 ratepayers through reduced arrearages.

10 OPC supports consideration of CHP but only within the context of future federal
11 Department of Energy funding on a limited basis in disaster-prone coastal areas (as Mrs.
12 Epperson cites in her direct²). However, the ratepayer-funded CHP projects DE proposes in
13 this case are inappropriate in light of the uncertainty surrounding future federal funding of
14 low-income energy assistance program ("LIHEAP") and the discontinuation of the state
15 funded Missouri Utilicare program.

16 It is worth noting, as witness Epperson highlights in Table 1, page 6 of her direct
17 testimony, there are already twenty-three CHP installations in operation without the benefit
18 of ratepayer subsidized funding. It appears the "pilot" case for CHP has already been made.

19 **Q. Are there other items that OPC would like to note regarding Table 1 from Epperson's**
20 **direct testimony?**

21 A. Yes. Two of these CHP installations are currently Commission-regulated steam-heat
22 companies. Based on OPC's review of Case No. HR-2014-0066 the two CHP installations
23 use different company names but are in fact the same company. The Commission approved
24 a name change in File No. HN-2011-0286. These steam heat utilities are selling the
25 commodity of steam. Steam is not a by-product of something they are manufacturing or
26 making, so they should not reasonably be included in Table 1.

¹ Epperson Direct p. 16:8.

² Direct Testimony of Jane Epperson p. 9, 6-12.

1 **Q. Should the Commission be aware of anything else in regards to DE's CHP proposal?**

2 A. Yes. The DE proposal is potentially authorizing Laclede and/or MGE to disregard the
3 promotional practices rules by funding a CHP project that requires new natural-gas-line
4 extensions. Other heating providers (electric investor-owned utilities and propane
5 suppliers) could make a compelling argument this proposal is inappropriate.

6 Finally, the inclusion of a CHP promotional program tied to an economic development
7 rider ("EDR") unreasonably places additional financial burdens on ratepayers who are
8 already being called to subsidize natural gas costs to attract potential business to Missouri.
9 To the extent that EDR's are designed and approved, ratepayers should be held harmless
10 to the fullest extent possible. OPC witness Dr. Geoff Marke will speak to the design and
11 deployment of EDR's in greater detail in his rebuttal testimony.

12 **Retirement Work in Progress (RWIP)**

13 **Q. Does the Federal Energy Regulatory Commission (FERC) Uniform System of**
14 **Accounts (USoA) for natural Gas utilities use the terminology "retirement work in**
15 **progress"?**

16 A. No.

17 **Q. What is OPC's concern with Staff and the Companies' RWIP adjustment?**

18 A. I am responding to Staff witness Cary Featherstone's direct testimony at page 47, lines 14-
19 28, of the Staff Report. My concern is that if a retired plant asset is in an account with zero
20 percent (0%) net salvage, there is no need to remove cost of removal or gross salvage from
21 FERC account 108, Accumulated provision for depreciation. For accounts with zero
22 percent (0%) net salvage, the cost of removal and the gross salvage value of retired plant
23 have historically net out to zero. To state it another way, depreciation reserves are not
24 overstated unless an account has experienced cost of removal in excess of gross salvage.
25 This is not witness Featherstone's approach.

1 **Q. Should dollars related to gross salvage be removed from depreciation reserves as stated**
2 **by Staff witness Featherstone at page 47 lines 25 through 27?**

3 A. No. If gross salvage proceeds exceed cost of removal, depreciation reserves would be
4 understated at time the asset is retired. In any asset in an account with positive net salvage
5 ordered as part of depreciation rates, I would expect gross salvage to the exceed cost of
6 removal. In this situation there is a need to increase depreciation reserves upon disposition of
7 the asset because original cost would be removed from reserves, but gross salvage will not
8 been booked.

9 **Q. Under what scenario is Staff's recommendation warranted?**

10 A. Staff's position on this issue would be necessary if the retirement of an asset is from an
11 account in which the cost of removal exceeds the gross salvage.

12 **Q. Does OPC have issue with Staff RWIP adjustments for Laclede?**

13 A. No.

14 **Q. Does OPC have issue with Staff RWIP adjustments for MGE?**

15 A. Yes. Staff indicated in response to Data Request No. 0477 that, "Plant related to retirement
16 work in progress includes regulator station rebuilds and replacements, main replacements and
17 plant change-outs for public improvements for main relocations." OPC reviewed the
18 approved depreciation rates and corresponding net salvage percentages for the accounts
19 included in Staff's RWIP adjustments for MGE. Accounts 376, 378, 379, 383, and 385 have
20 Commission ordered net salvage percentages that are greater than or equal to zero.

21 Please see the attached Schedule JAR-R-1 which show the ordered depreciation schedule for
22 MGE from Case No. GR-2014-0007. The ordered depreciation rates for MGE, with two
23 exceptions, account 380 services and account 391.5 Enterprise Information Management
24 System are either zero percent net salvage (cost of removal equals gross salvage) or positive
25 net salvage (gross salvage exceeds cost of removal). The adjustments proposed by Mr.
26 Featherstone for MGE accounts are not appropriate.

1 **Staff's Depreciation Study and Recommendation**

2 **Q. What is Staff's Depreciation expense recommendation filed in its Direct Case?**

3 A. According to Staff witness Mr. Keenan Patterson, at page 150 line 9 through 15 of the Staff
4 Report:

5 Staff's recommended rates would increase the estimated annual depreciation expense
6 for LAC from approximately \$51,132,732 based on depreciation rates approved in Case
7 No. GR-2013-0171, to approximately \$51,228,342. This is an increase in depreciation
8 expense of \$95,610.

9
10 For MGE, Staff's recommended rates would increase the estimated annual depreciation
11 expense from approximately \$32,981,102 based on depreciation rates approved in Case
12 No. GR-2014-0007, to approximately \$38,081,940. This is a total increase of
13 \$5,100,838."

14
15 My review of Staff's accounting runs, however, tells a different story. The combination of
16 depreciation expense and amortization expense accounts 403 and 404 totals are \$33,999,073
17 for MGE and \$54,341,032 for Laclede.

18

19 **Q. Did OPC seek clarification on this discrepancy?**

20 A. Yes OPC issued Data Request numbers 0433 through 0471 to Staff to gain a better
21 understanding of work performed, information relied upon and their conclusions.

22 **Q. What other information was sought in Data Request No. 0448?**

23 A. OPC asked how Staff's recommended depreciation expense, as recommended by Staff's
24 expert witness, tied to the Staff accounting schedules filed in support of Staff's Direct
25 Report.

26 **Q. What was Staff's response?**

27 A. Staff responded saying that there was an error in the depreciation expense recommendation
28 "The depreciation expense estimates at page 150 are in error. The depreciation expense in
29 Staff's Accounting Schedules are based on Staff's recommended depreciation rates and
30 therefore the depreciation expense in the Staff's Accounting Schedules are the correct
31 values to use."

1 **Q. Is Staff likely to correct this error in rebuttal testimony?**

2 A. Yes. OPC anticipates that Staff would address this error and make a correction in rebuttal
3 testimony.

4 **Q. Does OPC agree with Staff's statement on page 152 of Staff's Report that Staff used**
5 **"available data?"**

6 A. No. Staff as indicated in response to Data Request No. 0434 it used only the data that
7 Laclede and MGE provided with their direct filings.

8 **Q. What additional data was available to Staff?**

9 A. Other available data would include the salvage and retirement data provided in previous
10 rate cases and depreciation studies by each utility. Additionally, depreciation consultants
11 may do regional reviews of ordered rates to help support recommendations where little
12 retirement data exists or has occurred to support their recommendations. It is important to
13 note that the 2014 Depreciation study performed by Black & Veatch contained a regional
14 depreciation survey because of MGE's lack of retirement and net salvage data.
15 Additionally, Staff has access to the current ordered depreciation rates for other Missouri
16 regulated natural gas companies.

17 **Q. Did Staff issue any discovery related to depreciation in this case?**

18 A. No. In response to Data Request No. 0468 Staff replied, "Staff recommendations were
19 informed by the retirement and salvage data submitted by Spire, the depreciation report
20 submitted by Spire and the record of Case No. GR-2013-0171 and GR-2014-0007."

21 **Q. Did Staff incorporate salvage data files from Laclede's and MGE's last rate cases?**

22 A. No. "While prior cases provided a starting point for some analysis, data files from these
23 cases were not used or incorporated into data files from the current case."

24 **Q. What is the importance of that?**

25
26 A. For MGE, the previous case, File No. GR-2014-0007, contained net salvage data for the
27 time period 2003 to 2012. This data provides a closer match to the retirement study data
28 range that Staff indicated it relied upon for its depreciation rate recommendation. OPC

Rebuttal Testimony of
 John A. Robinett
 Case No. GR-2017-0215
 GR-2017-0216

1 reviewed the salvage and cost-of-removal data staff indicated it used. The salvage data
 2 used by Staff for MGE only goes back to 2008 not 1994 as Staff indicated at page 152:9-
 3 12 of Staff Report. OPC created the following table by sorting salvage data provided by
 4 MGE with its depreciation study in direct testimony.

FERC Acc.	MGE Net Salvage Data								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
375.2	X	X	X	X	X	X			X
376.1						X	X	X	X
376.2							X	X	X
376.3							X	X	X
378	X	X	X	X	X	X	X	X	X
379	X	X	X	X	X	X	X	X	X
380.1								X	X
380.2						X	X	X	X
381	X	X	X	X	X	X	X	X	X
382	X	X	X	X	X	X	X	X	X
383	X	X	X	X	X	X	X	X	X
385	X	X				X	X		X
390.1	X	X	X			X			X
391	X	X	X	X	X	X	X	X	X
392.1			X	X	X	X	X	X	X
392.2			X	X	X	X	X	X	X
393	X	X			X				
394	X	X	X	X	X	X	X	X	X
395									
396	X	X	X	X		X	X	X	X
397	X	X	X	X	X		X		
397.1	X	X	X	X	X	X	X	X	X
398	X	X		X	X	X	X		X

5
 6 **Q. What type of averaging did Staff perform on net salvage data?**

7 **A.** Staff described their method of averaging the net salvage data in response to Data Request
 8 No. 0446 noting that, “averaging done by GF software by account, in that all years of data
 9 were averaged to find an average net salvage based on sum of cost of removal and sum of
 10 total salvage.”

1 **Q. In your experience, is this different from common practice?**

2 A. No. It is common practice in depreciation studies to perform rolling/moving three or five
3 year averages in order to analyze trends in gross salvage and cost of removal. Instead,
4 Staff's study "where data was adequate" calculated moving five year averages, but Staff
5 did not use that information a basis for determining a trend in net salvage. Instead, as
6 described above Staff used the sum of cost of removal and sum of salvage (which should
7 be gross salvage).

8 **Q. Does OPC agree with the depreciation rate equation provided by Staff at page 151 line
9 25 of the Staff Report?**

10 A. No. The equation provided by Staff has been altered in format from the equation found in
11 Case No. ER-2004-0570 *Report and Order* issued March 10, 2005. The correct formula
12 that appears in Case No ER-2004-0570 is as follows:

13
$$\text{Depreciation Rate} = \frac{100\% - \% \text{ Net Salvage}}{\text{Average Service Life (years)}}$$

14
15
16 Additionally, OPC observes that this equation originated not in that the Report and Order
17 from Case No. ER-2004-0570, but in the Laclede Gas Company Case No. GR-99-315 (3rd
18 Report and Order, issued January 11, 2005) and it is the only equation to calculate
19 depreciation the Commission has ordered.

20 **Q. Do you have any other concerns with Staff's depreciation testimony?**

21 A. Yes. Although not directly stated, Staff seems to have had issues with obtaining adequate
22 data to perform a complete statistical analysis study. For example, page 152 of the Staff
23 report is riddled with catch phrases common with data concerns. On page 152, at line 4,
24 Staff qualifies its number with the phrase, "where there was adequate data to support it,"
25 again at line 5 Staff notes, "[f]or accounts that did not have adequate data" Once again in
26 Line 18 Staff reports: "when data supported its use," and again at line 29 is the phrase
27 "where data supported it." All of these statements led to my conclusion Staff did not have
28 adequate data to support its recommendation.

Rebuttal Testimony of
John A. Robinett
Case No. GR-2017-0215
GR-2017-0216

1 | Q. What is OPC's depreciation rate recommendation?

2 | A. OPC supports continued use of ordered depreciation rates for Laclede ordered in GR-2013-
3 | 0171 and MGE ordered GR-2014-0007.

4 | Q. Does this conclude your rebuttal testimony?

5 | A. Yes, it does.

Missouri Gas Energy - GR-2014-0007
Staff Recommended Depreciation Rates

Account Number	Description	Depreciation Rate	ASL (Years)	Net Salvage (%)	Life Only Rate	Net Salvage Rate
<u>Distribution</u>						
374.2	Land Rights	2.08%	48.0	0.00%	2.08%	0.00%
375.0	Structures and Improvements	2.13%	47.0	0.00%	2.13%	0.00%
376.0	Mains	1.78%	50.0	11.00%	2.00%	0.22%
378.0	Measuring and Regulating Eq.	2.86%	35.0	0.00%	2.86%	0.00%
379.0	Measuring and Regulating Eq.-City Gate	2.63%	38.0	0.00%	2.63%	0.00%
380.0	Services	2.68%	40.0	-7.20%	2.50%	-0.18%
381.0	Meters	2.86%	35.0	0.00%	2.86%	0.00%
382.0	Meter Installation	2.86%	35.0	0.00%	2.86%	0.00%
383.0	House Regulators	2.44%	41.0	0.00%	2.44%	0.00%
385.0	Measuring and Regulating Eq.-Industrial	3.33%	30.0	0.00%	3.33%	0.00%
<u>General (Including Corporate)</u>						
390.1	Structures and Improvements	2.13%	47.0	0.00%	2.13%	0.00%
391.0	Office Furniture and Eq.	9.09%	11.0	0.00%	9.09%	0.00%
391.5	Enterprise Information Management System	7.00%	15.0	-5.00%	6.67%	-0.33%
392.1	Transportation Eq. [Cars & Small Trucks]	13.28%	6.0	20.30%	16.67%	3.38%
392.2	Transportation Eq. [Large Trucks]	8.06%	10.0	19.40%	10.00%	1.94%
393.0	Stores Eq.	3.57%	28.0	0.00%	3.57%	0.00%
394.0	Tool, Shop, and Garage Eq.	5.26%	19.0	0.00%	5.26%	0.00%
396.0	Power Operated Eq.	10.00%	10.0	0.00%	10.00%	0.00%
397.1	Electronic Reading - ERT	5.26%	19.0	0.00%	5.26%	0.00%
397.2	Communication Eq.	6.25%	16.0	0.00%	6.25%	0.00%
398.0	Miscellaneous Eq.	4.35%	23.0	0.00%	4.35%	0.00%

**STAFF OF THE MISSOURI
PUBLIC SERVICE COMMISSION**

/s/ John D. Borgmeyer

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CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing were served electronically to all counsel of record this 15th day of April, 2014.

/s/ John D. Borgmeyer