

Exhibit No.:	
Issue:	Depreciation
Witness:	John J. Spanos
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.	GR-2010-0171
Date Testimony Prepared	June 24, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2010-0171

REBUTTAL TESTIMONY OF

JOHN J. SPANOS

ON BEHALF OF

LACLEDE GAS COMPANY

1 **REBUTTAL TESTIMONY OF JOHN J. SPANOS**

2 Q. Please State your name and address.

3 A. John J. Spanos. My business address is 207 Senate Avenue, Camp Hill,
4 Pennsylvania.

5 Q. Have you previously submitted testimony in this proceeding?

6 A. Yes, I have. My direct testimony and Exhibit No. JJS-1 were submitted with the
7 rate filing of Laclede Gas Company (referred to herein as "the Company") on
8 December 4, 2009.

9 Q. What is the purpose of your rebuttal testimony?

10 A. The purpose of my rebuttal testimony is to respond to the Direct Testimony of
11 Michael Gorman representing the Missouri Industrial Energy Consumers.

12 Q. What are the subjects of your rebuttal testimony?

13 A. The subjects of my rebuttal testimony are the correct method of depreciation
14 utilized in my study and the proper net salvage percents.

15 **DEPRECIATION METHOD**

16 Q. What method of depreciation have you utilized to determine depreciation rates?

17 A. I have utilized the whole life method to determine the depreciation rates. This
18 methodology is clearly stated on pages I-2 and III-2 of the Depreciation Study as
19 well as set forth in the summary of results table 1 on pages III-4 through III-7 and
20 detailed calculation pages III-199 through III-273.

21 Q. Why do you feel the need to make this clarification?

22 A. Mr. Gorman states on page 36, lines 15 and 16, that "Laclede's proposed
23 depreciation rates were calculated using the straight line method, average life
24 group procedure and remaining life technique." This is not accurate. If it was

1 accurate, there would be no need for a reserve variance calculation because the
2 remaining life technique calculates a rate with this in mind, and the net salvage
3 percentage adjustment would have to consider the impact of the revised net
4 salvage parameter.

5 **NET SALVAGE PERCENTS**

6 Q. Can you explain Mr. Gorman's position on net salvage percents?

7 A. Yes. Mr. Gorman has proposed to utilize the currently approved net salvage
8 percents to determine depreciation expense because he feels the accrual for net
9 salvage should not be greater than what is incurred on a yearly basis. This is a
10 flawed and results-oriented attempt to artificially reduce depreciation expense.
11 Mr. Gorman's approach to net salvage does not reflect reality for a utility
12 company or the recovery of the full service value of the assets.

13 First, the net salvage ratios currently approved were determined as of
14 September 30, 2003 utilizing the same practices and procedures as established
15 in this proceeding by the Company, but it ignores the recent six years of data and
16 trends within the industry. For example, Account 376.1, Mains – Steel, has
17 experienced \$4.2 million in retirements for the six-year period, 2004-2009, which
18 is approximately 27 percent of the total retirements analyzed for the period,
19 1972-2009. The cost of removal incurred for these \$4.2 million of retirements
20 has totaled \$4.9 million and the gross salvage received \$2.4 million for a net
21 salvage ratio to the retirements of approximately 60% $((\$4.9 - \$2.4)/\$4.2)$.
22 Therefore, the average net salvage for the period 2004-2009, has been negative
23 60%, the overall average for the period, 1972-2009, has been negative 32%, yet
24 Mr. Gorman wants to ignore this information and utilize negative 20% which was

1 established as of September 2003. Consequently, Mr. Gorman suggests
2 ignoring 27% of our data which is our most recent history and using the old
3 estimates in order to reduce depreciation.

4 Secondly, Mr. Gorman attempts to compare the most recent 10-year
5 average annual net salvage expense incurred to the proposed net salvage
6 accrual within the calculation for some of the major accounts. Without
7 considering the impact of the other accounts or the reserve variance issue, this is
8 flawed because the last 10 years of net salvage incurred was based on a much
9 smaller asset base as compared to the net salvage accruals which are based on
10 the much larger gross plant balance today. Thus, the \$3,757,654 of average net
11 salvage for the last 10 years for Accounts 376 and 380 is related to \$39,809,120
12 of plant retired or an average year retirement of \$3,980,912. The \$9,777,799 of
13 net salvage expense proposed in depreciation rates for the five subaccounts to
14 Account 376 and 380, is based on \$949,940,460 of plant in service as of
15 September 30, 2009.

16 Regardless of the flawed comparison Mr. Gorman attempted to make in
17 his justification for reducing depreciation expense, the real issue is full recovery
18 of the service value of an asset. The concept of depreciation is a systematic and
19 rational recovery of an asset and the net salvage component. Therefore, for
20 Account 376.1, Mains – Steel, the full recovery of the service value of these
21 assets is 100% of the original cost and a net salvage amount of 30% of the
22 original cost, which means a systematic and rational rate to recover 130% of the
23 original cost for Account 376.1. These amounts are supported by historical data
24 and informed judgment.

CONCLUSION

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2 Q. Can you summarize your testimony?

3 A. The recommended depreciation expense by the Company is based on whole life
4 rates and a reserve variance true-up. The proposed net salvage parameters by
5 account are the most appropriate percentages based on the most current data
6 and trends for the future. Mr. Gorman's adjustment of the net salvage
7 components are unsubstantiated and an inappropriate attempt to reduce
8 depreciation expense.

9 Q. Does this conclude your rebuttal testimony?

10 A. Yes it does.

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate Schedules) Case No. GR-2010-0171

COMMONWEALTH OF PENNSYLVANIA)
) SS.
COUNTY OF CUMBERLAND)


1. My name is John J. Spanos. My business address is 207 Senate Avenue, Camp Hill, Pennsylvania, 17011; and I am Vice-President of the Valuation and Rate Division of Gannett Fleming, Inc.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Laclede Gas Company.

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

John J. Spanos
John J. Spanos

Subscribed and sworn to before me this 22nd day of June, 2010.


Notary Public

