

**Exhibit No.:**  
**Issue(s):**  
**Witness/Type of Exhibit:**  
**Sponsoring Party:**  
**Case No.:**

\_\_\_\_\_  
Depreciation  
Robinett/Surrebuttal  
Public Counsel  
GR-2018-0013

**SURREBUTTAL TESTIMONY**

**OF**

**JOHN A. ROBINETT**

Submitted on Behalf of the Office of the Public Counsel

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

FILE NO. GR-2018-0013

May 9, 2018

**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 ) File No. GR-2018-0013  
to Implement a General Rate Increase for )  
Natural Gas Service in the Missouri Service )  
Areas of the Company )

**AFFIDAVIT OF JOHN A. ROBINETT**

STATE OF MISSOURI )  
 ) ss  
COUNTY OF COLE )

John A. Robinett, of lawful age and being first duly sworn, deposes and states:


1. My name is John A. Robinett. I am a Utility Engineering Specialist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
John A. Robinett  
Utility Engineering Specialist

Subscribed and sworn to me this 9<sup>th</sup> day of May 2018.



JERENE A. BUCKMAN  
My Commission Expires  
August 23, 2021  
Cole County  
Commission #13754037

  
\_\_\_\_\_  
Jerene A. Buckman  
Notary Public

My Commission expires August 23, 2021.

**SURREBUTTAL TESTIMONY  
OF  
JOHN A. ROBINETT  
LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP. D/B/A LIBERTY  
UTILITIES**

**CASE NO. GR-2018-0013**

1 **Q. What is your name, and what is your business address?**

2 A. John A. Robinett, PO Box 2230, Jefferson City, Missouri 65102.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Utility Engineering  
5 Specialist.

6 **Q. Are you the same John A. Robinett that filed rebuttal testimony on behalf of the OPC  
7 in this proceeding?**

8 A. Yes.

9 **Q. What is the purpose of your surrebuttal testimony?**

10 A. I will discuss the depreciation recommendation of Liberty Utilities (Midstates Natural Gas)  
11 Corp. d/b/a Liberty Utilities’ depreciation consultant Mr. Dane A. Watson of Alliance  
12 Consulting Group.

13 **Q. Do you agree with the statement of Mr. Watson at page 3 of his rebuttal testimony that  
14 depreciation rates need to be set to reflect current and future operations of Liberty  
15 Utilities?**

16 A. No. Depreciation rates that reflect future operations and future plant investments are not  
17 consistent with know and measurable standard used by the Missouri Commission.

18 **Q. What changes to the depreciation study originally filed has Mr. Watson made to his  
19 rebuttal revised position?**

20 A. Mr. Watson reanalyzed the historical depreciation data for Missouri only for rebuttal  
21 testimony, for direct testimony Mr. Watson had analyzed a merged historical data set of  
22 Missouri, Illinois, and Iowa. Additionally Mr. Watson had recommended remaining life  
23 depreciation rates in direct testimony and has now moved to whole life depreciation rates.

1           Additionally Mr. Watson rebuttal position changed the direct position by bringing historical  
2           life data and net salvage data from December 31, 2015 in the direct filing to now be consistent  
3           with same date Staff used for its direct case for depreciation rate, December 31, 2017.

4           **Q.    Does Mr. Watson discuss on page 5 of his rebuttal an issue with using Missouri only data**  
5           **for the depreciation study?**

6           A.    Yes. Specifically at lines 4-7 of page five Mr. Watson states the following:

7                                Due to the lower number of transactions within a single state,  
8                                in some cases the information was not as statistically significant so  
9                                the depreciation parameter estimation of necessity relied more  
10                              heavily on expert judgment and Company specific information.

11           Missouri only data is more relevant to operations in the state of Missouri. However, the  
12           Company did not initially use Missouri only data. Only in rebuttal did the Company create  
13           a recommendation utilizing Missouri only data.

14           **Q.    Does Mr. Watson further discuss issue with using Missouri only data on page 8 of his**  
15           **rebuttal testimony?**

16           A.    Yes. Mr. Watson states:

17                              I used actuarial analysis of Liberty Missouri's aged plant  
18                              records. In some accounts, there was limited aged data and in some  
19                              cases no historical retirement data. After performing the actuarial  
20                              analysis on the limited-aged database, it was apparent there was not  
21                              enough activity and historical data in some of the accounts for the  
22                              sole reliance on the actuarial method.

23           Discussed later is the history of the aged data issues for Liberty Utilities and its predecessor  
24           Atmos. Based on Staff's direct testimony and Mr. Watson's rebuttal statements, some plant  
25           accounts have not experienced enough retirements to be able to perform statistically valid  
26           analysis on. Based on those statements, the data as a whole does not support changing the  
27           current ordered depreciation rates. Therefore, OPC recommends keeping the current  
28           ordered depreciation rates.

1 **Q. Does Mr. Watson describe what might cause a problem creating a statistically valid**  
2 **depreciation study?**

3 A. Yes. At page 9 of his rebuttal testimony, Mr. Watson describes:

4 Even if you had always been tracking both installation and  
5 retirement years for your assets, other factors can be present that  
6 would not produce enough information for an actuarial analysis.  
7 Examples of this are: no retirements had been recorded; only a few  
8 retirements had been recorded; or retirements had occurred only in  
9 the last year or two; changes to the type of assets recorded in an  
10 account. Any of these situations do not provide enough data or  
11 historical retirement experience to produce meaningful information  
12 in an actuarial life analysis and the depreciation analyst must use  
13 other information and judgment to assist in making life  
14 recommendations.

15  
16 **Q. Mr. Watson discusses on page 5 of his rebuttal Staff's use of other Missouri gas utilities**  
17 **to support Staff's informed judgement. Are the other Missouri regulated natural gas**  
18 **local distribution companies reasonable proxies to use?**

19 A. In part. Missouri Gas Energy (Spire MO West) is very similarly situated because they also  
20 had significant data loss as a result of a sale case. Laclede (Spire MO East) has the historical  
21 experience needed to be an excellent proxy; however, it differs from Liberty Utilities in  
22 that it is centrally located in and around St. Louis. Liberty Utilities is widely spread across  
23 Missouri with a western district and Northeastern district and a southeastern district.  
24 Summit Natural Gas has similar issues that it has not experienced enough retirements to  
25 yield statistically valid life rates. OPC has omitted Empire Gas and Ameren Gas from  
26 discussion since, I have not worked on cases involving those gas utilities. Of the companies  
27 discussed, Laclede (Spire MO East) is the best proxy to use based on the historical data  
28 available.

29 **Q. What may cause the gap or difference between actual book reserves and theoretical?**

30 A. Mr. Watson discusses on page 22 of his rebuttal testimony

31 The industry accepted approach is to use a prospective  
32 model to determine what the depreciation reserve would be if the

1 proposed life and net salvage parameters were applied to the existing  
2 asset base.

3 In other words, any time a change in depreciation rates is recommended that the theoretical  
4 reserve may be indicating over or under accrual when compared to actual book reserves.  
5 The issue with calculating theoretical reserves places the proposed depreciation rate on the  
6 vintage assets to show where the actual reserve should theoretically be if the recommended  
7 depreciation rates had been in affect the whole time. Showing theoretical reserves versus  
8 actual book reserves is a means to highlight the claim that the utility hasn't collected all of  
9 the depreciation expense it was owed due to the recommended change in depreciation.  
10 Highlighting this theoretical deficiency is a ploy used to increase cash flow by either  
11 adjusting a depreciation rate percentage higher or by seeking an amortization to catch the  
12 utility back to where it theoretically should be had the recommended rates been in affect  
13 the entire life of all the current assets. Originally, Liberty Utilities recommended the former  
14 with a higher depreciation rate percentages based on remaining life. In rebuttal, Liberty  
15 Utilities has changed their recommendation to use a method consistent with Staff's direct  
16 recommendation *plus* adding an amortization to catch the utility back to where it  
17 theoretically should had recommended rates been in effect during the life of the assets. This  
18 recommendation is not supported because of the history explained later. As will be  
19 discussed later, Liberty Utilities predecessor Atmos had for a time period a negative  
20 amortization to return reserves that had been over collected. If the Company's request was  
21 to decrease depreciation expense in this current case, it is possible that the theoretical  
22 reserve calculation may have shown a reserve access and a need to further decrease  
23 depreciation expense. However, that is not the case before the Commission; both Staff and  
24 Liberty Utilities are seeking/recommending an increase in expense for the gas utility so  
25 theoretical reserves are showing a perceived shortfall.

26 **Q. Is OPC aware of the reasoning why statistically significant analysis could not be**  
27 **performed?**

28 A. Yes. OPC's review of Case Nos. GR-2006-0387, GE-2008-0342, GE-2009-0443, and GR-  
29 2010-0192 sheds some light as to why statistically significant analysis could not be performed.

1 **Q. Could you provide a historical review of the depreciation data for the properties of**  
2 **Liberty Utilities?**

3 A. Yes. In Case No. GR-2006-0387, Staff witness Guy C. Gilbert discussed depreciation  
4 data issues as follows:

5 Q. Has Atmos or its predecessor companies had problems  
6 keeping adequate plant records to meet the Commission's  
7 requirements in the past?

8 A. Yes. In Case No. GO-95-34 Greeley Gas Company sought  
9 a waiver of the Commission rule requiring it "to file a depreciation  
10 study, data base and property unit catalog." The Commission denied  
11 the request for waiver. Prior to Case No. GO-95-34, in Case No. 15-  
12 542 the Commission Staff was ordered to conduct an inventory and  
13 original cost study of the gas properties of Greeley Gas Company's  
14 immediate predecessor Rich Hill – Hume Gas Company. It had  
15 apparently become impossible, for numerous reasons, for the  
16 Commission to determine from the books and records of the  
17 Company the value of the plant in service, its associated book  
18 reserve, average service life, net salvage, and appropriate  
19 depreciation rates.

20 Q. Did Staff do such a study?

21 A. Yes.

22 Q. When did Atmos submit its actuarial data for this rate  
23 case?

24 A. The final submission was on May 19, 2006.

25 Q. Was this data complete?

26 A. No. There were 17 accounts missing from the data: 367  
27 Transmission Mains, 369 M&R Station Equipment, 375 Structures  
28 & Improvements, 376 Distribution Mains, 378 M&R Station  
29 Equipment, 379 City Gate Equipment, 380 Services, 381 Meters,  
30 382 Meter Installations, 383 House Regulators, 384 House  
31 Regulator Installations, 390 Structures and Improvements, 391  
32 Office Furniture and Equipment, 392 Transportation, 394 Tools  
33 Shop and Garage Equipment, 396 Power Operated Equipment, and  
34 397 Communication Equipment.

35 Q. Was there anything else incomplete regarding this data?

36 A. Yes. The transaction year is the year the accounting  
37 transaction was recorded to the plant account. The accounting  
38 transactions most commonly coded for Missouri companies that the  
39 Commission regulates are regular retirements, ending balances, and  
40 beginning balances or gross additions. For most of the accounts it

1 submitted, ATMOS only lists 2005 ending balances. A  
2 disproportionate amount of the data entries appear to have been  
3 made during 2005. There is also a lack of plant retirement activity  
4 and gross additions to the plant accounts. I am attaching a copy of  
5 Atmos' data submittal as Schedules 2 and 3.

6 Q. Do you have any other recommendations regarding plant  
7 data?

8 A. Yes. The Company should expand the level of detail of  
9 existing plant records. A depreciation analyst relies upon the  
10 available data as a basis for study. When data is maintained on too  
11 broad a level, the historical trends meld with all the plant activity  
12 taking place. In such instances, essential information about material  
13 changes, quality, trends, anomalies and pattern disappear, making  
14 an informed analysis impossible. This is true for both life and  
15 salvage investigations.<sup>1</sup>

16 Mr. Gilbert continues in his direct testimony and discusses net salvage data and then  
17 discusses the calculation of theoretical reserves.

#### 18 **SALVAGE**

19 Q. In general, how is the net salvage determined for each  
20 plant account?

21 A. Net salvage means the salvage value of the retired  
22 property less the cost of retiring and removing it from service. It is  
23 also expressed as the gross salvage less cost of removal.

24 Q. In its Report and Order for Case No. ER-2004-0570 the  
25 Commission stated a policy for determination of net salvage for  
26 mass property accounts. Is the Staff's calculation consistent with  
27 that policy?

28 A. Yes. The net salvage for mass property accounts is  
29 determined using the traditional accrual method. In the traditional  
30 accrual method of the depreciation formula, net salvage equals the  
31 gross salvage value of the asset minus the cost of removing the asset  
32 from service. The net salvage percentage is determined by dividing  
33 the net salvage experienced for a period of time by the original cost  
34 of the property retired during the same period of time.

35 Q. Did Atmos provide salvage data?

36 A. Yes. The problem is that from this information it is  
37 unclear and indeterminable if the data provided is indicative of

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<sup>1</sup> Case No. ER-2006-0387, Direct Testimony of Staff Witness Guy C. Gilbert. Page 5 line 14 – Page 7,  
line 7



1 future experience for the Company because the Company does not  
2 maintain comprehensive retirements in the CPR as required. For this  
3 reason, in addition to the previously stated short comings of the  
4 Company's compliance with the Commission rules, Staff was not  
5 able to study salvage rates, as the rates are merely a component of a  
6 larger problem involving the Company's record keeping.

7 Q. Did the Staff include any net salvage for plant accounts?

8 A. Yes, to the extent previous Commission ordered  
9 depreciation rates contained net salvage.

10 **RESERVE**

11 Q. How should Atmos maintain the depreciation reserve by  
12 account?

13 A. A thorough depreciation study will address life and  
14 salvage parameters to apply by account on a going-forward basis. In  
15 addition, those factors can be applied to calculate the theoretical  
16 reserve level for the account and be compared to the book reserve  
17 level, only if such information is maintained. Because of the lack of  
18 data to perform an accurate depreciation analysis, it was not possible  
19 for Staff to accurately determine a theoretical reserve for each  
20 account.<sup>2</sup>

21 **Q. What was the result of Case No. GR-2006-0387?**

22 A. Depreciation record keeping issued was settled in a Partial Non-Unanimous Stipulation  
23 and Agreement. Additionally a negative \$591,000 annual amortization of reserves was  
24 ordered based on recommendation of Atmos and Staff.

25 **Q. What did the Partial Non-Unanimous Stipulation and Agreement in Case No. GR-2006-**  
26 **0387 say about depreciation record keeping?**

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<sup>2</sup> Case No. ER-2006-0387, Direct Testimony of Staff Witness Guy C. Gilbert. Page 7 line 8 – Page 8 line  
17

1 A.

**VI. Depreciation Record Keeping and Reporting**

A. Atmos will continue using the Commission ordered current depreciation rates for all plant serving Missouri operations. Atmos will use the Commission ordered Butler District depreciation rates for the plant accounts in the Greely District, which currently does not have Commission ordered depreciation rates. The depreciation rates that shall be used in the future for all of Atmos' Missouri operations are shown on Attachment B.

B. Atmos will comply with the Commission's rules regarding plant record keeping specifically as presented in 4 CSR 240-40.040, as set forth below. Atmos agrees that continuing property records converted into Atmos' continuing property record system need the vintage portion of the record to be updated. The Company agrees to meet with the appropriate Staff and OPC members in December 2006 to present the Company's plan for updating the vintage dates. The plan must be agreed to by Staff and OPC before being executed by Atmos. If Staff and OPC are in agreement with that plan, Atmos will execute the plan and report on its completion in the summer of 2007.

2 3

3 **Q. Would you briefly discuss the two variance and waiver cases filed by Liberty Utilities**  
4 **predecessors in Case No. GE-2008-0342 and GE-2009-0443?**

5 A. Yes. Case No. GE-2008-0342 was a request of variance and waiver with respect to the  
6 continuing property record prior to 1997. Staff's Memorandum in Support of Variance  
7 and Waiver states the following:

8 2. Atmos has not been keeping adequate property records. In  
9 1979, in Case No. GM-97-70, the Commission issued its order  
10 permitting Atmos Energy Corporation to acquire the natural gas  
11 distribution assets from United Cities Gas Company. At that time,  
12 United Cities Gas Company did not keep all of the assets vintaged  
13 in their plant property records. Vintaging is the process of keeping  
14 asset records for each year as separate groups. The separate groups  
15 are used in mortality studies to estimate asset life, which is used to  
16 figure depreciation, (rate of return of capital). Vintage year is

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<sup>3</sup> Case No. GR-2006-0387 Partial Non-Unanimous Stipulation and Agreement Page 5.

1 defined in 4 CSR 240-40(3) Uniform System of Accounts – Gas  
2 Corporations (J) as:

3 Maintain records which classify, for each plant account, the amounts  
4 of annual additions and retirements so as to show the number and  
5 cost of various record units or retirement units by vintage year.

6 3. In section VI of the Agreement in Case No. GR-2006-  
7 0387, Atmos agreed to update the vintage portion of the continuing  
8 property records.

9 4. The application for Variance, paragraph 7, states; “the  
10 Company (Atmos) was able to identify the vintages for 7,742 of  
11 8,848 asset records.” For the remaining assets with no vintage  
12 record, Atmos requests that the Commission enter an order granting  
13 a waiver from the provisions of 4 CSR 240-40.040(3). Atmos  
14 proposes to record retirements based on average cost per unit for  
15 these assets with no vintage record.

16 5. Commission rule 4 CSR 240-40.040(3) sets forth certain  
17 requirements for gas utilities with respect to maintaining and  
18 keeping records. Specifically subpart (J) requires a gas utility to  
19 “...maintain records which classify, for each plant account, the  
20 amounts of the annual additions and retirements so as to show the  
21 number and cost of the various record units or retirement units by  
22 vintage year...” Commission Rule 4 CSR 240-40.040(5) states: “The  
23 Commission may waive or grant a variance from the provision of  
24 this rule, in whole or in part, for good cause shown, upon a utilities  
25 written application.”

26 6. For the acquired assets with no vintage record, Atmos  
27 attempted a revintaging process. Atmos reviewed with Commission  
28 Staff the revintaging process and the process for retirement value  
29 related to assets that will continue to have no vintage. Atmos was  
30 able to extract information from legacy accounting systems to allow  
31 revintaging 7,742 of 8,848 asset records. For assets with no vintage  
32 record, Atmos will record retirements into appropriate accounts  
33 based on the average cost per unit of the retirements by business  
34 segment and account for the date of retirement.

35 7. The Commission Staff is in agreement with the actions  
36 taken, and supports the granting of a waiver from the provisions of  
37 4 CSR 240-40.040(3) as requested in Case No. GE-2008-0342. The  
38 Commission Staff agrees that no harm to the ratepayer or to the  
39 company (Atmos) will occur by the granting of this waiver.  
40 Depreciation expense will be consistent with the expenditure of  
41 capital, and excessive cost to continue to find “lost” records will be  
42 avoided. Staff understands the difficulty and cost associated with

1           trying to recreate these remaining records. For all other plant capital  
2           records, Atmos will maintain plant additions and retirements by  
3           vintage year per 4 CSR 240-40.040(3).

4           The Commission issued an order granting waiver May 29, 2008 it stated:

5                     1. Atmos Energy Corporation is granted a waiver of Commission Rule 4  
6                     CSR 240-40.040(3) for Atmos Energy Corporation's Division 97 plant records in  
7                     Missouri for periods prior to July 1997, and Atmos Energy Corporation's Division  
8                     70, 71, and 72 plant records in Missouri for assets for which Atmos Energy  
9                     Corporation was unable to identify the vintage year.

10                    2. For all other plant capital records, Atmos Energy Corporation shall  
11                    maintain plant additions and retirements by vintage year as required by  
12                    Commission Rule 4 CSR 240-40.040(3).

13           In Case No. GE-2009-0443, Atmos sought a variance and waiver from filing a  
14           depreciation study. The Office of Public Counsel and Atmos reached a Stipulation and  
15           Agreement. The Commission issued an order in GE-2009-0443 approving the unanimous  
16           stipulation and granting a waiver; it states as follows:

17                    The major terms and conditions of the agreement are as follows:

18                    a. Atmos agrees to remove the negative amortization of the  
19                    depreciation reserve from the cost of service in its next rate case  
20                    filed in 2009.

21                    b. Atmos will not offer testimony in said rate case supporting  
22                    a negative amortization of the depreciation reserve.

23                    c. Public Counsel hereby withdraws its opposition to the  
24                    granting of the subject waiver in this proceeding.

25                    d. Atmos and Public Counsel agree that the Commission's  
26                    approval of the requested waiver is subject to the following  
27                    conditions recommended by the Staff: (1) the waiver will apply only  
28                    to a rate case filed in calendar year 2009; and (2) Atmos will not  
29                    propose changes to its depreciation rates as a part of its 2009 rate  
30                    case.

31   **Q.    Would you briefly discuss Case No. GR-2010-0192?**

32   A.    Yes. This rate case was done on behalf of Staff by a third party consultant Mr. James R.  
33   Dittmer. His testimony related to depreciation expense is as follows:

1 Staff annualized depreciation expense by applying  
2 currently-authorized depreciation rates times the February 28, 2010  
3 plant in service balances. It is noted that in Atmos' prior rate case  
4 (GR-2006-0387) the Company and Staff agreed that depreciation  
5 expense had been over accrued, and that it would be appropriate to  
6 reflect in the development rates being established in that proceeding  
7 a negative amortization of the depreciation reserve in the annual  
8 amount of \$591,000. This Commission adopted the Staff/Company  
9 stipulation to reflect negative amortization expense agreed upon.

10 In Case No. GE-2009-0443 filed last summer Atmos sought  
11 a waiver to file a new depreciation rate study in this general rate  
12 case. In that proceeding, Atmos and the OPC agreed to waive the  
13 requirement to file a new depreciation rate study in this case, and  
14 further agreed that Atmos was to remove the negative amortization  
15 authorized in Case No. GR-2006-0387 when preparing its cost of  
16 service in this case. The noted Atmos/OPC stipulation from Case  
17 No. GE-2009-0443 was approved by this Commission on  
18 September 16, 2009.

19 The adjustment calculated on Accounting Schedule 9  
20 reflects an increase to test year recorded depreciation expense in the  
21 amount of \$811,851, of which \$591,000 relates to the stipulation  
22 reached in Case No. GE-2009-0443.

23 *Staff Expert/Witness: James R. Dittmer*<sup>4</sup>

24 **Q. What is the significance of these previous cases?**

25 A. These cases are the basis for the data that Liberty Utilities and Staff used to perform each  
26 respective depreciation study. Both Liberty Utilities and Staff state that in some cases data  
27 was not sufficient to perform statistically valid analysis. For this reason, the Commission  
28 should order in the same way it previously has by approving depreciation rates resulting  
29 from the previous stipulations. The historical data does not support a change in depreciation  
30 rates at this time. Additionally, neither Staff nor Liberty Utilities provided a comparison to  
31 the theoretical reserves using the current ordered depreciation rates.

32 **Q. What is OPC recommendation?**

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<sup>4</sup> Case No GR-2010-0192 Revenue Requirement Cost of Service Report and Appendices Page 79 line 21 -  
80 line 14

1 A. OPC recommends that the Commission deny Liberty Utilities request to change  
2 depreciation rates and order continued use of the current ordered depreciation rates.  
3 Additionally the Commission should deny Liberty Utilities request for an additional  
4 amortization for a perceived under accrual. The history indicated that, following Case No.  
5 GR-2006-0387, Liberty Utilities predecessor Atmos was ordered a negative reserve  
6 allocation that was in effect until the effective date of new rate in Case No. GR-2010-  
7 0192.

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

9 A. Yes.