BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI



In the matter of Laclede Gas Company's )
Tariff to Revise Natural Gas Rate ) Case No. GR-99-315
Schedules )

# A F F I D A V I T

STATE OF MISSOURI )
) SS.
CITY OF ST. LOUIS )

Richard A. Kottemann, Jr., of lawful age, being first duly sworn, deposes and states:

1. My name is Richard A. Kottemann, Jr. My business address is 3950 Forest Park Avenue, St. Louis, Missouri 63108; and I am Superintendent of Environmental and Design Engineering of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, consisting of pages 1 to 27 and two schedules, inclusive; Section D - Schedule 1; and Section E - Schedule 1.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded and the information contained in the attached schedules are true and correct to the best of my knowledge and belief.

R A Kottemann Jr

Richard A. Kottemann, Jr.

Subscribed and sworn to before me this 10th day of March, 1999.

MARY L. CAPEHART
Notary Public – Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Oct. 1, 1999

Mary L. Capehart

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|---|---|
| Exhibit No.: | |
| Issue: | Depreciation Rates and Trended Cost |
| Witness: | Richard A. Kottemann, Jr. |
| Type of Exhibit: | Direct Testimony |
| Sponsoring Party: | Laclede Gas Company |
| Case No.: | GR-99-315 |



LACLEDE GAS COMPANY

GR-99-315

DIRECT TESTIMONY

OF

RICHARD A. KOTTEMANN, JR.

Direct Testimony of Richard A. Kottemann, Jr.

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# DIRECT TESTIMONY OF RICHARD A. KOTTEMANN, JR.

## General Information/Qualifications

Q. Please state your name and business address.

A. My name is Richard A. Kottemann, Jr., and my business address is 3950 Forest Park Avenue, St. Louis, Missouri, 63108.

Q. What is your present position at Laclede?

A. I am Superintendent of Environmental and Design Engineering.

Q. How long have you held this position and would you briefly describe your duties?

A. I was promoted to my present position in July, 1998. In this capacity, I am responsible for managing Laclede's environmental compliance program. This includes a role in directing the Company's former manufactured gas plant (FMGP) site remediation efforts. In addition, I have responsibility for Distribution Design Engineering and the Laclede Chemical Laboratory.

Q. What is your educational background?

A. I graduated from the University of Missouri - Rolla in 1982 with a Bachelor's Degree in Geological Engineering.

Q. Please describe your experience with Laclede Gas Company.

A. I have been continuously employed by Laclede since June, 1982. Much of my early experience was in the area of distribution system design and network analysis. At various intervals, I have also been assigned to Laclede's Construction and Maintenance Department, the Underground Storage Field, and System Control Department. From 1991 to 1993 I was Superintendent of Distribution Design, which included responsibility as project engineer over Laclede's Franklin County expansion. I held the position of Superintendent of Engineering Records and Load Approval from July, 1993, until assuming my present responsibilities.

Q. What is the purpose of your testimony?

A. I am sponsoring Schedules of Depreciation Rates and Trended Cost - Unrecovered Value.

Q. What is your experience in these subjects?

A. I have assisted with or was directly responsible for the depreciation-related study and testimony submitted by Laclede in its last three general rate cases and in Case No. GO-97-79. I likewise submitted previous direct testimony concerning Trended Cost - Unrecovered Value. In addition, I have attended several of the depreciation

theory courses offered by Depreciation Programs, Inc. at Grand Rapids, Michigan.

Q. Are you familiar with the property of Laclede?

A. Yes, I am. My experience with the Company has enabled me to gain not only a knowledge of the Company's physical property but also a knowledge of the design, operation and maintenance procedures underlying the functional use of this property.

Depreciation Rates

Q. What do you believe is the function of depreciation rates?

A. The National Association of Regulatory Utility Commissioners (NARUC) defines depreciation accounting as " the mechanism through which the capital invested in depreciable plant is recovered. It is the process used to allocate that capital investment to the accounting periods during which the depreciable plant is in service. A system of accounting which allocates the cost adjusted for salvage over the estimated useful life of a property unit or group of assets in a systematic and rational manner." The primary function of depreciation, therefore, is to charge the costs of utility property investments - including the original cost and any net salvage - to operating expenses over the service life of the property,

and thereby return that investment to the investors. This is a return of that investment, that is, a recovery of capital, and not a return on investment.

Q. Are proper depreciation accrual rates especially important to a gas utility?

A. Yes. Depreciation rates involve the recovery or return of capital. Return allowances on investment within the utility industry generally do not provide for the substantial risk that would be involved if the original investment in utility plant was not recovered.

Q. Please describe the depreciation system normally employed by Laclede Gas Company.

A. Laclede historically utilized the straight line - average life - amortization system of depreciation (SL-AL-AM). Under this system, the accrual rate is calculated by the formula:

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

where net salvage equals gross salvage minus cost of removal. The net salvage percentage equals net salvage for a period, divided by retirement value for that same period.

Q. Can you provide an example of a properly derived depreciation rate using this method?

A. Certainly. A car provides a good example. When a person or company purchases a new car, what is known for certain is the cost (the purchase price and sales taxes). To calculate the depreciation rate, an estimate must be made of the service life and the net salvage. Assuming a cost of $20,000 with the intention to keep the car for five years, straight line depreciation excluding net salvage could be easily figured at $4,000 per year ($20,000 divided by five years). Further assuming that the car will be sold (or " traded in " ) at the end of five years for $5,000, we can now easily figure straight line depreciation at $3,000 (the result of $20,000 minus $5,000, divided by five years).

Now turning to the formula, the net salvage would equal 25% ($5,000 divided by $20,000). The formula for determining the depreciation rate is now expressed as:

$$\frac{100\%-25\%}{5} \text{ or } \frac{75\%}{5} \text{ or } 15\%.$$

Then using the 15% per year depreciation rate, we could multiply times $20,000 to produce an annual accrual of $3,000 (15% times $20,000). Note that properly including

the net salvage in the computation is critical, since omitting salvage would overstate annual depreciation by 33%, comparing $4,000 to the correct $3,000.

Q. Regarding the net salvage, your example assumes you determined the disposition price for this car, but this discrete estimation process might be impractical for a large number of units. How might this be handled?

A. We can use recent sales of old cars to derive a reasonable net salvage. Assume the following history:

| Year of Disposition | Vintage of Car | Original Cost | Disposition Price |
|---|---|---|---|
| 1994 | 1989 | $10,000 | $ 2,700 |
| 1995 | 1990 | $12,000 | $ 2,900 |
| 1996 | 1991 | $13,000 | $ 3,000 |
| 1997 | 1992 | $14,000 | $ 3,400 |
| 1998 | 1993 | $15,000 | $ 4,000 |
| | | $64,000 | $16,000 |

$$\text{Net Salvage} = \frac{16,000}{64,000} = 0.25 = 25\%$$

As you can see, the old cars maintained an average resale value of approximately 25% of original cost. This, then, yields a reasonable rate to use in the formula, without the need for performing a specific estimate of what the resale value of a brand new car will be five years from now.

Q. Is this the system used to arrive at the depreciation rates which are now in effect for Laclede?

A. While the authorized rates for certain accounts were determined based on this method, all of the larger plant accounts carry an annual depreciation rate recommended by Staff witness Paul Adam in Laclede's last general rate Case No. GR-98-374. The method used by Mr. Adam to produce such rates departed substantially from this method in that it fails to make adequate provision for future salvage costs. The Stipulation and Agreement in settlement of that case, nonetheless, instituted Staff's rates, with the clear understanding that no party to the case was endorsing or agreeing to be bound to the method by which such rates were derived.

Q. Are you satisfied with the rates currently in place?

A. No. I am requesting Commission authority to change annual depreciation rates on Gas Holders, Steel Mains, Plastic Mains, Steel Services, and Plastic & Copper Services. The rates I am recommending for these accounts are shown in Section D, Schedule 1, along with the rates in effect currently. Applying my proposed rates to year-end balances for Fiscal 1998 will produce a net increase in annual depreciation accruals of $2,309,799.

Q. Are your rates supported by a depreciation study?

A. Yes. Pursuant to the filing requirements set out in 4 CSR 240-40.040(5)(B), my proposed rates are supported by the study which I prepared in connection with Case No. GR-98-374. In addition, my recommendations take into account my review of Staff testimony and work papers from Case No. GR-98-374.

Q. What procedure did you use to arrive at your estimated average service life?

A. Actuarial techniques were used to develop survivor curves for most plant accounts. These curves express the relationship of the percentage of the property which survives in service at ages zero to maximum life. The curves developed from these data were then compared to published Iowa-type curves and an average service life was determined.

Q. Please explain the Iowa-type curves.

A. The Iowa curves, so named because they were first set out in the 1935 publication Statistical Analysis of Industrial Property Retirements, Bulletin 125 by the Iowa Engineering Experiment Station of Iowa State College, resulted from a study of some 176 groups of industrial and utility properties. The curves and corresponding tables were

empirically derived from actual experience, and their widespread acceptance for over 60 years has proven their validity. Experience has shown that the service lives of gas utility properties follow survivor curve relationships which, in general, closely overlay the shapes of the Iowa curves. These curves can be divided into families, the most common of which are the left-modal (L), the symmetrical (S), and the right-modal (R) curves. The primary use of Iowa curves is as a device for smoothing the survivor curves and extending stub curves to obtain an estimate of the probable average service life of the property.

Q. How did you arrive at the net salvage figures used in your depreciation rate computations?

A. I reviewed cost of removal and salvage histories of each account, or account group, for the 15-year period spanning 1982 through 1996. When the cost of removal exceeds gross salvage value, the net salvage becomes a negative percentage, thereby increasing the accrual requirement.

Q. Are the existing rates based on a similar analysis?

A. In developing the rates which were used in the last case, Mr. Adam appears to have employed a study methodology that was similar to mine up to a point. However, his testimony

and recommended rates include an unconventional methodology with respect to net salvage.

Q. Can you describe in what way the methodology for determining net salvage was unconventional?

A. Under Mr. Adam's approach, the net salvage component of the SL-AL-AM depreciation formula was computed differently from the conventional method I described above. Rather than simply computing net salvage as a percent of retirement value, Mr. Adam adjusted this figure by multiplying it times the ratio of the average service life to what he terms the " implied service life." As described in Mr. Adam's testimony in Case No. GR-98-374, this adjustment was supposedly designed to limit the Company's recovery for cost of removal to only a level representative of the current retirement rate of the account.

Q. Why do you object to this treatment of net salvage?

A. There is nothing in my experience, or in the experience of other depreciation professionals I have spoken with, that would lend support to Mr. Adam's methodology. I understand that the treatment violates generally accepted depreciation accounting principles by shifting expense recognition and rate recovery to uncertain future periods.

It cannot result in " straight line " rates (except by extraordinary coincidence) for long-lived property with significant positive or negative net salvage.

Q. Which accounts do you propose be revised in this proceeding to exclude the effects of this unconventional methodology?

A. Mains and services. I am also recommending new rates for Gas Holders, but for another reason I will discuss later in my testimony.

Q. How do you propose to modify rates on mains and services?

A. I have prepared Schedule 1 to illustrate my recommended rates.

Q. Please describe Schedule 1.

A. Schedule 1 compares respective depreciation rates for mains and services calculated in three different ways. First are listed the rates recommended by Mr. Adam using his adjusted net salvage methodology (the Current Rate). Next are shown rates which I arrived at using information I extracted from Mr. Adam's work papers in Case No. GR-98-374. The difference is attributable entirely to the net salvage adjustment. Lastly, I show Laclede's proposed depreciation rate which is calculated by adding one third of the rate deficiency to the existing rate.

Q. Why was only one third of the difference specified?

A. The Company believes it is reasonable in this case to implement a gradual phase-in of depreciation rates that are properly calibrated to the traditional SL-AL-AM system. Such a change could be completed incrementally over an agreed upon time period.

Q. Were other accounts similarly subjected to Staff's net salvage adjustment?

A. Yes, but mains and services incurred the greatest adverse impact from the change, and our focus at this time is on rectifying rates for these accounts.

Q. Are you agreeing with the methodology and resultant depreciation rates for accounts other than mains and services?

A. No, not at all. Laclede is not requesting a change for other accounts at this time, but we should adjust those rates at some future time.

Q. Please explain your proposed depreciation rate for the Gas Holders account.

A. The rate I am proposing for Account 362 is supported by my Schedule 2. The higher rate is required to provide for the anticipated cost of removal associated with decommissioning the holders. The historical background of

Laclede's holder stations is explained in more detail in the testimony of Company witness Craig R. Hoeferlin. The four remaining holder structures are remnants of the extensive manufactured gas system that Laclede operated to serve its St. Louis customers prior to widespread conversion to natural gas in the late 1940's. The environmental costs discussed in Mr. Hoeferlin's testimony stem from remediation of former manufactured gas plant (MGP) sites. Manufactured gas production was discontinued by the Company many years ago. The four gas holders and ancillary equipment in Account 362, by contrast, are items of plant that are still in service, now functioning as peaking facilities. The role of the holders unquestionably has diminished, and at some point, these structures will be retired from service and demolished. Laclede is particularly aware of the costs related to demolition of old gas holders under present day environmental regulations, and we believe it is prudent to develop an appropriate level of depreciation reserve for this purpose.

Q. How did Laclede determine the estimated cost of removal for gas holders?

A. Laclede has performed a number of estimates in recent

years. In Case No. GR-96-193, Staff recognized certain verifiable removal costs for the holders and ancillary structures, which costs Laclede was able to estimate using internal engineering resources. An issue left unresolved, however, concerned the quantity of and removal cost of certain sludge materials believed to exist within the holders. Because it is potentially the most costly aspect of the demolition, Staff desired a more precise estimate to dispose of this material in an environmentally responsible manner.

Q. Has Laclede now obtained such an estimate?

A. Yes. Laclede has been in contact with an environmental contractor recommended by Staff. This firm, Creamer Environmental, Inc., has extensive experience in dismantling gas holders and safely disposing of associated waste materials. We arranged for this firm to inspect the holder stations and requested an independent estimate of cost to remediate the sludge, including evaluation of measurements of sludge levels Laclede obtained in advance. Schedule 2 includes the results of Creamer's estimates.

Q. Please explain the information in Schedule 2.

A. Schedule 2 indicates those portions of estimated cost that were previously recognized by Staff and, consequently,

factored into the existing depreciation rate on Account 362. The additional costs for sludge remediation and perimeter air monitoring, estimated with the assistance of Creamer, are shown added into the total estimated cost, resulting in a revised remaining life depreciation.

Q. Why is your proposed depreciation rate calculated using remaining life?

A. Unlike a mass property account that is perpetuated by additions and replacements of retired plant, the holder assets that are in place will not be added to or replaced. Because the SL-AL-AM system of depreciation does not provide an adequate rate of recovery in consideration of the limited timeframe that holders will survive as a depreciable base, I propose to recover this significant estimated cost of removal using a remaining life system of calculated accrual. In Case No. GR-96-193, Staff agreed with the appropriateness of using remaining life to recover such extraordinary removal costs. Under the remaining life system, the reserve balance, as a percent of plant in service, is deducted from the estimated net salvage, as a percent of plant in service. The accrual rate is then adjusted, on a straight line basis, for the probable number of future years that a given item of plant

or plant account is expected to remain in service. Thus, a targeted accumulation for depreciation may be built, in an accelerated manner, if the reserve is deficient, or the accrual rate may be reduced if the reserve would otherwise exceed requirements. With this system, the accrual rate is calculated by the formula:

$$\text{Depreciation Rate} = \frac{100\% - \%\ \text{Net Salvage} - \%\ \text{Reserve}}{\text{Remaining Life (years)}}$$

and it is denoted as the straight line - average life - remaining life (SL-AL-RL) system.

Q. How was the remaining life of Gas Holders determined?

A. I have utilized a remaining life of ten years.

Q. On what basis do you consider this to be a reasonable assumption?

A. At present, the holders are perfectly serviceable and are expected to continue so, barring any major component failures. Over the years, our reliance on the holders for periodic peak shaving has been reduced, and this trend will continue. It is my opinion that the holders have a remaining life of 7 - 10 years based on existing information. The Company is seeking continued authority to use an assumed life of 10 years.

Q. Could it be longer than 10 years?

A. All current operations point to an assumed life of 10 years or less. It is possible that one or more of the holders would still be in service after 10 years. But in my judgement, it is more likely that the first holder retirements will start prior to the end of the 10 year period.

Q. Please explain.

A. The Company continually reviews the design of its distribution system. Former design methodologies dictated that the distribution system was operated in such a way as to minimize distribution system pressures. As older mains are replaced with newer materials, the Company has shifted its focus toward installing smaller mains where possible and operating the system at higher pressures. This change in design philosophy has been implemented to reduce system replacement and reinforcement costs. The result is a more efficient distribution system. The increased distribution system pressures, however, tend to decrease the effectiveness of the holders since the existing outlet compressors were designed for lower distribution system pressures. This trend will eventually eliminate Laclede's ability to effectively use the holders at times of peak demand.

Q. Are there other factors involved in judging remaining life?

A. Yes. For example, any major component failure in a holder or appurtenant equipment could result in the loss of its use until repaired. In most situations it would not be economically feasible to repair the component and the holder and appurtenances would be retired at that point. Although it is impossible to determine when such failures might occur, this possibility needs to be considered in determining probable remaining life.

Q. Does this conclude your testimony with regard to Depreciation Rates?

A. Yes, it does.

Trended Cost - Unrecovered Value

Q. Turning now to the subject of Trended Cost; did you conduct such a study in preparation for this case?

A. Yes. Under my supervision, a study was prepared directed toward the determination of Trended Cost - Unrecovered Value of utility plant. The objective of this study was to determine the value, at current cost levels, of the Company's outstanding investment in utility plant. The use of this study to determine a fair value rate base for

the Company is covered in the testimony of Company witness Glenn W. Buck.

Q. Would you please describe how you went about conducting this study?

A. The Trended Cost - Unrecovered Value Study is an investment-oriented study directed toward the determination of the present value of the Company's investment in utility plant. In this study, I have deducted from the Trended Cost of utility plant an amount based on the value of the actual accrued reserve for depreciation. Thus, this determination reduced the current property value without deduction for depreciation, by the current value of the amount liquidated by Laclede's customers through depreciation accruals, regardless of whether such depreciation is more or less than the physical depreciation founded on consumed usefulness. This will be further clarified in my subsequent testimony which describes the specific methodology which was employed.

Q. Have you prepared an exhibit showing the results of this study?

A. Yes. Company's Section E, Schedule 1, shows the results of the study of the Trended Cost - Unrecovered Value of the Company's utility plant.

Q. Would you please explain the term Trended Cost as it is used in your study?

A. Trended Cost represents a determination of the present value of original investment in property. It is a restatement of recorded original cost in terms of today's dollars (present cost). This is accomplished through the use of widely-accepted index numbers which follow the trends of cost changes from year-to-year among various classes of property. A unique trending factor is calculated for each vintage year, by plant account number, using ratios between the index number applicable to the present time (valuation date) and those applicable to prior years. By applying these factors to the original cost of plant constructed in prior years, the value of such plant can be trended so as to express original investment in terms of present cost values; i.e., Trended Cost.

Q. How were the appropriate index numbers determined?

A. In general, I have used the index numbers known as the "Handy-Whitman Index of Public Utility Construction Costs"

in these determinations. For trending the value of the Company's buildings, I have used what is known as "Boeckh's Building Cost Index Numbers".

Q. Would you please explain how these index numbers are used to arrive at Trended Cost?

A. The first step is to record the original cost of plant in service as of the date of valuation by year of installation and property class. In this instance, the valuation date is September 30, 1996. The next step is to develop the trending factors previously mentioned that will translate the original cost of each historic year's installations to present cost levels. The exact procedure followed to determine these factors will vary slightly for several reasons, as I will illustrate. For property installed prior to 1974, one Handy-Whitman Index number is currently published for each year; whereas from 1974 through the present, two index numbers are available representing the cost levels existing at January 1 and July 1 of each year. Laclede property installed from 1974 through the present carries vintage data based on the fiscal year of October through September, the midpoint of which is April 1. Accordingly, for these vintages, it is appropriate to use an average of the January and July

indices as the vintage year index. After determining the appropriate vintage year index as I have set out above, the trending factor is arrived at by dividing the index number of the valuation date by the index number of the vintage year. Finally, the original cost of the various property units is multiplied by the corresponding trending factor to arrive at Trended Cost, or a restatement of property costs in terms of present cost levels.

Q. Please explain the Company's Section E, Schedule 1.

A. This exhibit is captioned TRENDED COST - UNRECOVERED VALUE OF UTILITY PLANT IN SERVICE, March 31, 1999. Columns 1 and 2 show respectively the Recorded Original Cost, and the Trended Original Cost - New, of plant in service for each of the Company's basic property accounts. In column 3, a trended Deduction for Depreciation, applicable to each account is shown. Column 4 shows the Present Unrecovered Value of the plant which was determined by subtracting the depreciation amounts in column 3 from the Trended Original Cost shown in column 2. At this point, I would like to emphasize that the Recorded Original Cost shown for each account represents the plant in service at September 30, 1996. The values shown in columns 2, 3, and 4 are based on cost levels existing during the summer of

1996, except for certain types of property that were not trended. At the bottom of this exhibit, the estimated net additions to total plant from October 1, 1996 through March 31, 1999, are shown which, when added to the plant in service at September 30, 1996 results in the plant in service at March 31, 1999. Therefore, while these determinations do reflect plant additions after September 30, 1996, they do not take into account the continuing modest inflationary trend that has existed since that time.

Q. You mentioned that certain types of property were not trended. Will you explain this?

A. Yes. In column 2 of Section E, Schedule 1, I have included certain classes of plant at recorded original cost. Specifically, I did not trend costs of franchises, land and land rights, non-recoverable gas in storage and subsidiary investment. However, the use of recorded original cost as the trended cost for these items will only tend to produce a conservative unrecovered value.

Q. Would you explain how you arrived at the Deduction for Depreciation you have shown in column 3 of Section E, Schedule 1?

A. I will do so by first restating the objective of this study which is to determine the portion of the trended cost of the Company's utility plant having not yet been liquidated by Laclede's customers. With regard to depreciation accruals, it is our position that the liquidated investment, whether such is more or less than the depreciation founded on consumed usefulness, is the portion of the gross investment that requires no return allowance. Because it is not feasible to trace the original date of the dollars represented by all past accounting practice depreciation reserve entries, I used the Iowa Curve Tables to make this determination.

Q. Please explain how the Iowa Curve Tables are employed to make this type of depreciation determination.

A. The basis and rationale of using Iowa-type curves to determine proper depreciation rates was covered earlier in my testimony. The corresponding Iowa Curve Tables are utilized to determine a theoretical distribution, by vintage, of Laclede's original cost reserve for depreciation allocated to each property class. In other words, the recorded original cost reserve can be effectively dated and classified in a manner which permits such amounts to be trended to present cost levels. To

obtain results which are compatible with the depreciation accounting procedure of applying an average straight-line accrual rate to the surviving plant, it is necessary to utilize a method which is referred to as the "prospective method" of determining depreciation reserve distribution.

Q. Please describe this method.

A. This methodology is set out in the publication titled Public Utility Depreciation Practices, compiled and edited by the Depreciation Subcommittee of the National Association of Regulatory Utility Commissioners (NARUC). Under the prospective method, the estimated future accruals to retirement are first determined based on current depreciation rates and present surviving plant. This is accomplished by using actuarial data from the Iowa Curve Tables to establish remaining life expectancy and then multiplying this life expectancy by the depreciation accrual rate. Subtraction of such expected future accruals from the gross depreciation base produces a theoretical present reserve. Application of this procedure to all depreciable property in service will provide a total theoretical reserve and its distribution to trendable plant subdivisions and vintages. Finally, based on this calculated reserve distribution, the

recorded depreciation reserve balance allocated to each property account is trended to present cost levels to obtain the results shown in column 3.

Q. What are the results of the study you have summarized in Section E, Schedule 1?

A. I have found the Unrecovered Present Value of Utility Plant in Service as of March 31, 1999, to be $1,104,900,000.

Q. Were any further adjustments applied in determining the Unrecovered Present Value?

A. Yes. Because this is an investment-oriented determination, I have deducted customer advances for construction. The Company, at times, collects deposits from customers under the extension provisions of its tariff which, if retained by the Company, are credited to the plant accounts. The amounts I have deducted as customer advances for construction represent the deposits on hand which are still subject to refund and have not been so credited to the plant accounts. These deposits were trended and depreciated according to the class of property for which each deposit was made. The deduction of these advances is proper in that such amounts represent

recovered value which, as in the case of depreciation accruals, require no return allowance.

Q. Does this conclude your testimony?

A. Yes, it does.

LACLEDE GAS COMPANY
Case No. GR-99-315

MODIFIED DEPRECIATION RATES

| ACCOUNT DESCRIPTION | ASL | Salv. | Depr. Rate |
|---|---|---|---|
| **Steel Mains** | | | |
| Current Rate (adjusted net salvage) | 83 | -6 | 1.28% |
| *Unadjusted Staff Rate, GR-98-374 | 83 | -43 | 1.72% |
| Recommended Rate $1.28 + \frac{1.72-1.28}{3}$ | | | 1.43% |
| **Plastic Mains** | | | |
| Current Rate (adjusted net salvage) | 53 | -1 | 1.91% |
| *Unadjusted Staff Rate, GR-98-374 | 53 | -35 | 2.55% |
| Recommended Rate $1.91 + \frac{2.55-1.91}{3}$ | | | 2.12% |
| **Steel Services** | | | |
| Current Rate (adjusted net salvage) | 45 | -60 | 3.55% |
| *Unadjusted Staff Rate, GR-98-374 | 45 | -110 | 4.67% |
| Recommended Rate $3.55 + \frac{4.67-3.55}{3}$ | | | 3.92% |
| **Plastic and Copper Services** | | | |
| Current Rate (adjusted net salvage) | 44 | -15 | 2.61% |
| *Unadjusted Staff Rate, GR-98-374 | 44 | -93 | 4.39% |
| Recommended Rate $2.61 + \frac{4.39-2.61}{3}$ | | | 3.20% |

*Per Staff work papers submitted during Case No. GR-98-374.

**LACLEDE GAS COMPANY**
**Case No. GR-99-315**

## PROPOSED DEPRECIATION RATE FOR GAS HOLDERS

| COST ITEM | ACCOUNT 362.00 |
|---|---|
| Holder Water Treatment | $134,800 |
| Holder Exterior-Lead Paint | 430,800 |
| Holder Exterior-Asphaltic Coating | 335,200 |
| Holder Interior-Tar Residue | 211,100 |
| Holder Interior-Timber Supports | 384,000 |
| Air Monitoring (1) | 535,500 |
| Holder Sludge Disposal (1) | 2,236,200 |
| Holder Demolition (2) | 0 |
| Sub Total: | $4,267,600 |
| 12% Contingency: | 512,100 |
| Total Decommissioning Cost: | **$4,779,700** |

## REMAINING LIFE DEPRECIATION RATE CALCULATION:

Account 362.00 Gas Holders

$$\text{Rate} = \frac{1 + \frac{4,779,700}{1,839,135} - \frac{1,904,351}{1,839,135}}{10} = \mathbf{25.63\%}$$

Notes:
1. Cost not previously recognized.
2. Demolition cost is estimated to be offset by salvage value of steel super structure.