

Exhibit No. 36

Exhibit No.:	_____
Issue:	Depreciation
Witness:	John J. Spanos
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Spire Missouri Inc.
Case No.:	GR-2021-0108
Date Testimony Prepared:	July 14, 2021

SPIRE MISSOURI INC.

CASE NO. GR-2021-0108

SURREBUTTAL TESTIMONY

OF

JOHN J. SPANOS

JULY 14, 2021

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

2 **I. INTRODUCTION AND PURPOSE**

3
4 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

5 A. My name is John J. Spanos. My business address is 207 Senate Avenue, Camp Hill,
6 Pennsylvania.

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

8 A. I am testifying on behalf of Spire Missouri, Inc. d/b/a Spire (“Spire Missouri” or the
9 “Company”).

10 **Q. HAVE YOU OFFERED ANY PREVIOUS TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. Yes. I submitted Rebuttal Testimony in June 2021 in this proceeding which addressed
13 various depreciation issues.

14 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
15 **PROCEEDING?**

16 A. My Surrebuttal Testimony addresses the Office of the Public Counsel (“OPC”)
17 testimony by witness John A. Robinett related to the appropriate depreciation
18 parameters and rates for gas plant in service. The proposed depreciation rates from
19 the Depreciation Study which I conducted appropriately reflect the rates at which
20 Spire Missouri’s combined assets should be depreciated over their useful lives and are
21 based on the most commonly used methods and procedures for determining
22 depreciation rates.

23 **Q. CAN YOU SUMMARIZE THE DEPRECIATION ISSUES YOU WILL**
24 **ADDRESS IN YOUR SURREBUTTAL TESTIMONY?**

1 A. Yes. First, I will discuss the timing required to complete a depreciation study
2 particularly when combining two separate entities into one. Second, I will address
3 depreciation rate concerns related to Account 367, Mains. Third, I will address the
4 proper depreciation rate for all cast iron main assets in Account 376, Cast Iron Mains.
5 Finally, I will address general plant amortization accounts and the utilization of a
6 Square curve and vintage retirements.

7 **II. APPROPRIATENESS OF CONDUCTING A DEPRECIATION STUDY**

8
9 **Q. DOES OPC WITNESS ROBINETT PROPERLY IDENTIFY THE REASON
10 FOR THE TIMING OF CONDUCTING A DEPRECIATION STUDY?**

11 A. No. First, conducting a depreciation study takes months to complete so Spire had been
12 in the process of conducting the depreciation study well before the filing date of its
13 direct case. Second, although Mr. Robinett cites the Commission rule 20 CSR 4240-
14 40.090, related to the required timing or frequency to submit depreciation studies,
15 there is a much different presentation for depreciation rates and expense in this case.
16 The depreciation study conducted in this case relates to the combined Spire East and
17 Spire West entity, so the rates established in the GR-2017-0215 and GR-2017-0216
18 cases are not the same as the depreciation study presented in this case. Therefore, his
19 position related to timing is misleading. In addition to the fact that the current
20 depreciation rates are outdated and related to the individual entities, the depreciation
21 rates from GR-2017-0215 and GR-2017-0216 were based on the continuation of
22 developed rates from the prior cases. Therefore, the rates Mr. Robinett is supporting
23 are almost 10 years old. Finally, the combined depreciation study through September
24 30, 2020 properly reflects all the key factors needed to determine the most appropriate

1 depreciation rates to be used for the combined entity of Spire Missouri Inc. The 2020
2 Depreciation Study was provided as part of this case in order to present the combined
3 analysis of the asset classes in place as of September 30, 2020.

4 **Q. HAS MR. ROBINETT SEEN THE 2020 DEPRECIATION STUDY?**

5 A. Yes. Mr. Robinett states on page 3 of his Rebuttal Testimony that he has received the
6 study but appears to disregard the information.

7 **III. TRANSMISSION ACCOUNT 367, MAINS**

8
9 **Q. DOES MR. ROBINETT INQUIRE ABOUT ACCOUNT 367 AND THE
10 APPROPRIATE RATE?**

11 A. Yes. There appears to be some confusion between the appropriate depreciation rate
12 for Account 367, Mains and the presentation in the 2020 Depreciation Study. Mr.
13 Robinett states the rate for Account 367 should be 1.44%. This was the rate agreed
14 upon for transmission mains in the last case for Spire East and should be applied to
15 any new assets that would be installed into this account after September 30, 2020.

16 **Q. HAVE SOME OF THE ASSETS IN ACCOUNT 367, MAINS THAT EXISTED
17 IN THE LAST STUDY REMAINED IN SERVICE?**

18 A. Yes. However, as part of the update in the 2020 Depreciation Study, the surviving
19 mains were combined with the steel mains in Account 376, Cast Iron Mains. It was
20 determined these mains were operating in a similar function and should have the same
21 life and net salvage parameters.

22 **IV. ACCOUNT 376, CAST IRON MAINS**

23
24 **Q. MR. ROBINETT STATES THAT THE COMPANY'S RECOMMENDED
25 DEPRECIATION RATE OF 3.12% FOR CAST IRON MAINS IS NOT**

1 **SUPPORTED BY ITS DEPRECIATION STUDY. DO YOU AGREE WITH**
2 **THIS CONCLUSION?**

3 A. No. In the 2020 Depreciation Study the cast iron mains represents not only the
4 remaining cast iron mains that are being replaced as part of the cast iron replacement
5 program but also the cast iron main encapsulation assets. The 12.35% for Cast Iron
6 mains is appropriate for all related cast iron assets in Account 376, however, the 3.12
7 percent that Mr. Robinett cites as the rate for cast iron mains is only for the mains
8 themselves from the 2016 study and does not reflect the cast iron encapsulation assets.
9 Both the main and the encapsulations will be replaced as part of the cast iron main
10 replacement program.

11 **V. GENERAL PLANT AMORTIZATION ACCOUNTS**

12
13 **Q. HAS MR. ROBINETT PROPERLY ASSESSED THE ACCOUNTING FOR**
14 **GENERAL PLANT ACCOUNTS THAT ARE SUBJECT TO**
15 **AMORTIZATION ACCOUNTING?**

16 A. No. Mr. Robinett incorrectly interprets Spire’s depreciation accounting for its general
17 plant accounts to create the potential for under recovery of these accounts. The general
18 plant accounts that OPC has issue with are Accounts 391.00, 391.10, 391.20, 391.30,
19 393.00, 394.00, 395.00, 397.00, 397.10, 397.20 and 398.00.

20 **Q. ARE THESE ASSET CLASSES BASED ON A SQUARE CURVE DUE TO**
21 **AMORTIZATION ACCOUNTING?**

22 A. Yes. Therefore, based on the whole life method and type survivor curve, assets are
23 recovered equally over the amortization period. This represents existing assets within
24 the amortization period and those that will be placed into service in the future. For

1 example, an account that has a 10 year amortization period (represented by a 10-SQ
2 survivor curve) will have a 10 percent rate for each of the 10 years the assets are
3 recovered. Once the assets reach 10 years old, they are retired and the net plant value
4 is zero.

5 **Q. MR. ROBINETT CRITICIZES SPIRE'S METHODOLOGY FOR THE**
6 **DEPRECIATION RATES OF FULLY AMORTIZED PLANT TO BE SET AT**
7 **0.0%. (Robinett Rebuttal, pg. 5.) HOW DO YOU RESPOND?**

8 A. First, counter to Mr. Robinett's opinion, it is critical that assets beyond the
9 amortization period have a rate of zero because they have been theoretically fully
10 recovered. Second, as part of the application of the 2020 Depreciation Study and
11 proper implementation of amortization accounting (Square curve) the assets beyond
12 the amortization period need to be retired. The assets that are within the amortization
13 period by vintage should maintain the amortization rate as set forth in the 2020
14 Depreciation Study. This process ensures full recovery of the existing assets and
15 ensures that future assets in each asset class will be placed in service with the proper
16 recovery rate.

17 **Q. MR. ROBINETT STATES THAT SPIRE'S NEW RECOMMENDED**
18 **DEPRECIATION RATES DO NOT REFLECT THE FULL LIFE OF THE**
19 **ASSETS SINCE THEY ARE BEING WEIGHTED AND REDUCED BY**
20 **ASSETS THAT HAVE BEEN FULLY RECOVERED BY SPIRE. (Robinett**
21 **Rebuttal, pg. 5). HAS THE DEPRECIATION STUDY PROPERLY**
22 **REPRESENTED THE RECOVERY PATTERN OF EXISTING AND FUTURE**
23 **ASSETS IN THESE ACCOUNTS?**

1 A. Yes. The presentation of depreciation rates is consistent with the amortization period
2 and segregating the assets in order to ensure full recovery, no more no less has been
3 established. In other words, the manner at which these accounts are established in the
4 2020 Depreciation Study prevent the concerns that Mr. Robinett is stating are not
5 handled properly. New investment will specifically be recovered consistent with the
6 amortization period and while the assets are in service. For example, new investment
7 in Account 391.00 will be recovered at 5.0% which is consistent with the 20 year
8 amortization period.

9 **VI. OPC's APPLICATION OF SPIRE EAST RATES TO SPIRE WEST RATES**

10

11 **B. MR. ROBINETT AGAIN RECOMMENDS THAT THE COMMISSION**
12 **SHOULD CONVERT SPIRE MISSOURI WEST DEPRECIATION RATES**
13 **INTO SPIRE MISSOURI EAST RATES. (Robinett Rebuttal, p. 6). PLEASE**
14 **EXPLAIN WHY THIS IS NOT AN APPROPRIATE METHOD FOR SETTING**
15 **DEPRECIATION RATES.**

16 A. Depreciation rates are based on the nature of the assets, the age of the assets, an
17 understanding of the condition of the assets, the expected remaining life of the assets,
18 the past recovery of the assets and the overall life cycle of the assets. Although, there
19 are some factors that are similar between the Spire East and Spire West, it is not
20 appropriate to ignore the factors of one entity and just recover based on factors of the
21 other. Therefore, recovery of all the Spire assets should reflect all the factors of all
22 the assets by class. Mr. Robinett's recommendation ignores the history of Spire West
23 assets for no reasonable reason. The combined 2020 Depreciation Study incorporates
24 all factors of all assets for both Spire East and West.

VII. CONCLUSION

1

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

3 **A. Yes.**

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Spire Missouri Inc.'s d/b/a)
 Spire Request for Authority to Implement a General)
 Rate Increase for Natural Gas Service Provided in) **Case No. GR-2021-0108**
 the Company's Missouri Service Areas)

AFFIDAVIT

COMMONWEALTH OF PENNSYLVANIA)
) SS.
 COUNTY OF CUMBERLAND)

John J. Spanos, of lawful age, being first duly sworn, deposes and states:

1. My name is John J. Spanos. I am associated with the firm of Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming"). My business address is 207 Senate Avenue, Camp Hill, Pennsylvania 17011.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Spire Missouri Inc.
3. Under penalty of perjury, I declare that my answers to the questions contained in the foregoing surrebuttal testimony are true and correct to the best of my knowledge and belief.


John J. Spanos

July 14, 2021
 Date