

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

In the Matter of the Application of	)	
Summit Natural Gas of Missouri, Inc.	)	<b><u>File No. GE-2014-0010</u></b>
for Waiver Concerning Commission Rule	)	
4 CSR 240-3.235	)	

**STAFF RECOMMENDATION TO APPROVE  
PARTIAL WAIVER OF 4 CSR 240-3.235**

**COMES NOW** the Staff ("Staff") of the Missouri Public Service Commission ("Commission"), by and through counsel, and for its recommendation to approve a partial waiver with conditions in this matter hereby respectfully states:

1. On July 9, 2013,<sup>1</sup> Summit Natural Gas of Missouri, Inc. ("SNG" or "Company") filed an application for waiver of Commission Rule 4 CSR 3.235, which requires that any gas utility submitting a general rate increase request shall also submit a depreciation study, database and property unit catalog. According to SNG's application, the Company intends to file a general rate increase request in or around January 2014.

2. On July 18, the Commission ordered notice served upon the governing bodies of cities and counties in SNG's service area, and ordered notice be made available to members of the General Assembly and the news media serving in SNG's service area. Also on July 18, the Commission ordered applications for intervention filed no later than August 9. No applications to intervene were filed in this matter. The Commission ordered Staff to file its response to SNG's application no later than August 13. On that date Staff filed a Joint Motion for Extension of Time, along with the Office of

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<sup>1</sup> All dates 2013 unless otherwise noted.

the Public Counsel (“Public Counsel”), requesting an additional week to file Staff’s response.

3. As explained in Staff’s *Memorandum*, attached hereto as Appendix A and incorporated herein by reference, Staff recommends the Commission grant SNG a partial waiver of some, but not all, of the submissions required by Rule 4 CSR 240-3.235.

4. Commission Rule 4 CSR 240-3.235 provides that the required depreciation study, database and property unit catalog shall be compiled as follows:

“1. The study shall reflect the average life and remaining life of each primary plant account or subaccount;

2. The database shall consist of dollar amounts, by plant account or subaccount, representing—

A. Annual dollar additions and dollar retirements by vintage year and year retired, beginning with the earliest year of available data;

B. Reserve for depreciation;

C. Surviving plant balance as of the study date; and

D. Estimated date of final retirement and surviving dollar investment for each warehouse, propane/air production facility, liquefied natural gas facility, underground natural gas storage facility, general office building or other large structure; and

3. The property unit catalog shall contain a description of each retirement unit used by the utility.”

5. Commission Rule 4 CSR 240-2.060(4) provides that applications for variances or waivers from commission rules and tariff provisions shall contain a complete justification setting out the good cause for granting the variance or waiver. “Good cause” means a good faith request for reasonable relief.<sup>2</sup>

6. Staff investigated SNG’s request and determined that, as stated in the Company’s application, the majority of SNG’s current plant and equipment in service is relatively new and has a long life expectancy. Therefore, SNG lacks reliable, historical plant retirement data, and Staff recommends the Commission find that this lack of reliable data constitutes good cause to approve a waiver from the requirement in 4 CSR 240-3.235(1).2.A that the database shall consist of dollar amounts representing “annual... dollar retirements by vintage year and year retired.”

7. Therefore, Staff recommends the Commission grant SNG a partial waiver of 4 CSR 240-3.235 to allow SNG in its upcoming rate case to submit a depreciation study using a database without annual dollar retirements by vintage year and year retired. Staff supports granting SNG this partial waiver only for the next rate case filed by SNG in calendar year 2013 or 2014.

8. However, Staff recommends the Commission order SNG to comply with the other requirements of 4 CSR 240-3.235, including the requirements that with its next rate case SNG submit a property unit catalog, reserves for depreciation, surviving plant balance, and estimated final retirement date and surviving dollar investment for each major facility or general office building. Staff found no good cause for the Commission to waive SNG’s other filing obligations under the rule for its next rate case.

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<sup>2</sup> *American Family Ins. Co. v. Hilden*, 936 S.W.2d 207 (Mo. App. W.D. 1996).

9. During Staff's investigation of this application, Staff determined that SNG was not keeping its depreciation records in a manner that would allow the Company to do a full depreciation study in the future. Therefore, Staff's *Memorandum* outlines a number of conditions that, if ordered by the Commission, will require SNG to keep its depreciation records in a manner that will allow the Company to fully comply with 4 CSR 240-3.235 for future rate requests.

10. Staff's *Memorandum* recommends the Commission issue an order approving a partial, temporary waiver subject to the following conditions:

- a) The waiver only applies to the portion of the Commission Rule that requires SNG to submit a statistical depreciation study of vintage retirement dollars, and to submit the associated vintage database of retirement dollars.
- b) In its upcoming rate case, SNG will submit in Direct Testimony: a property unit catalog, reserves for depreciation, surviving plant balance, and estimated final retirement date and surviving dollar investment for each major facility or general office building.
- c) In its upcoming rate case, SNG also will submit in Direct Testimony: a working spreadsheet file containing a history of depreciation accruals by month for each unit of property contained in the continuing property record of each USOA plant account, beginning with the date of the March 31, 2010, for the SMNG division, and September 30, 2007, for the MGU division, including any adjustments made by the Company to accumulated reserves to correct for deficiencies.
- d) This waiver will apply only to rate cases filed by SNG in the calendar years 2013 or 2014 related to all or any of SNG's operating divisions, or until the Commission orders otherwise.
- e) SNG will provide a non-statistical depreciation review, preferably conducted by an experienced depreciation professional for the utility industry. The review by the depreciation professional would preferably include a tour of the MGU, SMNG and Lake Ozark physical plant, a review of current accruals and accumulated reserves, a review of retirement practices and records, and a review to justify or recommend changes to the depreciation rates currently in use by SNG. For the MGU and SMNG divisions, the review should provide a specific justification for each recommendation to adjust the FERC USOA plant account current depreciation rate or accumulated reserve amounts.

f) SNG shall maintain continuing property records by FERC USOA account that include, but are not limited to, unit property descriptions, physical location, original cost, retirements, transfers, sales, cost of removal and salvage, in compliance with Commission Rule 4 CSR 240-40.040 Uniform System of Accounts-Gas Corporations and 4 CSR 240-3.235 and 4 CSR 240-3.275 Submission Requirements for Gas Utility Depreciation Studies.

g) SNG shall account for all payments from other parties when SNG is required to remove, relocate, rearrange, reroute, or otherwise make changes in utility property, other than for purposes of rendering utility service, as credits to the depreciation reserve in compliance with Commission Rule 4 CSR 240-040 Uniform System of Accounts-Gas Corporations and the Company shall appropriately identify amounts in its Annual Reports.

h) SNG shall establish and adopt accounting policies or procedures for separating/allocating removal costs of plant that is being retired from costs to install new plant.

i) SNG shall continue to keep a separate accounting of its amounts accrued for recovery of its initial investment in plant from the amounts accrued for the cost of removal, consistent with the Commission's Third Report and Order in Laclede Case No. GR-99-315.

**WHEREFORE**, Staff respectfully submits the *Memorandum* attached hereto as Appendix A, and respectfully recommends the Commission issue an order granting SNG a temporary waiver from two requirements of 4 CSR 240-3.235 for SNG's upcoming rate case: (1) the requirement to submit a statistical depreciation study of vintage retirement dollars, and (2) the requirement to submit the study database by vintage year and year retired, subject to conditions (a) through (i) listed above and in Staff's *Memorandum*.

Respectfully Submitted,

**/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 20<sup>th</sup> day of August, 2013.

**/s/ John D. Borgmeyer**

## **MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
Case No. GE-2014-0010, In the Matter of the Application of Summit  
Natural Gas of Missouri, Inc. for Waiver Concerning Commission Rule  
4 CSR 240-3.235

FROM: Arthur Rice, Engineering and Management Services

/s/ Arthur Rice / 8/20/2013                      /s/ John D. Borgmeyer / 8/20/2013  
EMSU / Date                                              Staff Counsel's Office / Date

SUBJECT: Staff Memorandum Recommending Partial Waiver of Depreciation Study

DATE: August 20, 2013

## **STAFF RECOMMENDATION**

The Staff ("Staff") of the Missouri Public Service Commission ("Commission") recommends that the Commission grant Summit Natural Gas of Missouri, Inc. ("SNG" or "Company") a partial waiver concerning Commission Rule 4 CSR 240-3.235, subject to the conditions described in this *Memorandum*, because Staff finds that there is good cause to grant a partial waiver pursuant to 4 CSR 240-2.060(4).

## **Overview**

On July 9, 2013, SNG filed an application requesting a waiver from Commission Rule 4 CSR 240-3.235. The rule requires any gas utility which submits a general rate increase request to also submit a depreciation study, database and property unit catalog, and the rule prescribes the contents of each of these submissions. SNG's application requests the waiver for its next rate case, which the Company states it expects to file in January of 2014. SNG states that good cause exists because the Company has a lot of new assets, including relatively new service territories, and therefore Summit does not have a great deal of historical plant information to use in a depreciation study.

On July 18, 2013, the Commission issued its *Order Directing Notice, Setting Date for Intervention and Directing Responses to Application*, ordering the Staff, no later than August 13, 2013, to file its response to the application. On August 13, Staff filed its Motion for Extension of Time, requesting to file its response on August 20.

Staff reviewed SNG's application and the Company's responses to data requests, and discussed SNG's depreciation accounting with the Company. As a result, Staff found that good cause exists to waive some of SNG's obligations under Rule 4 CSR 240-3.235, but not the entire rule. As explained below, Staff supports SNG's request for waiver from the rule requirement to submit a statistical depreciation study of vintage retirement dollars, and from the requirement to submit the study data base by vintage year as defined in the rule.

However, Staff does not recommend the Commission grant a waiver of the rule's requirements to submit a property unit catalog, reserves for depreciation, surviving plant balance, and estimated final retirement date and surviving dollar investment for each major facility or general office building. Furthermore, Staff recommends that SNG provide a review—preferably conducted by an experienced utility depreciation professional—of SNG's depreciation rates in its upcoming rate case. These data will add benefit to SNG's upcoming rate case by providing support for the Commission's establishment of just and reasonable depreciation rates used to determine SNG's revenue requirement.



## Discussion

Rule 4 CSR 240-3.235 provides:

(1) In addition to the requirements of 4 CSR 240-3.030, any gas utility which submits a general rate increase request shall submit the following:

(A) Its depreciation study, data base and property unit catalog. However, a gas utility need not submit a depreciation study, data base or property unit catalog to the extent that the commission's staff received these items from the utility during the three (3) years prior to the utility filing for a general rate increase or before five (5) years have elapsed since the last time the commission's staff received a depreciation study, database and property unit catalog from the utility. The depreciation study, database and property unit catalog shall be compiled as follows:

1. The study shall reflect the average life and remaining life of each primary plant account or subaccount;
2. The database shall consist of dollar amounts, by plant account or subaccount, representing—
  - A. Annual dollar additions and dollar retirements by vintage year and year retired, beginning with the earliest year of available data;
  - B. Reserve for depreciation;
  - C. Surviving plant balance as of the study date; and
  - D. Estimated date of final retirement and surviving dollar investment for each warehouse, propane/air production facility, liquefied natural gas facility, underground natural gas storage facility, general office building or other large structure; and
3. The property unit catalog shall contain a description of each retirement unit used by the utility.

In this case, SNG is a relatively new local distribution company (LDC). The original in-service dates of the plant and equipment that SNG owns and operates date back to 1996.

SNG has installed new distribution lines in newly certificated areas and acquired distribution plant from other entities. The majority of plant and equipment now operated by SNG originated from the 2011 merger of Southern Missouri Natural Gas Company (SMNG) and Missouri Gas Utility (MGU) approved by the Commission in Case No. GM-2011-0354.<sup>1</sup> SMNG's initial plant and equipment originates from a certificate of convenience and necessity (CCN) granted in Case No. GA-94-127 as Tartan Energy Company, d/b/a Southern Missouri Gas

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<sup>1</sup> MGU began operating as "Summit Natural Gas of Missouri, Inc." in GM-2011-0354.

Company (SMG). MGU's initial plant and equipment originates from Case No. GO-2005-0120, which authorized the acquisition of natural gas distribution systems operated by the cities of Gallatin and Hamilton. The original installation of the Gallatin and Hamilton plant and equipment was conducted in 2003 and 2004.

SNG agreed to keep separate books and records for the former SMNG and MGU divisions in the 2011 merger case.<sup>2</sup> In GA-2012-0285, the Commission ordered SNG to keep separate books and records for a third area, its Lake Ozark System. SNG's current depreciation rates have been established and carried forward from the depreciation rates ordered in SNG's CCN cases.

In its analysis, Staff found that 71 percent of SNG's depreciable plant and equipment has been in service for less than 10 years, and the remaining 29 percent of plant has been in service for less than 18 years. The majority of the Company's plant and equipment (78 percent) has long life equipment expectancy of approximately 50 years. Neither SNG nor any of its predecessor companies or divisions has previously submitted a depreciation study of SNG's system to the Commission. This means that SNG has completed very few plant retirements, and therefore SNG has insufficient property retirements to perform a statistically significant depreciation study. The lack of reliable data related to property retirements constitutes good cause to waive SNG's obligation to file a statistical depreciation study that includes vintage retirement dollars as required by 4 CSR 240-3.235(1)(A).2.A.

However, Staff does not find that good cause exists to waive the rule's requirement that SNG file in its next rate case a property unit catalog, reserves for depreciation, surviving plant balance, and estimated final retirement date and surviving dollar investment for each major

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<sup>2</sup> GM-2011-0354, *Unanimous Stipulation and Agreement*, Sept. 15, 2011, Condition A.3, "Accounting for Plant in Service."

facility or general office building. This data will be necessary to support the depreciation rates the Commission will set in SNG's upcoming rate case. Therefore, Staff recommends partial approval of the waiver request to allow the Company to waive the filing of a statistical depreciation study of vintage retirement dollars, but not the other requirements specified in the rule. A complete list of Staff's recommended conditions is set out below.

The Depreciation Staff of the Engineering & Management Services Unit (EMSU) submitted data requests to the Company for the purpose of investigating SNG's record-keeping practices for physical plant in service with respect to unit property descriptions, physical location, original cost, retirements, transfers, sales, cost of removal and salvage. The Company responses to the data request revealed deficiencies in the records of current plant in service and historical records that the Company has agreed to maintain in previous cases before the Commission.<sup>3</sup> During this investigation Staff also discovered apparent deficiencies in methods employed by SNG to record depreciation accruals. Staff found that the depreciation accruals computed by SNG only account for the retirement rate (Average Service Life) portion of the ordered depreciation rates, and not the net salvage portion. Also, depreciation accruals records indicate that for individual plant items, SNG stopped the accruals when the accrued amount for certain items accumulated to the original cost, even though the items remained in service. The depreciation reserve accruals for each USOA plant account should be calculated by using the plant-in-service balance for the accounts. The Average Service Life is just that—an average—and it applies to the dollars in the account, not individual items.

Staff sent an email to SNG providing examples of deficiencies found and followed up with a phone conference with the Company on August 14, 2013. SNG agreed to investigate and

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<sup>3</sup> See, e.g. GO-2005-0120, *Order Approving Stipulation and Agreement*, Dec. 14, 2004; GE-2011-0096, *Order Granting Application for Waiver*, Oct. 20, 2010; GA-2012-0285 *Order Granting Certificate of Convenience and Necessity*, July 17, 2012.

address the deficiencies noted by Staff. SNG also agreed to submit the Company's unit property catalog and a continuing property record as Direct Testimony in the Company's upcoming general rate case. Staff recommends these conditions so that SNG will have sufficient records to conduct a full depreciation study and fully comply with 4 CSR 240-3.235 in future rate proceedings.

In addition, to allow further investigation of the deficiencies noted by Staff in methods employed by SNG to record depreciation accruals, Staff recommends that SNG submit in its upcoming rate case, as a working spreadsheet file, a history of the depreciation accruals by month, for each unit of property assigned to each USOA plant account in the continuing property record, beginning with the ending balances in the most recent rate case Staff accounting schedules for the SMNG and MGU divisions. These ending balance dates are March 31, 2010, for the SMNG division, and September 30, 2007 for the MGU division. This history should include a record of any adjustments made by the Company to accumulated reserves to correct for deficiencies.

#### **Staff's Recommendation and Conditions**

Staff supports granting SNG a partial waiver from the provisions of Commission Rule 4 CSR 240-3.235, only for the next rate case filed by SNG in calendar year 2013 or 2014 subject to the following conditions:

a) The waiver only applies to the portion of the Commission Rule that requires SNG to submit a statistical depreciation study of vintage retirement dollars, and to submit the associated vintage database of retirement dollars.

b) In its upcoming rate case, SNG will submit in Direct Testimony: a property unit catalog, reserves for depreciation, surviving plant balance, and estimated final retirement date and surviving dollar investment for each major facility or general office building.

c) In its upcoming rate case, SNG also will submit in Direct Testimony: a working spreadsheet file containing a history of depreciation accruals by month for each unit of property contained in the continuing property record of each USOA plant account, beginning with the date of the March 31, 2010, for the SMNG division, and September 30, 2007, for the MGU division, including any adjustments made by the Company to accumulated reserves to correct for deficiencies.

d) This waiver will apply only to rate cases filed by SNG in the calendar years 2013 or 2014 related to all or any of SNG's operating divisions, or until the Commission orders otherwise.

e) SNG will provide a non-statistical depreciation review, preferably conducted by an experienced depreciation professional for the utility industry. The review by the depreciation professional would preferably include a tour of the MGU, SMNG and Lake Ozark physical plant, a review of current accruals and accumulated reserves, a review of retirement practices and records, and a review to justify or recommend changes to the depreciation rates currently in use by SNG. For the MGU and SMNG divisions, the review should provide a specific justification for each recommendation to adjust the FERC USOA plant account current depreciation rate or accumulated reserve amounts.

f) SNG shall maintain continuing property records by FERC USOA account that include, but are not limited to, unit property descriptions, physical location, original cost, retirements, transfers, sales, cost of removal and salvage, in compliance with Commission Rule 4 CSR 240-

40.040 Uniform System of Accounts-Gas Corporations and 4 CSR 240-3.235 and 4 CSR 240-3.275 Submission Requirements for Gas Utility Depreciation Studies.

g) SNG shall account for all payments from other parties when SNG is required to remove, relocate, rearrange, reroute, or otherwise make changes in utility property, other than for purposes of rendering utility service, as credits to the depreciation reserve in compliance with Commission Rule 4 CSR 240-040 Uniform System of Accounts-Gas Corporations and the Company shall appropriately identify amounts in its Annual Reports.

h) SNG shall establish and adopt accounting policies or procedures for separating/allocating removal costs of plant that is being retired from costs to install new plant.

i) SNG shall continue to keep a separate accounting of its amounts accrued for recovery of its initial investment in plant from the amounts accrued for the cost of removal, consistent with the Commission's Third Report and Order in Laclede Case No. GR-99-315.

### **Conclusion**

Based on its review of the Company's application, Staff finds that SNG's lack of historical plant retirement data constitutes good cause for recommending the granting of this temporary and partial waiver for the portion of the depreciation study requiring a statistical retirement analysis of vintage retirement dollars, as the lack of significant retirement data to would not provide a statistically viable analysis. Therefore, Staff respectfully requests that the Commission approve Staff's recommendation to grant Summit a temporary and partial waiver of 4 CSR 240-3.235 subject to the conditions (a) through (i) noted above.

Dianna L. Vaughn  
Notary Public