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Witness: Dane A. Watson
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Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Case No. GR-2018-0013
Date Testimony Prepared: May 9, 2018

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

Surrebuttal Testimony

of

Dane A. Watson

On Behalf Of

**Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities**

May 2018



SURREBUTTAL TESTIMONY
OF
DANE A. WATSON
LIBERTY UTILITIES
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2018-0013

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- 1 • Respond to and explain differences I have with OPC’s recommendation to
2 reject general plant amortization for certain small low volume accounts for
3 Liberty Utilities Missouri assets and Shared Services assets.

4 **Q. WHAT IS THE SOURCE OF THE COMPANY’S CURRENT**
5 **DEPRECIATION RATES?**

6 A. The existing depreciation rates were retained by settlement in Case Nos. GM-
7 2012-0037 and GR-2006-0387. The only rates that were added were in Case No.
8 GR-2014-0152 for corporate hardware and software at the corporate office. The
9 rates approved in docket GR-2006-0387 were retained from earlier cases before
10 this Commission. At that time, the facilities were owned by Atmos Energy. As
11 stated by then Staff Witness Guy Gilbert,¹ the rates ordered for this property by
12 this Commission depend on the date Atmos acquired the property.

13 Atmos depreciation rates are comprised of previously acquired Greeley
14 Gas Company, United Cities Gas Company and Associated Natural Gas
15 Company rates. Case No. 15.542, dated January 5, 1968, was the last time
16 the Commission ordered Greeley Gas Company depreciation rates. United
17 Cities Gas Company rates were last ordered effective March 31, 1997 in
18 Case No. GM-97-70. Associated Natural Gas Company rates were also
19 ordered in Case No. GR-97-272. There is one composite rate for each
20 account, based on consolidated historic data.

21 There are no sources on the Commission’s website that indicate what life and net
22 salvage parameters were used in the prior cases, or even what depreciation system
23 might have been used. Since the most recent sources of the Company’s
24 depreciation rates are at least 20 years old, it is important in this proceeding to set
25 depreciation rates that reflect current and future operations of Liberty Utilities.
26

1 schedule offers an opportunity to make those recommendations in the record for
2 this proceeding.

3 **Q. WHAT REASONS DOES OPC OFFER FOR REJECTING STAFF'S**
4 **STUDY?**

5 A. OPC does not believe Staff has provided sufficient information to justify the
6 recommended parameters. He also criticizes Staff's study for not performing a
7 theoretical reserve comparison to determine the book reserve adjustments.

8 **Q. ARE SOME OF OPC'S REASONS TO REJECT STAFF'S PROPOSAL**
9 **ADDRESSED IN YOUR DEPRECIATION STUDY IN REBUTTAL?**

10 A. In Appendix C and D of my rebuttal testimony I present revised recommendations
11 based on Missouri only information. I have provided workpapers with different
12 placement and experience bands and discuss the incorporation of information
13 from Company subject matter expert opinions on the operations of Liberty
14 Utilities Missouri.

15 **Q. DID YOU MAKE THE THEOERTICAL RESERVE ANALAYIS OPC**
16 **MENTIONS?**

17 A. Yes. There are three separate analyses in my rebuttal testimony that address the
18 computations based on various life and net salvage parameters offers by the
19 parties in this case.

20 **Q. WHAT NET SALAVGE DATA IS AVAILABLE IN THIS CASE?**

21 A. Net salvage history is available from 2005-2010 and 2013-2017. OPC is critical

² Robinnett, Direct, page 1 lines 17-19.

1 of the missing years of 2011 and 2012 as well as the lack of history prior to 2004.³
2 Two states, Iowa and Illinois, however, found sufficient net salvage data from
3 2005-2010 and 2013-2015 to approve depreciation rates for the Liberty Gas
4 operations in other jurisdictions.

5 **Q. IS IT COMMON TO HAVE A COMPLETE NET SALVAGE HISTORY**
6 **THAT PARALLELS LIFE DATA?**

7 A. In my experience, it is very unusual to have the two periods of life and net salvage
8 data to coincide. Particularly for Liberty Utilities assets, which have had multiple
9 owners, the detailed data does not always find its way to the new owner. That is
10 why the void in 2011 and 2012 data exists, which coincides with part of the
11 interval the assets were owned by Atmos. The data in the record for this case is
12 sufficient to enable a depreciation analyst to make a net salvage
13 recommendation for net salvage in this case.

14 **IV. GENERAL PLANT AMORTIZATION**

15 **Q. WHAT IS GENERAL PLANT AMORTIZATION?**

16 A. General Plant Amortization, sometimes known as vintage group accounting, has
17 its roots in Accounting Release 15 that was issued by FERC more than 20 years
18 ago. The purpose of Accounting Release 15 is to allow companies to retire small,
19 low volume assets and eliminate the need for detailed inventories. The entirety of
20 FERC Accounting Release 15 is shown below.⁴

³ Robinnett, Direct, page 2.

⁴ <https://www.ferc.gov/enforcement/acct-matts/docs/ar-15.asp>

1 **Question:** Is it permissible for a public utility, licensee, natural gas company, or
2 oil pipeline company to adopt a vintage year accounting method for the general
3 plant accounts listed below which would eliminate the unitization and record
4 keeping requirements associated with individual items of property and allow such
5 companies to record only the total cost of plant additions for the year as a vintage
6 group for each account?
7

8 **For Public Utilities, Licensees, Natural Gas Companies**

9 Account 391, Office Furniture and Equipment;
10 Account 392, Transportation Equipment;
11 Account 393, Stores Equipment;
12 Account 394, Tools, Shop and Garage Equipment;
13 Account 395, Laboratory Equipment;
14 Account 396, Power Operated Equipment;
15 Account 397, Communication Equipment;
16 Account 398, Miscellaneous Equipment; and
17 Account 399, Other Tangible Property.
18

19 **For Oil Pipeline Companies**

20 Account 179, Machine Tools and Machinery;
21 Account 183, Communication Systems;
22 Account 184, Office Furniture and Equipment; and
23 Account 185, Vehicles and Other Work Equipment.
24

25 **Answer:** Yes, provided the following requirements are met:
26

- 27 1. the individual classes of assets for which vintage year accounting is followed
28 are high volume, low value items;
29
- 30 2. there is no change in existing retirement unit designations, for purposes of
31 determining when expenditures are capital or expense;
32
- 33 3. the cost of the vintage groups is amortized to depreciation expense over their
34 useful lives and there is no change in depreciation rates resulting from the
35 adoption of the vintage year accounting;
36
- 37 4. interim retirements are not recognized;
38
- 39 5. salvage and removal cost relative to items in the vintage categories are included
40 in the accumulated depreciation account and assigned to the oldest vintage first;
41 and
42
- 43 6. properties are retired from the affected accounts that, at the date of the adoption
44 of vintage year accounting, meet or exceed the average service life of properties
45 in that account.

1
2 A vintage year method of accounting for the general plant accounts that meets all
3 of the foregoing requirements may be implemented without obtaining specific
4 authorization from the Commission to do so.

5 Debbie L. Clark
6 Chief Accountant

7 Effective: January 1, 1997
8

9 **Q. HAS MISSOURI APPROVED GENERAL PLANT AMORTIZATION FOR**
10 **OTHER UTILITIES IN THE STATE?**

11 A. Yes. General plant amortization was approved in the following cases:
12 Missouri American Water Company WR-2015-0301, Kansas City Power and
13 Light. (ER-2014-0370) and Ameren (ER-2014-0258).

14 **Q. HOW MUCH OF LIBERTY'S PLANT WOULD BE CATEGORIZED**
15 **FOR GENERAL PLANT AMORTIZATION?**

16 A. Accounts 391, 393,395, 397-399 subaccounts are proposed for general plant
17 amortization. As of December 31, 2017, this is only 2.64% of the total plant in
18 service.

19 **Q. WHY DOES OPC OBJECT TO GENERAL PLANT AMORTIZATION?**

20 A. OPC states "General Plant Amortization threatens the ability to perform any sort
21 of prudence review of plant added into these accounts because it fails to tract
22 retirement units and original costs. Under the General Plant Amortization
23 method, only two values matter: the total additions for an account in a vintage
24 year and the amortization period over which the investment is to be recouped."⁵

⁵ OPC Direct, p 3 lines 21-24.

1 Mr. Robinnett's statements are simply incorrect. General Plant Amortization
2 allows the timely retirement of small, low-volume assets and also eliminates the
3 need for detailed inventories. Accounting records still record the age and cost of
4 an asset which is automatically retired when an assets reaches the amortization
5 age. Utilities across the United States have adopted general plant amortization to
6 simplify record keeping and save the cost of detailed inventories.

7 **Q. OPC STATES GENERAL PLANT AMORTIZATION MIGHT 'MASK'⁶**
8 **THE APPROPRIATE RECOVERY PERIOD FOR ASSETS. IS THAT**
9 **CORRECT?**

10 A. No. The accounts in question are small items of limited value that many
11 Companies prefer not to track. Adoption of general plant amortization generally
12 produces a savings in the form of less accounting personnel time (and operational
13 time if inventories are conducted) and allows timely retirement of assets without
14 the need for detailed paperwork and record keeping. These savings are, of course,
15 ultimately reflected in the rates charged customers. OPC's objections are
16 unfounded and the Commission should allow the Company to implement General
17 Plant Amortization as has been done for the majority of utilities in the US and for
18 other utilities in Missouri.

19 **Q. IS LIBERTY UTILITIES PLANNING TO IMPLEMENT GENERAL**
20 **PLANT AMORTIZATION FOR ACCOUNTS 392 AND 396 SINCE FERC**
21 **INDICATES THOSE ARE ELIGIBLE FOR AMORTIZAITON?**

⁶ Opc Direct, page 4, lines 10-11.

1 A. No. Liberty Utilities Missouri still plans to keep normal accounting records for
2 Account 392- transportation equipment and 396 power operated equipment. Only
3 small items like office furniture and equipment (Account 391) or tools (Account
4 394) would be automatically retired when the age of the asset reaches the
5 amortization period.

6 **VI. CONCLUSION**

7 **Q. IN SUMMARY, WHAT ARE YOUR RECOMMENDATIONS FOR**
8 **LIBERTY UTILITIES?**

9 A. I recommend that the Commission reject OPC's proposal to retain the existing
10 depreciation rates. I also recommend that the Commission adopt general plant
11 amortization for Liberty Utilities Missouri's small general plant accounts.

12 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

13 A. Yes.

