

Exhibit No.:
Issue: Depreciation
Witness: PAUL W. ADAM
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-99-315

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

PAUL W. ADAM

FILED³

AUG 19 1999

**Missouri Public
Service Commission**

LACLEDE GAS COMPANY

CASE NO. GR-99-315

Jefferson City, Missouri
August, 1999

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1 experience in the removal of gas holders and knowledge of the total cost. During a phone
2 conversation with Mr. Larsen I learned that gas holders normally cost about
3 \$1,000,000.00 each to remove and remediate. This was considerably below the cost of
4 \$8,723,900 to remove four (4) gas holders, presented by Harry Haurey, III of Laclede in
5 his testimony on page 4, attached as Schedule 1 of Mr. Kottemann's rebuttal in this case.

6 In a later phone conversation with Mr. Kottemann of Laclede I explained the
7 source of my lower figure, about \$4,000,000, to remove four gas holders. He asked for
8 Mr. Larsen's phone number, which I gave to Mr. Kottemann. This action was not a
9 "recommendation" of Mr. Larsen and was seen on my part as verification of the source of
10 the \$4,000,000 cost, not "assistance." The Staff of the Missouri Public Service
11 Commission is not concerned with who removes the gas holders from service but the
12 Staff is concerned that Laclede's customers pay only a reasonable cost toward the
13 removal of the four gas holders.

14 Q. Could you restate your position concerning the four gas holders?

15 A. Yes. The Company has recovered the capital cost of the four gas holders
16 and the Company is currently stating that there is no planned removal of the gas holders
17 in the foreseeable future. Therefore, the final removal cost should not be collected from
18 Laclede's customers at this time. When there is verifiable action toward the removal of
19 any or all of the gas holders an amortization can be initiated to allow the Company to
20 recover from their customers the exact cost of the removal of each gas holder.

21 Q. Mr. Adam, do you have a surrebuttal position to Mr. Ronald E. White's
22 rebuttal testimony in Case No. GR-99-315 on behalf of Laclede?

23 A. Yes. On page 4, lines 22 and 23 Mr. White makes the following
24 statement: "The standard or criterion that should be used to determine a proper net

1 salvage rate is, therefore, cost allocation over (the) economic life in proportion to the
2 consumption of service potential." He restates this statement on page 12, lines 28-29.
3 The key phrase "...consumption of service potential" can be viewed as consumption of
4 dollars spent. In this view, the dollars spent each year to pay for net salvage are
5 consumed in that year. Therefore, if Laclede were to collect more net salvage dollars
6 from their customers than the Company spends for net salvage, the Company would then
7 be collecting more than they are consuming.

8 Q. Could you restate your position concerning recovery of cost of removal
9 for interim removal and cost of removal for mass property accounts?

10 A. Yes. It is my position that the Company should recover from their
11 customers a cost of removal amount equal to, or as closely as possible to, the Company's
12 current cost in each account. Recovery of excess dollars from the Company's customers
13 now, with the expectation that these dollars will be needed for cost of removal during
14 some future year when collection of monies from their customers is less than actual cost
15 of removal, is not necessarily valid. We do not know if future cost of removal will
16 increase, decrease or stay the same. Changes in actual cost of removal can be reflected in
17 future adjustments to the Company's depreciation rates.

18 Q. Mr. Adam would you state the depreciation issues in this case?

19 A. There are two major depreciation issues in Case No. GR-99-315. The first
20 is; what should Laclede's customers pay to Laclede for net salvage cost? The second is;
21 should Laclede's customers pay to Laclede now the cost of final removal of the four gas
22 holders?

1 Staff proposes that a decision in this case should be based on knowledge
2 of the Company's current annual expenditure for net salvage. This will address the issue
3 of what Laclede's customers should pay to Laclede for net salvage cost.

4 Secondly, Staff proposes that the Company's current explanation on the
5 removal of the four gas holders should be the basis for determining that final removal
6 cost should not be recovered at this time.

7 Q. Mr. Adam, are there depreciation topics discussed in this case that are not
8 relevant to making a decision about how much money Laclede should charge their
9 customers annually for depreciation?

10 A. Yes. The adjustments made by me to input data to Gannett-Fleming's
11 DEPRATE program are not an issue.

12 The use of a modified whole life depreciation rate formula to explain how
13 data was input into Gannett-Fleming's DEPRATE program is not on issue.

14 My understanding of past discussions with the Company concerning
15 removal of the four gas holders is not an issue.

16 Q. Mr. Adam, would you summarize your position in support of Staff's
17 proposed depreciation rates?

18 A. The depreciation rates proposed by Staff, exclusive of all depreciation and
19 historical rhetoric, are rates that will, with reasonable accuracy, charge Laclede's
20 customers annually for a net salvage amount equal to, or nearly equal to, the amount
21 Laclede is spending annually for net salvage. Also, Staff's proposed depreciation rates
22 recognize that Laclede has fully recovered their capital investment in the four gas
23 holders, that there is no interim net salvage and that the current customers should not pay

1 for final removal until Laclede takes a non-reversible action toward removal of any of the
2 four gas holders.

3 Q. Does this conclude your rebuttal testimony?

4 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION


OF THE STATE OF MISSOURI

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

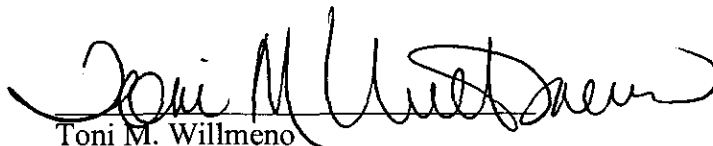
AFFIDAVIT OF PAUL W. ADAM

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Paul W. Adam, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Paul W. Adam

Subscribed and sworn to before me this 17th day of August 1999.


Toni M. Willmeno
Notary Public, State of Missouri
County of Callaway
My Commission Expires June 24, 2000

