

Exhibit No.:
Issue(s): Depreciation Reserve
Witness: David Buttig, P.E.
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2021-0320
Date Testimony Prepared: March 17, 2022

MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRY ANALYSIS DIVISION

ENGINEERING ANALYSIS DEPARTMENT

REBUTTAL TESTIMONY

OF

DAVID T. BUTTIG, P.E.

**THE EMPIRE DISTRICT GAS COMPANY,
d/b/a Liberty (Empire)**

CASE NO. GR-2021-0320

*Jefferson City, Missouri
March 2022*

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8
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TABLE OF CONTENTS
OF
REBUTTAL TESTIMONY OF
DAVID T. BUTTIG, P.E.
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EXECUTIVE SUMMARY1
DEPRECIATION RESERVE2
CONCLUSION.....4

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **DAVID T. BUTTIG, P.E.**

4 **THE EMPIRE DISTRICT GAS COMPANY,**
5 **d/b/a Liberty (Empire)**

6 **CASE NO. GR-2021-0320**

7 Q. Please state your name and business address.

8 A. My name is David T. Buttig, and my business address is 200 Madison Street,
9 Jefferson City, Missouri, 65101

10 Q. By whom are you employed?

11 A. I am a Professional Engineer employed by the Missouri Public Service
12 Commission ("Commission") in the Engineering Analysis Department, a member of
13 Commission Staff ("Staff").

14 Q. Are you the same David T. Buttig who filed Direct Testimony on
15 January 24, 2022 in this case?

16 A. Yes, I am.

17 **EXECUTIVE SUMMARY**

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

19 A. I am responding to the proposed amortization of over-accrued depreciation
20 reserves as addressed in the Direct Testimony of The Empire District Gas Company ("Empire")
21 witness Dan T. Stathos¹ and the discrepancy between Mr. Stathos' filed testimony and the
22 values included in the revenue requirement model of Empire².

¹ Stathos Direct page 3 line 21 through page 4 line 2.

² Empire Workpaper – 2021 EDG Revenue Requirement Model – Update; EXP ADJ 4.

1 **DEPRECIATION RESERVE**

2 Q. What did Mr. Stathos propose?

3 A. Mr. Stathos proposed that the over-accrual of depreciation reserve amount of
4 \$13 million be amortized over 28 years. This would result in an amortization of approximately
5 \$466,000 per year. A majority of the over-accrual is from Account 376 – Distribution Mains
6 and Account 380 - Services.

7 Q. Was this testimony consistent with the revenue requirement model filed by
8 Empire in this case?

9 A. No. Empire's revenue requirement model on this issue includes amortizing the
10 over-accrued depreciation reserve by \$1,867,820 each year for a seven-year period.

11 Q. Does Staff agree that depreciation reserves are over-accrued?

12 A. Yes. Using the depreciation rates recommended by Staff would show an
13 over-accrual of depreciation reserve based on the average age of the assets. This would also be
14 the case for the depreciation rates proposed by Empire

15 Q. Did Staff review the depreciation reserve amounts?

16 A. Yes. Staff analyzed the depreciation reserve amounts in order to calculate the
17 theoretical reserve based on the depreciation rates proposed by Staff and to determine if the
18 depreciation reserves have over-accrued or under-accrued and by what amount. Staff also
19 reviewed the analysis of the depreciation reserve submitted by Empire.

20 Q. What is an over-accrual of depreciation reserve?

21 A. An over-accrual (or under-accrual) is based upon the proposed depreciation
22 rates. Using these proposed depreciation rates, a theoretical depreciation reserve is calculated
23 by applying the proposed rate over the life of the accounts. By recommending a lower

1 depreciation rate compared to the previously ordered depreciation rates, in this case from
2 GR-2009-0434, the theoretical reserve would be lower than the actual depreciation reserve
3 since it would have theorized a lower depreciation rate would have always been applied to the
4 account. Since the theoretical reserve is lower than the actual reserve, it shows that the accounts
5 are over-accrued.

6 Q. Can you provide a hypothetical example of this type of over-accrual?

7 A. Yes. Say you have an account with \$1,000 of assets in it and these assets have
8 an average service life of ten (10) years. There is no net salvage value for these assets, so a
9 resultant depreciation rate would be 10%. That 10% would depreciate the account \$100 per
10 year, so that at the end of the 10-year average service life of the assets, the account would be
11 fully depreciated. Now let's say the company reevaluates the account after five (5) years. The
12 depreciation reserve of the account would be at \$500 ($\$1,000 \times 10\% \times 5 \text{ years} = \500).
13 Through its reevaluation the company realizes the assets actually are going to have an
14 average service life of 20 years. An average service life of 20 years and still a net salvage rate
15 of 0% would result in a depreciation rate of 5%. If that 5% depreciation rate had been applied
16 since the assets were put in place, at the end of five years, the depreciation reserve would have
17 a value of \$250. This \$250 is considered the theoretical depreciation reserve. Comparing this
18 theoretical reserve to the actual depreciation reserve amount of \$500 shows that the account is
19 over-accrued by \$250.

20 Q. Does Staff agree that the over-accrued depreciation reserves should be
21 amortized?

22 A. No. Amortizing the excess depreciation reserve could allow Empire to have a
23 second return on its investments. This depreciation expense, already paid by the customers

1 through rates, could be used for future investments to the system or for any currently unforeseen
2 salvage or retirement expenses.

3 Q. If the amortization of the over-accrued depreciation reserve was approved by the
4 Commission, how would the depreciation expense be affected?

5 A. Since the depreciation reserves would be reduced due to the amortization, the
6 depreciation expense would go up every year the amortization is applied.

7 **CONCLUSION**

8 Q. What is Staff's recommendation regarding the level of depreciation reserve?

9 A. Staff recommends the Commission order Staff's depreciation rates and that
10 Empire not amortize the over-accrued depreciation reserves at this time. Even though Staff
11 agrees an over-accrual has occurred due to the reduction in depreciation rates, it is Staff's
12 opinion this over-accrued amount could be used for future investments to the system or for
13 unforeseen salvage or retirement expenses.

14 Q. Does this conclude your rebuttal testimony?

15 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas)
Company's d/b/a Liberty Request to File Tariffs) Case No. GR-2021-0320
to Change its Rates for Natural Gas Service)

AFFIDAVIT OF DAVID T. BUTTIG, PE

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW DAVID T. BUTTIG, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of David T. Buttig, PE*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

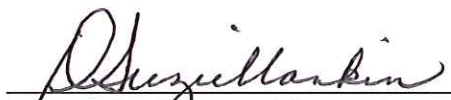


DAVID T. BUTTIG, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 16th day of March, 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070



Notary Public