

Exhibit No.: _____
Issue(s): Depreciation
Witness: Dan T. Stathos
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District Gas
Company
Case No.: GR-2021-0320
Date Testimony Prepared: August 2021

**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Dan T. Stathos

on behalf of

The Empire District Gas Company

August 2021



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FOR THE DIRECT TESTIMONY OF DAN T. STATHOS
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name.**

3 A. Dan T. Stathos.

4 **Q. Who is your employer?**

5 A. I am on contract to Black & Veatch through the Black & Veatch Knowledge Network
6 (BVKN). My place of business is at 10716 Thoroughbred Drive, Austin, Texas 78748.

7 **Q. On whose behalf are you testifying in this proceeding?**

8 A. I am testifying on behalf of The Empire District Gas Company (“EDG” or the “Company”).

9 **Q. What is your professional experience?**

10 A. I have over 50 years of experience in the electric, gas, water/wastewater and
11 telecommunications utilities industry. During that time, I have served as a utility
12 employee, a staff member of a regulatory commission in Texas, and as a consultant in the
13 industry. I am a Certified Public Accountant in Texas (retired). I hold a Bachelor of
14 Business Administration degree with a major in Accounting from the University of Texas
15 – Austin.

16 My professional employment includes tenure as a staff member, Manager, and
17 Partner at Deloitte Haskins + Sells (now Deloitte and Touche) for ten years. During those
18 years, I worked with John Ferguson and Donald Ross and performed a number of
19 depreciation studies. In addition, I have provided subject matter expertise to a number of
20 clients in the establishment of capitalization policies for plant, property, and equipment, as

1 well as first-time implementation of Construction Work in Progress, Continuing Property
2 Records, and Depreciation Accounting Systems. As an Associate Director with Navigant
3 Consulting (now Guidehouse) for 20 years, I also performed similar projects on behalf of
4 clients. I have received training in depreciation principles through Depreciation Programs,
5 Inc. In addition, I have taught Utility Accounting, including depreciation on behalf of SNL
6 Financial and for various other clients. Early in my career with Deloitte, I contributed
7 verbiage to chapters of Accounting for Public Utilities (provided as subscription through
8 LexisNexis), specifically for utility property accounting.

9 **II. PURPOSE OF TESTIMONY**

10 **Q. What is the purpose of your Testimony?**

11 A. The purpose of this testimony is to address the appropriate depreciation rates for the
12 recording of depreciation expense and accumulated provision (reserve) for depreciation of
13 the Gas Plant of EDG.

14 **Q. Are you sponsoring any Schedules along with your Testimony?**

15 A. Yes, I am sponsoring the following schedule that supports my testimony and overall
16 recommendation:

- 17 • Direct **Schedule DS-1** – Black & Veatch Depreciation Study

18 **Q. What work did you perform?**

19 A. At the request of Black and Veatch, I was asked to review Direct **Schedule DS-1**, a
20 Depreciation Study that was performed by Black & Veatch in 2019 (the “EDG
21 Depreciation Study”), using plant, salvage and retirement data from years prior to 2018.
22 As part of my review, I reviewed the process for determining average service lives, net

1 salvage allowance, depreciation reserve, and development of recommended depreciation
2 accrual rates.

3 **III. RESULTS OF THE REVIEW**

4 **Q. What was the process that you followed for performing this review?**

5 A. My initial step was to perform a review of the Report attached to this testimony, followed
6 by an in-depth review of the B&V work papers that supported the report. Those
7 workpapers included an analysis of then current plant balances, analyses of cost of removal
8 and net salvage, and a review for Iowa curve fittings for the majority of the accounts.

9 **Q. What else did your review include?**

10 A. In addition to the above reviews, I held discussions with the Company's accounting staff
11 to confirm my understanding of their property accounting and depreciation accrual
12 practices.

13 **Q. Please provide an overview of the results of your review.**

14 A. After discussing the Company's property accounting practices with EDG employees and
15 reviewing the work papers supporting the EDG Depreciation Study, I was able to determine
16 the following:

- 17 1) The average service lives are appropriate and were developed using EDG
18 records to identify the appropriate Iowa curves.
- 19 2) The net salvage allowance is appropriate based upon the retirement records of
20 EDG.
- 21 3) Depreciation reserves were over-accrued by approximately \$13 million and the
22 Report recommends that in order to correct for the over-accrual the \$466,000

1 should be amortized over 28 years. I agree that the proposed treatment is
2 appropriate

3 4) The proposed revised rates for depreciation accrual result in an actual decrease
4 of (\$1,400,770) in depreciation expense when applied to 2017 end of year plant
5 balances. When applying the proposed rates to the Company's pro forma plant
6 versus the current rates applied to the Company's pro forma plant, the
7 depreciation accrual results in a decrease of approx. (\$1,600,000).

8 **Q. Why was it important to discuss accounting practices with EDG Staff?**

9 A. The recording of depreciation expense is an effort to conform to the generally accepted
10 accounting principle of matching, i.e., the recognition of wear and tear, failure and
11 obsolescence of property plant and equipment over the useful life of the assets used in
12 providing gas services to the customers of EDG. In addition, since the development of
13 average service lives, net salvage value, accumulated depreciation and ultimately the
14 depreciation rates is dependent upon the data recorded in the books and records of the
15 Company, it is critical to understand how that data was developed and assure that it can be
16 used in the development of the ultimate depreciation rates.

17 **Q. What are the average service lives recommended as a result of this study?**

18 A. Table 1 provided at the conclusion of my testimony is a listing of the recommended service
19 lives for each group of property analyzed as part of the Depreciation Study. The average
20 service lives recommended in each plant account are proposed to increase over the existing
21 average service lives, with the exception of Account 381, Meters, Account 390, General
22 Plant Structures and Improvements, and Account 391, Office Furniture and Equipment, all
23 of which are a reduction in service lives.

1 **Q. What adjustments are recommended for net salvage?**

2 A. Net salvage is the net cost of removal less any salvage value for the materials removed.
3 Each time an asset is retired, net salvage is recorded and charged against the accumulated
4 depreciation reserve. EDG, has been recording approximately \$1.5 million per year as net
5 salvage for cost of removal. After performing a review of the net salvage policy, the report
6 recommends that EDG reduce that amount by \$329,500 per year as applied to plant
7 balances at the end of 2017. Table 2 provided at the conclusion of my testimony provides
8 the recommended net salvage allowance reduction for the accounts to which this provision
9 applies. The majority of the net salvage adjustment detailed in Table 2 comes from the
10 cost of removal for services. In most cases, services that are retired are left in place and
11 not removed, thereby avoiding any cost of removal.

12 **Q. What other analysis was performed in the development of the recommended**
13 **depreciation rates?**

14 A. In order to determine the appropriate depreciation rates by account, it is necessary to
15 evaluate the adequacy of the accumulated reserve for depreciation. In the case of EDG,
16 the study finds that prior year's accruals have resulted in approximately \$13 million in
17 over-accrual of depreciation reserve. Approximately ninety-five percent (95%) of this over
18 accrual has occurred in Account 376, Mains, and Account 380, Services. In order to bring
19 the depreciation reserve back in line with the appropriate level of reserve and factoring in
20 the changes in average service live and net salvage, the Report recommends depreciation
21 rates as presented in Table 3.

1 **Q. What is your recommendation as a result of this review?**

2 A. As a result of this review, the depreciation accrual rates recommended in the Depreciation
3 Study are appropriate and should be used by The Empire District Gas Company in
4 determining its annual depreciation expense going forward.

5 **Q. Does this conclude your Direct Testimony?**

6 A. Yes.

TABLE 1
COMPARISON OF DEPRECIATION AVERAGE SERVICE LINES
THE EMPIRE DISTRICT GAS COMPANY

(Page 1 of Report)

ACCOUNT	DESCRIPTION	AVERAGE SERVICE LIFE	
		EXISTING	RECOMMENDED
369	Transmission Measuring and Regulating Station Equipment	45	50
375	Distribution Structures and Improvements	45	50
376	Distribution Mains	45	55
378	Distribution Measuring and Regulating Station Equipment	50	55
380	Services	43	50
381	Meters	40	30
385	Industrial Measuring and Regulating Equipment	45	50
390	General Plant Structures and Improvements	45	40
391.1	Office Furniture and Equipment	15	10
391.3	Computer Equipment	7	11
392	Transportation Equipment	12	14
393	Stores Equipment	25	30
394	Tools, Shop and Garage Equipment	30	35
395	Laboratory Equipment	30	35
396	Power Operated Equipment	16	18
398	Miscellaneous Equipment	23	26

TABLE 2
RECOMMENDED CHANGE TO NET SALVAGE ALLOWANCE
THE EMPIRE DISTRICT GAS COMPANY

(Page 2 of Report)

ACCOUNT	DESCRIPTION	RECOMMENDED NET SALVAGE ALLOWANCE
367	Transmission Mains	-\$11,000
376	Distribution Mains	-\$36,000
378	City Gate Stations	-\$1,000
380	Services	-\$300,000
390	Structures and Improvements	-\$1,500
392	Transportation Equipment	\$10,000
396	Power Operated Equipment	\$10,000
	TOTAL	-\$329,500

TABLE 3
RECOMMENDED DEPRECIATION RATES
THE EMPIRE DISTRICT GAS COMPANY

(Summarized from Page 18 of Report)

Acct. No.	Account	Depreciable Plant 12/31/2017	Recommended Depreciation Expense	Depreciation Rate
Transmission Plant				
366	Structures	10,880	(242)	0.00%
367	Mains	10,729,200	10,729	1.64%
369	Meas. & Reg. Stations	<u>440,023</u>	(968)	2.00%
Total Distribution Plant		11,180,103	9,520	
Distribution Plant				
375	Structures	249,112	(548)	2.00%
376	Mains	50,810,532	(1,346,479)	1.89%
378	Meas. & Reg. Stations	725,146	(1,305)	1.82%
379	City Gate Stations	1,338,714	937	2.07%
380	Services	29,763,769	(92,268)	3.01%
381	Meters	11,786,816	89,580	3.33%
383	Regulators	3,125,189	(63,441)	2.50%
385	Industrial Meas/Reg Equip.	797,789	(5,505)	2.00%
387	Other Equipment	<u>5,472</u>	0	0.00%
Total Distribution Plant		98,602,539	(1,419,029)	
General Plant				
390	Structures & Improvements	2,933,295	7,040	2.55%
391.1	Furniture & Equipment	299,624	9,977	10.00%
391.3	Computer Equipment	330,658	(17,194)	9.09%
392	Transportation Equipment	2,399,043	22,791	6.72%
393	Stores Equipment	29,019	(194)	3.33%
394	Tools Shop & Garage Equip.	1,086,550	(5,107)	2.86%
395	Laboratory Equipment	98,267	(462)	2.86%
396	Power Operated Equipment	1,097,388	(7,682)	4.65%
397	Communication Equipment	5,600	-	4.00%
398	Miscellaneous Equipment	<u>85,962</u>	(430)	3.85%
Total General Plant		<u>8,365,406</u>	8,739	
Total Depreciable Plant		118,148,049	(1,400,770)	2.50%

VERIFICATION

I, Dan T. Stathos, under penalty of perjury, on this 23rd day of August, 2021, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Dan T. Stathos