Exhibit No: 116
Issue: Depreciation
Witness: Gregory E. Macias
Sponsoring Party: MOPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2006-0422
Date Testimony Prepared: November 21, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

GREGORY E. MACIAS

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Jefferson City, Missouri
November 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Tariff Sheets Designed to Increase Rates for Gas Service in the Company's Missouri Service Area	)))	Case No. GR-2006-0422

AFFIDAVIT OF GREGORY E. MACIAS

STATE OF MISSOURI)) ss. COUNTY OF COLE)

Gregory E. Macias, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 15 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Gregory E. Macias

Subscribed and sworn to before me this 30th day of November 2006.

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

TABLE OF CONTENTS

REBUTTAL TESTIMONY OF

GREGORY E. MACIAS

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

REBUTTAL TESTIMONY OF

GREGORY E. MACIAS

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Q. Please state your name and business address.

A. Gregory E. Macias, P.O. Box 360, Jefferson City, MO 65201.

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

A. I am employed by the Missouri Public Service Commission (PSC or Commission) as a Utility Engineering Specialist II in the Engineering and Management Services Department.

Q. Are you the same Gregory E. Macias who has previously filed direct testimony on behalf of the Commission Staff in this case?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address Missouri Gas Energy's (MGE or Company) depreciation recommendation as sponsored by Company witness Thomas J. Sullivan.

Q. What issues will you address in your rebuttal testimony?

A. I will address the Company's recommendation for 1) average service lives, and 2) net salvage allowances.

AVERAGE SERVICE LIFE

Q. Are the Company's depreciation expense recommendations in this case based upon performance of a depreciation study?

A. Yes. The Company's depreciation study was performed by witness Thomas J. Sullivan of Black and Veach Corporation.

Q. Did this depreciation study include an actuarial analysis of the Company's plant data?

A. No. For the reasons explained in my direct testimony, the Company's depreciation data is not adequate to perform a reliable actuarial analysis. Analyzing actuarial data (placements and retirements) provides plant specific life characteristics from which appropriate average service lives can be selected.

Q. Without a reliable actuarial analysis, how did the Company determine its recommended average service lives for its plant accounts in this case?

A. The Company used a combination of simulated plant balance analysis, a regional industry comparison and judgment.

Q. Does Staff agree with the Company's use of simulated plant balance analysis to set average service lives?

A. No. In this case, the Company relied on the results of the simulated plant balance analysis for two accounts, Account 380 – Services, and Account 393 – Stores Equipment. Focusing on Account 380 – Services, there are problems with the results of the simulated analysis by Mr. Sullivan's own admission. In his direct testimony at Schedule TJS-2, page 9, Mr. Sullivan explains the three problems he sees with the Company's Account 380 – Services analysis. First, the results "may not reflect the life characteristics of the majority of the plant recorded in the account since it has only recently been placed in service". Second, "[t]he use of simulated plant balance analysis results in an aggregate service life that may not be indicative of the account". Third, "a relatively high retirements index … merely substantiates that the majority of the account consists of relatively new property." Mr. Sullivan's reliance on the simulated plant balance analysis is based on the fact that "the uniformity of service lives indicated by the three best fits… suggest the results may be reasonable."

Q. Does Staff agree with the Company's application of the "regional industry norms" to guide average service life selection?

A. Staff is not opposed to "regional industry norms" as a possible frame of reference, but does not believe that the Commission is bound by any such comparison. Staff urges caution when comparing average service life recommendations to regional averages because the method used to arrive at the comparison average service lives is unknown. The average service lives could be a result of a method not favorable in Missouri, or simply a number arrived at through negotiation between parties. Using the regional average for surrogate average service lives is not recommended.

Staff would be remiss not to point out that all but three of the Company's selected average service lives are below the regional industry average, thereby generating higher depreciation expense.

Q. Do Staff's recommended average service lives fall within the Company's range of "regional industry norms"?

A. Yes. All of Staff's recommended average service lives fall within the Company's range of "regional industry norms". A comparison of Company and Staff average service life recommendations to the "regional industry norm" is provided in Schedule 1.

Q. How is Staff recommending that MGE's average service lives be calculated in this proceeding, given the current lack of reliable actuarial data from the Company?

A. As stated in my direct testimony, Staff supports using surrogate average service lives developed from depreciation studies of similar Missouri Jurisdictional natural gas local distribution (LDC) companies. The comparison LDCs depreciation studies were performed by Staff using actuarial data.

Q. Why is Staff's approach to estimating average service lives preferable to the Company's in this proceeding?

A. Staff's approach is preferable for the following reasons:

1. The comparison LDCs operate under the jurisdiction of the PSC;
2. The various accounts' average service lives are based on depreciation studies conducted by Staff using depreciation databases with adequate placement and retirement histories;
3. Using an average of the individual LDCs' average service lives mitigates the differences between MGE's plant, operations and management and that of the comparison LDCs.

NET SALVAGE ALLOWANCE

Q. Briefly summarize the Company's net salvage allowance position and why Staff disagrees with it.

A. The Company has recommended an allowance for net salvage only for Account 380 – Services. Mr. Sullivan believes that net salvage of other accounts is minor and therefore does not recommend an adjustment to the depreciation rates for net salvage pertaining to these accounts. The Staff generally agrees with Mr. Sullivan's assessment.

However, the Staff believes that for Account 392 – Transportation Equipment and Account 396 – Power Operated Equipment a net salvage adjustment is warranted. Staff believes that equipment in these accounts tends to consistently have salvage value, and this positive salvage should be reflected in the depreciation calculation.

Q. What is Staff's recommendation regarding net salvage allowance for Account 392 – Transportation Equipment and Account 396 – Power Operated Equipment?

A. Staff recommends 10% net salvage for Account 392 – Transportation Equipment, and 25% net salvage for Account 396 – Power Operated Equipment as specified in my direct testimony.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

GR-2006-0422

Missouri Gas Energy

Schedule 1. Comparison of Average Service Life Recommendations to "Regional Industry Norms"

		Regional* Average Service Life			Proposed Average Service Life	
Account Number	**Description**	**Range Low**	**High**	**Average**	**Company**	**Staff**
	DISTRIBUTION					
375.00	Structures and Improvements	21	61	46	40	45
376.00	Mains	33	79	49	44	45
378.00	Measuring and Regulating Equip.	27	45	38	35	41
379.00	Meas & Reg Equip - City Gate	28	49	40	40	41
380.00	Services	22	45	37	32	42
381.00	Meters	32	52	39	35	41
382.00	Meter Installations	31	41	37	35	41
383.00	House Regulators	29	50	42	35	45
385.00	Industrial Meas and Reg Equipment	25	44	36	30	43
	GENERAL					
390.00	Structures and Improvements	8	79	45	40	41
391.00	Office Furniture and Equipment**	5	37	21	11**	11**
391.10	Computers**	5	13	7		
392.00	Transportation Equipment	7	14	11	11	12
393.00	Stores Equipment	8	66	35	30	32
394.00	Tool, Shop, and Garage Equipment	8	42	27	20	27
396.00	Power Operated Equipment	8	21	15	15	17
397.10	Electronic Reading - ERT				20	20
397.20	Communication Equipment	8	29	20	16	21
398.00	Miscellaneous Equipment	8	29	22	20	26

* Regoinal data gathered from Sullivan direct testimony, Schedule TJS-2, Table 3-4

** For MGE's accounts, Office Furniture and Equipment includes Computers