

Exhibit No.: 021  
Issue: Depreciation  
Witness: Thomas J. Sullivan  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: Missouri Gas Energy  
Date Testimony Prepared: December 11, 2006  
Case No: GR-2006-0422

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

**Surrebuttal Testimony**

**Of**

**Thomas J. Sullivan**

**On Behalf of Missouri Gas Energy**

**Jefferson City, Missouri**

**December 2006**

**FILED<sup>2</sup>**

FEB 07 2007

**Missouri Public  
Service Commission**

MGE Exhibit No. 021  
Case No(s). GR-2006-0422  
Date 1-17-06 Rptr KE

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

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

3   **Q.   Are you the same Thomas J. Sullivan who filed direct and**  
4       **rebuttal testimony in this case on behalf of Missouri Gas Energy**  
5       **("MGE" or "Company")?**

6   A.   Yes, I am.

7   **Q.   What is the purpose of your surrebuttal testimony in this matter?**

8   A.   I will address the three issues in connection with the rebuttal testimony of Mr.  
9       Greg Macias of the Missouri Public Service Commission Staff. These issues are:

- 10           1. Mr. Macias' Rebuttal Schedule GEM-1 is flawed and is an  
11           inaccurate representation of my analysis of regional companies.
- 12           2. In Mr. Macias' discussion of his Rebuttal Schedule GEM-1, he  
13           mischaracterizes and/or confuses my testimony, positions taken by  
14           the Staff in the prior MGE rate case, and the bases upon which my  
15           average service life recommendations are based. He fails to  
16           mention that the regional average is not the sole basis upon which I  
17           rely for a number of accounts and makes no attempt to explain why  
18           the existing ASLs, which Staff recommended in Case Nos. GR-  
19           2001-292 and GR-2004-0209 and form the basis for many of the  
20           rates that the Company is proposing, are no longer appropriate for  
21           MGE.

1                   3. Mr. Macias mischaracterizes my use of the simulated plant balance  
2                   method by taking statements from the June 2005 Depreciation  
3                   Report out of context.

4   **Q.   Do you sponsor any schedules with your surrebuttal testimony?**

5   A.   Yes, I sponsor Surrebuttal Schedule TJS-1 – Correction of Macias’ Rebuttal  
6       Schedule GEM-1. This schedule was prepared under my supervision and  
7       direction.

8   **Q.   Please explain how Mr. Macias’ Rebuttal Schedule GEM-1 is**  
9       **flawed.**

10  A.   His Rebuttal Schedule GEM-1 is flawed for the following reasons:

11           1.   His first footnote in Rebuttal Schedule GEM-1 implies that the  
12               numbers in the “low”, “high”, and “average” columns are taken  
13               from Schedule TJS-2, Table 3-4. This is not true. The figures  
14               shown in the “low”, “high”, and “average” columns in Rebuttal  
15               Schedule GEM-1 are not taken from my Schedule TJS-2, but are  
16               instead based on his erroneous attempt to correct my analyses in  
17               that table.

18           2.   Mr. Macias’ did not correct the average service lives proposed by  
19               the Company in his Rebuttal Schedule GEM-1, even though my  
20               staff communicated those corrections to him with sufficient time to  
21               do so. This results in an apples and oranges comparison and  
22               ultimately contributes to his mischaracterization of my  
23               recommended ASLs.

1                   3.       Rebuttal Schedule GEM-1 and his rebuttal testimony falsely imply  
2                               that the regional ASLs were the only consideration in my  
3                               recommended depreciation rates.

4   **Q.   Please describe the error in Mr. Macias' correction of the "low",**  
5       **"high", and "average" regional ASLs.**

6   A.   In my rebuttal testimony<sup>1</sup>, I give credit to Mr. Macias for discovering a  
7       calculation error in Table 3-4, Summary of Regional Gas Depreciation Rate  
8       Survey, Page 13. A formula was incorrectly calculating the regional estimated  
9       average service life (Column AN). However, Mr. Macias does not properly  
10      correct this error. Mr. Macias excludes the depreciation rates for the general plant  
11      accounts for Kinder Morgan that were appropriately included in my analyses  
12      before and after the correction.

13 **Q.   Please explain what ASLs should be in the column that Mr.**  
14 **Macias identifies as "Company" in Rebuttal Schedule GEM-1.**

15 A.   The miscalculation of average service lives only affects my recommended ASLs  
16      for those accounts where I base my recommended average service life solely on  
17      consideration of regional averages. This impacted three accounts: Accounts 375,  
18      383, and 390. For Accounts 375 and 390 (Structures and Improvements), I  
19      recommend a 45 year ASL. For Account 383 (Regulators), I recommend ASL of  
20      42 years. I communicated these specific changes to Mr. Macias prior to submittal  
21      of our rebuttal testimonies.

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<sup>1</sup> Thomas J. Sullivan Rebuttal Testimony, Page 2, Lines 1-6.

1   **Q.   Have you corrected Mr. Macias' Rebuttal Schedule GEM-1 for**  
2       **these two errors?**

3   A.   Yes, I have. These corrections are reflected in my Surrebuttal Schedule TJS-1. In  
4       Surrebuttal Schedule TJS-1, I show the correct low, high, and average regional  
5       ASLs that tie back to my corrected Schedule TJS-2 submitted with my rebuttal  
6       testimony. In addition, in Surrebuttal Schedule TJS-1, I use the correct Company  
7       proposed average service lives for Accounts 375, 383, and 390 as shown in my  
8       rebuttal testimony.

9   **Q.   Did you make any other revisions to your direct testimony in your**  
10       **rebuttal testimony that is pertinent to issues raised in Mr. Macias'**  
11       **rebuttal testimony?**

12   A.   Yes, I also inadvertently left out the net salvage allowances for the general plant  
13       accounts, specifically for Accounts 390, 392, and 396. In my rebuttal testimony, I  
14       propose the same net salvage allowance for these accounts, 40 percent, 10  
15       percent, and 20 percent, respectively, that I recommended in the prior  
16       depreciation report I performed for MGE (June 2000 Report). Mr. Macias'  
17       recommendations are similar. Mr. Macias recommends a net salvage allowance  
18       of 0 percent, 10 percent, and 25 percent for Accounts 390, 392, and 396. Overall,  
19       these differences are minimal, about \$5,800.

20   **Q.   Please explain how Mr. Macias mischaracterizes the bases for the**  
21       **Company's recommended ASLs in his rebuttal testimony.**

1 A. Mr. Macias' Rebuttal Schedule GEM-1 is misleading and mischaracterizes not  
2 only my testimony but positions taken by the Staff in prior MGE rate cases. In  
3 discussing Rebuttal Schedule GEM-1, Mr. Macias further mischaracterizes the  
4 bases that underlie my average service life recommendations by failing to  
5 mention that regional averages are not the sole basis upon which I relied.

6 Mr. Macias states on Page 3 of his rebuttal testimony:

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

10 This statement may lead one to believe that my regional survey results are  
11 at odds with my recommended ASLs and that the regional survey results are the  
12 primary analysis that I relied upon. This statement further implies that I set my  
13 recommended ASLs below the regional averages in order to generate higher  
14 depreciation expense. This is simply not true and is a gross mischaracterization of  
15 my testimony and schedules.

16 **Q. How did you determine your recommended ASLs for each**  
17 **account?**

18 A. In the last column of Surrebuttal Schedule TJS-1, I summarize the basis for my  
19 recommended ASL for each account. This information was provided in my direct  
20 testimony and schedules. As indicated in my direct testimony, I used a  
21 combination of techniques for the depreciation rates for which I recommended a  
22 change from the existing depreciation rates: Company-specific data (which I use  
23 in my simulated plant balance analyses), results of the regional survey, and

1 experience and judgment. Moreover, on 8 of the 18 accounts, I did not  
2 recommend any change to the existing average service lives. These accounts are  
3 highlighted in Surrebuttal Schedule TJS-1. In Mr. Macias' rebuttal testimony, he  
4 would have one believe that I somehow arbitrarily recommended depreciation  
5 rates lower than the regional survey averages. This is simply not true.

6 **Q. What is the significance of the accounts where you recommend no**  
7 **change in ASLs?**

8 A. This is significant because the existing average service lives for these eight  
9 accounts are based on Staff's recommendations in Case Nos. GR-2001-292 and  
10 GR-2004-0209. The existing ASL for Account 394 – Tools is based on Staff's  
11 (Ms. Jolie Mathis) actuarial analysis of MGE-specific data in Case No. GR-2004-  
12 0209. The Company's recommended ASLs for the remaining seven accounts  
13 were based on Staff's study of Laclede in Case No. GR-2001-292.

14 I should also point out that Mr. Macias makes no attempt to explain why  
15 the ASLs that Staff recommended in Case Nos. GR-2001-292 and GR-2004-0209  
16 are no longer appropriate for MGE. The primary difference between Mr.  
17 Macias' recommended depreciation rates and the existing depreciation rates is  
18 simply because the Staff has yet again changed its definition of surrogate.  
19 Moreover, Mr. Macias is recommending a change (from 19 years to 27 years) to  
20 Account 394's existing ASL, which is based on Company-specific data and an  
21 actuarial analysis sponsored by Staff witness Ms. Mathis. In a deposition taken  
22 on June 9, 2004, Page 38, Lines 3 through 7, Ms. Mathis stated:

1           "Not only was there a visual fit by the software [for Account 394] but the  
2           result that I got seemed to be more in line when looking at other  
3           comparable companies for that account, and the 19-year life seemed  
4           reasonable to me for that account."

5           Based on Mr. Macias' direct testimony on Pages 5-6, , it would appear that  
6           Mr. Macias made no attempt to do any actuarial analysis on Account 394 or any  
7           of the other Company's accounts.

8   **Q.   Do your recommended ASLs fall within the "low" and "high"**  
9   **range of the regional industry norms?**

10  A.   Yes, they do – for every single account.

11  **Q.   Should care be exercised when using regional or surrogate**  
12  **averages?**

13  A.   Yes. Depreciation rates by their very nature should only change gradually. They  
14       should not be changed every time a new regional or surrogate average is  
15       computed, especially if the sample group is changed (as has been done by Staff in  
16       three of the last four rate cases the Company has filed). Regional or surrogate  
17       averages should be treated as one consideration, not the sole consideration,  
18       especially to the extent Company-specific data are available.

19  **Q.   Should Company-specific data carry greater weight than regional**  
20  **or surrogate averages?**

21  A.   Yes. Company-specific data, when it is available, is preferable to surrogate or  
22       another company's data, even if that Company data is not "perfect" or even



1 complete. Company-specific data should have priority over surrogate data. In my  
2 direct and rebuttal testimony, I have clearly shown that there is Company-specific  
3 data that should be considered in determining ASLs for MGE. The Staff has  
4 repeatedly and rigidly argued that they will only consider Company-specific data  
5 in the context of one approach, actuarial or retirement analysis, when it comes to  
6 MGE. Further, Mr. Macias appears to be contradicting actuarial analysis  
7 performed by the Staff witness in MGE's last rate case where Company-specific  
8 data was used to make a recommendation for Account 394. As indicated in my  
9 rebuttal testimony, the Staff has not applied the same standards to Atmos. The  
10 Staff has set unreasonable conditions for MGEs data that I believe are at odds  
11 with the direction that the Commission has given both the Company and Staff.

12 **Q. Please explain how Mr. Macias' mischaracterizes your use of the**  
13 **simulated plant balance method.**

14 A. On Page 9 of Schedule TJS-2 (the June 2005 Depreciation Report), I discuss the  
15 results of my simulated plant balance analyses for Account 380, Services. Mr.  
16 Macias selectively quotes from this section regarding problems and observations  
17 with the data. MGE does not carry sufficient detail in its records regarding the  
18 types of services (plastic, bare steel, protected steel, etc.). I state on Page 9 of  
19 Schedule TJS-2, "The average physical life of services may vary depending on  
20 the material. The use of a simulated plant balance analysis results in an aggregate  
21 service life that may not be indicative of the account, especially of the property  
22 currently in service." This problem, or issue, would still exist even if MGE had  
23 actuarial data.

1           Similar to MGE, it appears that Staff had no data to distinguish between  
2           metallic and non-metallic services when they analyzed Ameren's services.  
3           Moreover, Staff found that metallic (steel) and non-metallic (plastic) services to  
4           have the same average service lives in both Aquila and Laclede's cases.  
5           Therefore, Mr. Macias is making a distinction that has no material impact on the  
6           results and is not even distinguished by Staff in the surrogate companies he uses.  
7           Staff applies one standard to MGE that Staff has not applied to the other  
8           companies regulated by this Commission.

9   **Q.   Please summarize your surrebuttal testimony?**

10  A.   Page 2 through Page 3, Line 16 of Mr. Macias' rebuttal testimony and his  
11       Rebuttal Schedule GEM-1 are flawed and misrepresent the ASLs I recommend in  
12       this matter. Surrebuttal Schedule TJS-1 is an accurate representation. Further,  
13       depreciation rates should not be changed simply based on the Staff's whim with  
14       regard to what surrogate companies should be used. When available, even if it is  
15       not perfect or does not meet some arbitrary standard, Company-specific data  
16       should be used and given consideration in the development of MGE's  
17       depreciation rates, including ASLs. The ASL analyses in my direct and rebuttal  
18       testimony include consideration of Company-specific data or information that  
19       provides important insight into the life characteristics of MGE's facilities. Staff  
20       ignores this data and, based on the unreasonable standard which they have set,  
21       will apparently continue to ignore this data indefinitely. This is clearly not  
22       reasonable. It is especially unreasonable in light of Staff's position on Atmos.



1

2 **Q. Does this conclude your surrebuttal testimony?**

3 **A.** Yes, at this time.

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.

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Case No. GR-2006-0422

AFFIDAVIT OF THOMAS J. SULLIVAN

STATE OF KANSAS )

COUNTY OF JOHNSON )

ss.

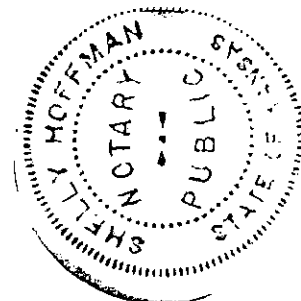
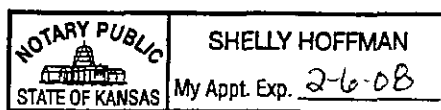
Thomas J. Sullivan, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of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

Thomas J. Sullivan  
THOMAS J. SULLIVAN

Subscribed and sworn to before me this 8<sup>th</sup> day of December 2006.

Shelly Hoffman  
Notary Public

My Commission Expires: 2-6-08



GR-2006-0422

## Missouri Gas Energy

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

Account Number	Description	Regional Average Service Life			Proposed Average Service Life		Existing	Company Basis for Proposed ASL
		Low	High	Average	Company	Staff		
DISTRIBUTION								
375.00	Structures and Improvements	21	61	46	45	45	61	Average of regional survey for Accts. 375 and 390
376.00	Mains	33	79	49	44	45	44	Existing ASL
378.00	Measuring and Regulating Equip.	27	45	38	35	41	35	Existing ASL
379.00	Meas & Reg Equip - City Gate	28	49	40	40	41	47	Regional survey
380.00	Services	22	45	37	32	42	37	Simulated plant balance analysis - company specific data
381.00	Meters	32	52	39	35	41	35	Existing ASL
382.00	Meter Installations	31	41	37	35	41	35	Existing ASL
383.00	House Regulators	29	50	42	42	45	41	Regional survey
385.00	Industrial Meas and Reg Equipment	25	44	36	30	43	30	Existing ASL
GENERAL								
390.00	Structures and Improvements	8	79	44	45	41	50	Average of regional survey for Accts. 375 and 390
391.00	Office Furniture and Equipment	5	37	20	11	11	12	Weighting of assets within account
391.10	Computers**	5	13	7				
392.00	Transportation Equipment	7	14	11	11	12	11	Existing ASL
393.00	Stores Equipment	8	66	31	30	32	37	Simulated plant balance analysis - company specific data
394.00	Tool, Shop, and Garage Equipment	8	42	25	20	27	19	Rounded existing ASL
396.00	Power Operated Equipment	8	21	14	15	17	12	Experience
397.10	Electronic Reading - ERT				20	20	20	Existing ASL
397.20	Communication Equipment	8	29	19	16	21	16	Existing ASL
398.00	Miscellaneous Equipment	8	29	20	20	26	26	Regional survey

## Mr. Macias' errors in developing Rebuttal Schedule GEM 1

1. Miscalculated the regional average ASL for General Plant accounts by failing to include Kinder Morgan in his calculation.
2. Failed to reflect Company's revised proposed average service lives for Accounts 375, 383, and 390.
3. Failed to recognize that the Company did not propose to change the existing ASLs for the 8 of the 18 of the accounts, which are based on Staff's recommendations in GR-2001-292 and GR-2004-0209.

Mr. Sullivan revised his recommendation on Accounts 375, 383, and 393 after correction of the formula.