

Exhibit No:
Issue: Depreciation
Witness: Thomas J. Sullivan
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Gas
Case No.:
Date Prepared: June 2009

**Before the Public Service Commission
of the State of Missouri**

**Direct Testimony
of
Thomas J. Sullivan**

Jefferson City, Missouri

June 2009

DIRECT TESTIMONY
OF
THOMAS J. SULLIVAN
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO.

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

3 **Q. WHAT IS YOUR OCCUPATION?**

4 A. I am currently a Managing Director in the Rate and Regulatory Advisory
5 Solution Set of the Enterprise Management Solutions Division of Black &
6 Veatch Corporation.

7 **Q. HOW LONG HAVE YOU BEEN ASSOCIATED WITH BLACK &
8 VEATCH?**

9 A. I have been employed by the Company since 1980.

10 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

11 A. I earned a Bachelor of Science Degree in Civil Engineering from the University
12 of Missouri - Rolla in 1980, summa cum laude, and a Master of Business
13 Administration degree from the University of Missouri - Kansas City in 1985.

14 **Q. ARE YOU A REGISTERED PROFESSIONAL ENGINEER?**

15 A. Yes, I am a registered Professional Engineer in the State of Missouri.

16 **Q. TO WHAT PROFESSIONAL ORGANIZATIONS DO YOU BELONG?**

17 A. I am a member of the American Society of Civil Engineers.

18 **Q. WHAT IS YOUR PROFESSIONAL EXPERIENCE?**

1 A. I have been responsible for the preparation and presentation of numerous studies for gas,
2 electric, water, and wastewater utilities. Clients served include investor-owned utilities,
3 publicly owned utilities, and their customers. Studies involve valuation and depreciation,
4 cost of service, cost allocation, rate design, cost of capital, supply analysis, load
5 forecasting, economic and financial feasibility, cost recovery mechanisms, and other
6 engineering and economic matters.

7 Prior to joining the Enterprise Management Solutions Division in 1982, I worked as a
8 staff engineer in Black and Veatch's Energy and Water Divisions.

9 **Q. HAVE YOU PREVIOUSLY APPEARED AS AN EXPERT WITNESS?**

10 A. Yes, I have. In Schedule TJS-1, I list cases where I have filed expert witness testimony.

11 **Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

12 A. I am testifying on behalf of The Empire District Gas Company ("EDG" or
13 "Company").

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS MATTER?**

15 A. To review the Company's existing depreciation rates and, where appropriate,
16 recommend changes to those rates such that the rates will, as accurately as
17 possible, match the useful life of the property and the Company's recent
18 experience with net salvage. A complete depreciation study was performed for
19 the Company's plant in service at December 31, 2008 to determine the
20 appropriate useful life and recent experience with net salvage.

21 **Q. DO YOU SPONSOR ANY SCHEDULES IN CONNECTION WITH YOUR**
22 **DIRECT TESTIMONY?**

1 A. Yes, in addition to Schedule TJS-1 previously discussed, I also sponsor Schedule
2 TJS-2. Schedule TJS-2 is the report on depreciation accrual rates, produced in
3 conjunction with the aforementioned depreciation study, prepared by Black &
4 Veatch Corporation dated April 2009.

5 **Q. WHAT ARE YOUR RECOMMENDATIONS REGARDING THE**
6 **COMPANY'S DEPRECIATION ACCRUAL RATES?**

7 A. In my report, Schedule TJS-2, I recommend the Company implement the
8 depreciation expense rates shown in column Q of Table 5-4, which are based on
9 the whole life technique.

10 **Q. WHAT IS THE IMPACT OF THE WHOLE LIFE DEPRECIATION RATES**
11 **YOU ARE RECOMMENDING FOR EDG?**

12 A. As seen in Table 5-4, the depreciation rates I am recommending for this case
13 result in an increase in annual depreciation expense of \$106,124 based on plant
14 in service at December 31, 2008. Of this amount, \$12,935 is attributable to
15 recommended changes in average service lives and \$93,189 is attributable to
16 recommended changes in the net salvage allowance.

17 **Q. DO THE COMPANY'S EXISTING DEPRECIATION RATES INCLUDE AN**
18 **ALLOWANCE FOR NET SALVAGE?**

19 A. No, the Company's existing depreciation rates do not include net salvage. The
20 Company does, however, have a provision for net cost of removal of \$93,189 in
21 current rates. This is the amount that was allowed in Aquila Inc.'s last rate case,
22 in Case No.GR-2004-0072. Based on the order in that case, EDG has been

1 booking actual cost of removal as an expense up to \$90,163 and any actual
2 amount more or less is recorded in the accumulated depreciation reserve.

3 **Q. DOES THE CURRENT PROVISION FOR NET COST OF REMOVAL**
4 **REFLECT THE COMPANY'S RECENT EXPERIENCE?**

5 A. No, it does not. As shown in my report, Schedule TJS-2, Table 5-1, column J, the
6 five year average (2004-2008) net cost of removal experienced by the Company
7 is \$183,625.

8 **Q. WHAT IS YOUR RECOMMENDATION FOR THE COMPANY'S COST OF**
9 **REMOVAL ALLOWANCE?**

10 A. I am recommending the Company include the net cost of removal allowance in
11 the depreciation rate. To calculate the cost of removal portion of the
12 depreciation rate by account, I have divided the recommended cost of removal
13 allowance shown in column K of Table 5-1 in Schedule TJS-2 by the plant in
14 service at December 31, 2008. The resulting "cost of removal rate" is shown in
15 column G of Table 5-2 in Schedule TJS-2.

16 **Q. HOW ARE YOUR RECOMMENDED COST OF REMOVAL RATES**
17 **INCORPORATED INTO YOUR RECOMMENDED DEPRECIATION**
18 **RATES?**

19 A. The cost of removal rates are added to the life related accrual rates to calculate
20 my recommended whole life depreciation rates. Based on my recommended
21 depreciation rates, all of the actual incurred cost of removal and gross salvage
22 should be booked to the depreciation reserve, and there would not be an expense
23 allowance.

1 **Q. WHY IS THE APPROACH TO NET SALVAGE YOU ARE**
2 **RECOMMENDING PREFERABLE?**

3 A. The approach I am recommending where the depreciation rate includes both the
4 allowance for depreciation and net salvage is preferable because:

- 5 1. It is the historical method that had been used by Aquila and its
6 predecessors with regard to these gas properties.
- 7 2. It does not split up the net salvage allowance between a separate
8 expense item and depreciation reserve.
- 9 3. By keeping the net salvage allowance as one piece, it is easier to
10 track the amount actually incurred versus the amount accrued and
11 adjust the accrual rate as needed to keep depreciation reserve in
12 better balance with actual experience.

13 In addition, the annual allowance approach I am recommending is preferable to
14 using a percentage of retirement approach (where net salvage is divided by the
15 applicable retirement and then that percentage is applied to the entire plant
16 balance) because the percentage of retirement approach assumes that the
17 percentage calculated will apply to all plant when it is retired. In my opinion,
18 this is a faulty assumption because the circumstances under which current
19 retirements are made are not likely to be the same circumstances under which
20 final retirements will occur. Absent a detailed study of the cost of final
21 retirement, the annual allowance approach is preferable.

22 **Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

23 A. Yes, it does.

Expert Witness Testimony of Thomas J. Sullivan

- Peoples Natural Gas Company of South Carolina, South Carolina Public Service Commission Docket No. 88-52-G (1988). Natural gas utility revenue requirements and rate design.
- Peoples Natural Gas (UtiliCorp United, Inc.), Iowa Utilities Board Docket No. RPU-92-6 (1992). Natural gas utility class cost of service study and peak day demand requirements.
- Peoples Natural Gas (UtiliCorp United, Inc.), Kansas Corporation Commission Docket No. 193,787-U (1996). Natural gas utility class cost of service study, rate design, and peak day demand requirements.
- Southern Union Gas Company, Railroad Commission of Texas Gas Utilities Docket No. 8878 (1998). Natural gas utility depreciation rates.
- Southern Union Gas Company, City of El Paso (1999). Natural Gas utility depreciation rates.
- UtiliCorp United, Inc., Kansas Corporation Commission Docket No. 00-UTCG-336-RTS (1999). Natural gas utility weather normalization, class cost of service, and rate design.
- Philadelphia Gas Works, Pennsylvania Public Utility Commission Docket No. R-00006042 (2001). Natural gas utility revenue requirements.
- Missouri Gas Energy, Missouri Public Service Commission Docket No. GR-2001-292 (2001). Natural gas utility depreciation rates.
- Aquila Networks, Iowa Utilities Board Docket No. RPU-02-5 (2002). Natural gas utility class cost of service study, rate design, and weather normalization adjustment.
- Aquila Networks, Michigan Gas Utilities, Michigan Public Service Commission Case No. U-13470 (2002). Natural gas utility class cost of service study, rate design, and weather normalization adjustment.
- Aquila Networks, Nebraska Public Service Commission Docket No. NG-0001, NG0002, NG0003 (2003). Natural gas utility weather normalization adjustment.
- Aquila Networks, Missouri Public Service Commission Docket No. GR-2003 (2003). Natural gas utility class cost of service study, rate design, annualization adjustment, and weather normalization adjustment.
- North Carolina Natural Gas, North Carolina Utilities Commission Docket No. G-21-Sub 442 (2003). Filed intervenor testimony on behalf of the municipal customers regarding natural gas cost of service and rates related to intrastate transmission service.
- Texas Gas Service Company, Division of ONEOK, Railroad Commission of Texas Gas Utilities Docket No. 9465 (2004). Natural gas utility depreciation rates.

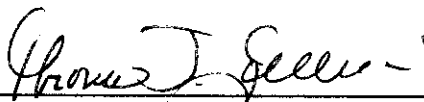
- 1 • Missouri Gas Energy, Missouri Public Service Commission Docket No. GR-2004-
2 0209 (2004)
Natural gas utility depreciation rates.
- 3 • Aquila Networks, Kansas Corporation Commission Docket No. 05-AQLG-367-RTS (2004).
Natural gas utility weather normalization, class cost of service, and rate design.
- 4 • Aquila Networks, Iowa Utilities Board Docket No. RPU-05-02 (2005). Natural gas utility
5 class cost of service study, rate design, grain drying adjustment and weather normalization
adjustment.
- 6 • PJM Interconnection, LLC, Federal Energy Regulatory Commission Docket No. ER05-1181
7 (2005). Operating cash reserve requirements.
- 8 • Kinder Morgan, Inc., Wyoming Public Service Commission Docket No. 30022-GR-6-73
9 (2006). Natural gas utility weather normalization adjustment, development of load factors,
billing cycle adjustment, determination of test year billing units and revenues, and
depreciation rates.
- 10 • Missouri Gas Energy, Missouri Public Service Commission Docket No. GR-2006-
11 0422 (2006). Natural gas utility depreciation rates.
- 12 • Kinder Morgan, Inc., Nebraska Public Service Commission Docket No. NG-0036 (2006).
Natural gas utility weather normalization adjustment, test year billing determinants and
revenues under existing rates, customer and usage trends and rate design.
- 13 • Aquila Networks, Kansas Corporation Commission Docket No. 07-AQLG-431-RTS (2006).
14 Natural gas utility class cost of service study, rate design, irrigation adjustment, and weather
normalization adjustment.
- 15 • Aquila Networks, Nebraska Public Service Commission Docket No. NG-0041-RTS (2006).
16 Natural gas utility jurisdictional and class cost of service study, rate design, and revenue
synchronization adjustment.
- 17 • Zia Natural Gas Company, New Mexico Public Regulation Commission Case No. 08-00036-
18 UT (2008). Natural gas utility billing determinants and revenues, weather normalization
adjustment, customer growth adjustment, peak day analysis, revenue requirement, class cost
19 of service study, and rate design.
- 20 • SourceGas Distribution, LLC, The Public Utilities Commission of the State of Colorado
21 Docket No. 08S-0108G (2008). Natural gas utility weather normalization adjustment,
irrigation adjustment, group load factor analysis, therm billing, test year billing determinants
and revenues, and trends in customer usage.
- 22 • Black Hills/Iowa Gas Utility Company, LLC (fka Aquila Networks), Iowa Utilities Board
23 Docket No. RPU-08-3 (2008) Natural gas utility weather normalization adjustment, grain
drying adjustment, revenue synchronization adjustment, class cost of service study, and rate
design.

- 1 • Black Hills/Colorado Gas Utility Company, LLC (fka Aquila Networks), The Public Utilities
2 Commission of the State of Colorado Docket No. 08S-430G (2008) Natural gas utility
3 weather normalization, revenue synchronization adjustment, customer reclassification,
thermal billing, test year billing determinants, revenues under existing and proposed rates,
class cost of service study, and rate design.
- 4 • Wyoming Gas Company, Wyoming Public Service Commission Docket No 30009-48-GR-8
5 (2008) Natural gas utility weather normalization adjustment, test year billing determinants,
6 revenues under existing and proposed rates, rate of return, revenue requirement, class cost of
service study, and rate design.
- 7 • Missouri Gas Energy, Missouri Public Service Commission Docket No. GR-2009-
8 0355 (2009). Natural gas utility depreciation rates.

AFFIDAVIT OF THOMAS J. SULLIVAN


STATE OF MISSOURI)
) ss
COUNTY OF RAY)

On the 3RD day of June, 2009, before me appeared Thomas J. Sullivan, to me personally known, who, being by me first duly sworn, states that he is a Director in the Enterprise Management Solutions Division of Black & Veatch Corporation and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.



Thomas J. Sullivan

Subscribed and sworn to before me this 3RD day of June, 2009.



Notary Public

My commission expires:



WILLIAM S. CLARK
My Commission Expires
September 29, 2009
Ray County
Commission #05500081