

Exhibit No.:
Issue: Depreciation
Witness: James Fallert
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Liberty Utilities (Midstates
Natural Gas) Corp.
d/b/a Liberty Utilities
Case No.: GR-2014-0152
Date Testimony Prepared: August 15, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: GR-2014-0152

SURREBUTTAL TESTIMONY

OF

JAMES FALLERT

ON BEHALF OF

**LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
D/B/A LIBERTY UTILITIES**

August 15, 2014

**SURREBUTTAL TESTIMONY
OF
JAMES FALLERT**

CASE NO. GR-2014-0152

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **JAMES FALLERT**

4 **CASE NO. GR-2014-0152**

5
6 **I. POSITION AND QUALIFICATIONS**

7
8 **Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND BUSINESS**
9 **ADDRESS.**

10 A. My name is James Fallert. I am doing business as James Fallert Consultant LLC and my
11 business address is 3507 Burgundy Way Dr., St. Louis, MO 63129.

12 **Q. ON WHOSE BEHALF IS YOUR TESTIMONY PRESENTED?**

13 A. Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities (“Company” or
14 “Liberty Utilities”).

15 **Q. ARE YOU THE SAME JAMES FALLERT WHO SUBMITTED DIRECT**
16 **TESTIMONY ON BEHALF OF LIBERTY UTILITIES IN THIS CASE ON**
17 **FEBRUARY 6, 2014 AND REBUTTAL TESTIMONY ON JULY 30, 2014?**

18 A. Yes.

19
20 **II. PURPOSE OF TESTIMONY**

21
22 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
23 **CASE?**

1 A. The purpose of my testimony is to address the rebuttal testimony of Staff witness John
2 Robinett regarding depreciation rates on corporate hardware and software.

3 **Q. ARE YOU SPONSORING ANY SCHEDULES IN CONNECTION WITH YOUR**
4 **TESTIMONY?**

5 A. Yes. I am sponsoring **Schedules JF-S3, JF-S4, and JF-S5** attached to this testimony.
6

7 **III. DEPRECIATION RATES**
8

9 **Q. WHAT DEPRECIATION RATES IS THE COMPANY CURRENTLY USING?**

10 A. The Company is using rates established in Case No. GR-2006-0387, which was a rate
11 case for its predecessor, Atmos Energy Corporation (“Atmos”). These rates are being
12 used pursuant to the Stipulation & Agreement in Case No. GM-2012-0037 (the case in
13 which the Company’s purchase of Atmos’ Missouri assets was approved). The schedule
14 of depreciation rates designated as Appendix 1 to that Stipulation & Agreement is
15 attached as **Schedule JF-S3**.

16 **Q. DOES THE DEPRECIATION RATE SCHEDULE APPROVED IN CASE NO.**
17 **GR-2006-0387 AND CONTINUED IN CASE NO. GM-2012-0037 INCLUDE**
18 **RATES FOR CORPORATE HARDWARE AND SOFTWARE?**

19 A. No. The schedule includes rates for seven districts but includes no rates for corporate
20 hardware and software. This is hardware and software that is used at the Company’s
21 corporate office in Jackson, Missouri and allocated to its divisions in Iowa, Illinois and
22 Missouri jurisdictions.

1 **Q. WHAT THEN IS THE SOURCE FOR RATES CURRENTLY IN USE FOR**
2 **THOSE ITEMS?**

3 A. The Company was unable to identify an ordered rate for corporate hardware and
4 software. Therefore, the 14.29% rate that has been used was adopted consistent with
5 rates used by Atmos in order to be compliant with the continuation of existing rates as
6 stipulated in Case No. GM-2012-0037. The Company discovered in the course of this
7 current rate case that while Atmos used the 14.29% rate for its system and network
8 hardware and software, the rate for personal computer hardware and software was
9 actually 18.98%.

10 **Q. WHAT EVIDENCE HAVE YOU FOUND TO SUPPORT THESE RATES?**

11 A. The rates of 14.29% for General Office server and network hardware and software and
12 18.98% for PC hardware and software comport with the Staff's accounting schedule 8
13 from Case No. GR-2010-0192 (the most recent 2010 Atmos rate case). A copy of this
14 schedule is attached as **Schedule JF-S4**. Staff's direct report in that case stated that
15 "Staff annualized depreciation expense by applying currently authorized rates times the
16 February 28, 2010 plant in service balances."

17 **Q. WHAT HAS STAFF RECOMMENDED IN REGARD TO DEPRECIATION**
18 **RATES IN THIS CASE?**

19 A. Staff has recommended two primary changes. First, Mr. Robinett consolidated the
20 seven districts in the existing schedule into three districts consistent with the Company's
21 current configuration. Second, he attempted to remedy the lack of evidence of ordered

1 rates for corporate accounts by adding a supplement to the existing schedule of district
2 rates. For convenience of reference, I have attached Mr. Robinett's proposed new
3 depreciation schedule from his rebuttal testimony (**Schedule JF-S5**), which adds rates
4 for corporate accounts not included on the previous ordered schedule.

5 **Q. DO YOU AGREE WITH STAFF'S RECOMMENDED CHANGES?**

6 A. We agree with the consolidation of rates for the districts, and the inclusion of corporate
7 rates. However, we disagree with the 4.75% rate that Mr. Robinett has included for
8 corporate hardware and software.

9 **Q. PLEASE EXPLAIN.**

10 A. The best available evidence indicates that ordered rates for corporate hardware and
11 software are 18.98% for PCs and 14.29% for accounting and customer service software.
12 The proposed 4.75% rate is inconsistent with these rates.

13 **Q. DO YOU HAVE ANY OTHER REASONS YOU DISAGREE WITH STAFF'S**
14 **PROPOSED RATE?**

15 A. In my opinion, the 21-year life implied by a 4.75% rate is unrealistically long for
16 computer equipment and systems. This would imply that systems and equipment
17 purchased today would, on average, still be in service in the year 2035.

18 **Q. IS THE PROPOSED 4.75% RATE CONSISTENT WITH RECENT STAFF**
19 **RECOMMENDATIONS FOR SIMILAR ITEMS?**

20 A. It appears not. We reviewed the recommendation of Mr. Robinette in a recent case,
21 Summit Natural Gas GR-2014-0086. The Staff Cost of Service report in that case was

1 dated May 30, 2014 and included recommended depreciation rates for computer
2 equipment ranging from 12.90% to 14.29%.

3 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

4 A. Yes. The spirit and letter of the agreement reached upon acquisition of Atmos' Missouri
5 properties by Liberty Utilities called for adoption of the then-current depreciation rates by
6 Liberty. We believe that it is appropriate to continue such rates until such time as they
7 can be reexamined in the context of a depreciation study. Staff's proposal seeks to make
8 a significant change to one of these rates without the benefit of such a study and should
9 be rejected on that basis. Furthermore, the rate proposed by Staff appears to be an
10 unreasonably low rate based on observed recommendations for similar property in other
11 cases. The Company plans to do a full depreciation study for its next rate case, at which
12 time the lives for corporate hardware and software will be reexamined.

13
14 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY IN THIS**
15 **PROCEEDING?**

16 A. Yes.

17

18

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

In the Matter of Liberty Utilities)
(Midstates Natural Gas) Corp. d/b/a)
Liberty Utilities' Tariff Revisions Designed)
To Implement a General Rate Increase)
For Natural Gas Service in the Missouri)
Service Areas of the Company.)

Case No. GR-2014-0152

AFFIDAVIT OF JAMES FALLERT

STATE OF MISSOURI)
) ss
COUNTY OF ST. LOUIS)

James Fallert, being first duly sworn on his oath, states:

1. My name is James Fallert. I am doing business as James Fallert Consultant LLC and my business address is 3507 Burgundy Way Dr., St. Louis, Missouri 63129.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities consisting of five (5) pages and Schedules JF-S3, JF-S4 and JF-S5, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



James Fallert

Subscribed and sworn before me this 15th day of August, 2014.



Notary Public

My commission expires: 06/15/2015



BRENDA K. LUEBBERS
My Commission Expires
June 15, 2015
St. Louis County
Commission #11421805

SCHEDULE JF-S3

Atmos Energy Corporation and Liberty Energy Corp.
File No. GM-2012-0037

Liberty Energy (Mid-States) Corp.
Schedule of Ordered Depreciation Rates from Atmos GR-2006-0387

Account Number	Plant Description	Butler	Kirksville	SEMO	UCG	Pal	Neelyville	Rich Hill
301	Organization							
302	Franchises and consents			0.00%	4.71%	4.71%	4.71%	0.00%
303	Miscellaneous intangible plant				20.00%	20.00%	20.00%	
311	Liquefied petroleum gas equipment				4.98%	4.98%	4.98%	
365.1	Land and land rights							
365.2	Rights-of-way	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
366	Structures and improvements	3.24%	3.24%	3.24%	0.00%	0.00%	0.00%	
367.01	Mains	1.53%	1.53%	1.53%	1.33%	1.33%	1.33%	2.72%
367.02	Mains	1.53%	1.53%	1.53%	1.33%	1.33%	1.33%	2.72%
369	Measuring & regulating station equipment	3.60%	3.60%	3.60%	1.89%	1.89%	1.89%	0.00%
370	Communication equipment	0.00%	0.00%	4.36%	4.36%	4.36%	4.36%	0.00%
374.01	Land and land rights	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
374.02	Land and land rights	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
375	Structures and improvements	2.33%	2.33%	2.50%	4.37%	4.37%	4.37%	0.00%
376.01	Mains	1.53%	1.53%	1.53%	3.43%	3.43%	3.43%	2.67%
376.02	Mains	1.53%	1.53%	1.53%	3.43%	3.43%	3.43%	2.67%
377	Compressor station equipment	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
378	Measuring & regulating station equipment- General	3.00%	3.00%	3.01%	1.89%	1.89%	1.89%	2.38%
379	Measuring & regulating station equipment- City gate	3.21%	3.21%	3.15%	1.89%	1.89%	1.89%	0.00%
380	Services	5.00%	5.00%	5.00%	5.13%	5.13%	5.13%	3.14%
381	Meters	2.16%	2.16%	2.16%	2.52%	2.52%	2.52%	2.71%
382	Meter installations	3.00%	3.00%	2.96%	3.91%	3.91%	3.91%	2.71%
383	House regulators	4.55%	4.55%	4.19%	3.24%	3.24%	3.24%	2.38%
384	House regulatory installations	3.33%	3.33%	3.33%	0.00%	0.00%	0.00%	0.00%
385	Industrial measuring & regulating station equipment	3.60%	3.60%	3.60%	1.89%	1.89%	1.89%	0.00%
387	Other equipment	0.00%	0.00%	0.00%	5.52%	5.52%	5.52%	0.00%
389	Land and land rights	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
390	Structures and Improvements	5.00%	5.00%	5.00%	1.00%	1.00%	1.00%	5.00%
391	Office furniture and equipment	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	4.75%
391.2	Office furniture and equipment				10.00%	10.00%	10.00%	
392	Transportation equipment	10.39%	10.39%	10.39%	10.00%	10.00%	10.00%	10.39%
393	Stores equipment	4.50%	4.50%	4.01%	5.00%	5.00%	5.00%	4.50%
394	Tools, shop, and garage equipment	4.50%	4.50%	4.33%	3.29%	3.29%	3.29%	4.50%
395	Laboratory equipment	4.00%	4.00%	3.69%	3.85%	3.85%	3.85%	4.00%
396	Power operated equipment	7.92%	7.92%	7.71%	13.81%	13.81%	13.81%	0.00%
397	Communication equipment	4.54%	4.55%	4.36%	12.00%	12.00%	12.00%	4.54%
398	Miscellaneous equipment	3.60%	3.60%	3.60%	10.00%	10.00%	10.00%	3.60%
399	Other tangible property	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	4.75%

SCHEDULE JF-S4

Atmos Energy Corporation
Missouri Jurisdiction
General Office Division 91 Depreciation Adjustment
Twelve Months Ended June 30, 2009

Line No.	Description (a)	Div091 Balance As of 02/28/10 (b)	Fully & Non-Deprec Plant (c)		Depreciable Plant (d)	Last MO. Approved Depr. Rate (e)	Proforma Depreciation Capitalized (f)	Expensed (g)	NEMO Divisions (i)		SEMO Divisions (k)	
			Plant	& misc adj					70	97	Rate Div Alloc. 0.2573%	4.48%
1	30100 Organization	185,309	185,309	\$0	\$0		\$0		-	-	-	-
2	30500 Other Misc. Intangibles	1,109,552	1,109,552	0	0		0		-	-	-	-
3	39001 Gen Plant - Structures	179,339		179,339	2.52%	4,519	4,519		12	202		285
4	39004 Gen Plant - Air Conditioning	5,771	5,771	0	2.52%	0	0		-	-	-	-
5	39009 Gen Plant - Improvements	38,834	38,834	0	2.52%	0	0		-	-	-	-
6	39100 Gen Plant - Office Furn & Equip	71,339		71,339	5.69%	4,059	4,059		10	182		256
7	39103 Gen Plant - Copiers & Typewriters	-		0	5.69%	0	0		-	-	-	-
8	39200 Gen Plant - Transportation Equip	-		0	16.00%	0	0		-	-	-	-
9	39300 Gen Plant - Stores Equip	4,161		4,161	7.15%	298	149		0	149		9
10	39400 Gen Plant - Tools, Shop & Garage Equip	142,978		142,978	4.02%	5,748	2,874		7	129		181
11	39500 Gen Plant - Power Operated Equipment	8,497		8,497	11.11%	944	944		2	42		60
12	39700 Gen Plant - Communication Equipment	320,786		320,786	7.49%	24,027	24,027		62	1,077		1,517
13	39800 Gen Plant - Miscellaneous Equipment	858,921		858,921	4.40%	37,793	37,793		97	1,694		2,386
14	39900 Gen Plant - Owned Computer	76,993	76,993	0	18.98%	0	0		-	-	-	-
15	39901 Other Tangible Prop - Servers H/W	344,448		344,448	14.29%	49,222	49,222		127	2,206		3,107
16	39902 Other Tangible Prop - Servers S/W	8,273	8,273	0	14.29%	0	0		-	-	-	-
17	39903 Other Tangible Prop - Network H/W	251,698	251,698	0	14.29%	0	0		-	-	-	-
18	39906 Other Tangible Prop - PC Hardware	1,197,529		1,197,529	18.98%	227,291	227,291		585	10,185		14,347
19	39907 Other Tangible Prop - PC Software	128,631	128,631	0	18.98%	0	0		-	-	-	-
20	39908 Other Tangible Prop - Application Softwar	739,111	739,111	0	18.98%	0	0		-	-	-	-
21	Total	5,672,169	\$2,544,173	\$3,127,996		353,901	3,023	350,878	903	15,723		22,148

SCHEDULE JF-S5

Liberty Energy (Mid-States) Corp.

Depreciation Rates
GR-2014-0152

Account Number	Plant Description	WEMO	NEMO	SEMO
365	Land - Transmission	0.00%	0.00%	0.00%
365.1	Land and land rights	0.00%	0.00%	0.00%
365.2	Rights-of-way	0.00%	0.00%	0.00%
366	Structures and improvements	3.24%	3.24%	3.24%
366.1	Structures and improvements (T&D other structures)	3.24%	3.24%	3.24%
367	Mains	1.53%	1.53%	1.53%
367.1	Mains	1.53%	1.53%	1.53%
367.2	Mains	1.53%	1.53%	1.53%
369	Measuring & regulating station equipment	3.60%	3.60%	3.60%
370	Communication equipment	4.36%	4.36%	4.36%
374	Land and land rights	0.00%	0.00%	0.00%
375	Structures and improvements	2.33%	2.33%	2.33%
376	Mains	1.53%	1.53%	1.53%
376.1	Mains	1.53%	1.53%	1.53%
376.2	Mains	1.53%	1.53%	1.53%
377	Compressor station equipment	0.00%	0.00%	0.00%
378	Measuring & regulating station equipment- General	3.00%	3.00%	3.00%
379	Measuring & regulating station equipment- City gate	3.21%	3.21%	3.21%
380	Services	5.00%	5.00%	5.00%
381	Meters	2.16%	2.16%	2.16%
382	Meter installations	3.00%	3.00%	3.00%
383	House regulators	4.55%	4.55%	4.55%
384	House regulators installations	3.33%	3.33%	3.33%
385	Industrial measuring & regulating station equipment	3.60%	3.60%	3.60%
387	Other equipment	4.50%	4.50%	4.50%
389	Land and land rights	0.00%	0.00%	0.00%
390	Structures and improvements	5.00%	5.00%	5.00%
390.1	Structures and improvements - Structure Frame	5.00%	5.00%	5.00%
390.3	Structures and improvements - Improvements Leased Premises	5.00%	5.00%	5.00%
391	Office furniture and equipment	4.75%	4.75%	4.75%
392	Transportation equipment	10.39%	10.39%	10.39%
393	Stores equipment	4.50%	4.50%	4.50%
394	Tools, shop, and garage equipment	4.50%	4.50%	4.50%
395	Laboratory equipment	4.00%	4.00%	4.00%
396	Power operated equipment	7.92%	7.92%	7.92%
396.1	Power operated equipment - Ditchers	7.92%	7.92%	7.92%
396.2	Power operated equipment - Backhoes	7.92%	7.92%	7.92%
397	Communication equipment	4.55%	4.55%	4.55%
397.2	Communication equipment - Fixed Radios	4.55%	4.55%	4.55%
397.3	Communication equipment - Telemetry	4.55%	4.55%	4.55%
398	Miscellaneous equipment	3.60%	3.60%	3.60%
399	Other tangible property	4.75%	4.75%	4.75%

Corporate Allocated Plant Depreciation Rates		WEMO	NEMO	SEMO
374	Land and land rights - Corporate	0.00%	0.00%	0.00%
390	Structures and improvements - Corporate	5.00%	5.00%	5.00%
391	Office furniture and equipment - Corporate	4.75%	4.75%	4.75%
392.1	Transportation equipment <12,000 lbs - Corporate	10.39%	10.39%	10.39%
394	Tools, shop, and garage equipment - Corporate	4.50%	4.50%	4.50%
398	Miscellaneous equipment - Corporate	3.60%	3.60%	3.60%
399	Other tangible property - Corporate	4.75%	4.75%	4.75%
399.3	Other tangible property - Network - H/W - Corporate	4.75%	4.75%	4.75%
399.4	Other tangible property - PC Hardware - Corporate	4.75%	4.75%	4.75%
399.5	Other tangible property - PC Software - Corporate	4.75%	4.75%	4.75%