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| **Exhibit No.:** | |
| **Issue:** | **Establishment of new depreciation rate for new enterprise information management system** |
| **Witness:** | **Glenn W. Buck** |
| **Type of Exhibit:** | **Direct Testimony** |
| **Sponsoring Party:** | **Laclede Gas Company** |
| **Case No.:** | **GO-2012-0363** |
| **Date Testimony Prepared:** | **June 20, 2012** |

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Missouri Public Service Commission

**LACLEDE GAS COMPANY**

**GO-2012-0363**

# DIRECT TESTIMONY

**OF**

**GLENN W. BUCK**

Laclede Exhibit No. 2
Date 8-16-12 Reporter KF
File No GO-2012-0363

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# DIRECT TESTIMONY OF GLENN W. BUCK

Q. Please state your name and business address.

A. My name is Glenn W. Buck, and my business address is 720 Olive St., St. Louis, Missouri, 63101.

Q. What is your present position?

A. I am presently employed as Manager, Financial Services, for Laclede Gas Company ("Laclede" or "Company").

Q. Please state how long you have held your position and briefly describe your responsibilities.

A. I was appointed to my present position in March, 1999. In this position, I am responsible for the financial aspects of rate matters generally, including financial analysis and planning. I am also responsible for preparing various financial forecasts, and monitoring regulatory trends and developments.

Q. What was your experience with the Company prior to becoming Manager, Financial Services?

A. I joined Laclede in August, 1986, as a Budget Analyst in the Budget Department. I was promoted to Senior Budget Analyst in June, 1988, and transferred to the Financial Planning Department in December, 1988 as an Analyst. I was promoted to Senior Analyst in February, 1990, Assistant Manager in February, 1994, and Manager in January 1996. I acted in that capacity until being appointed to my current position.

Q. What is your educational background?

A. I graduated from the University of Missouri - Columbia, in 1984, with a Bachelor of Science degree in Business Administration.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have, in Case Nos. GR-94-220, GR-96-193, GR-99-315, GR-2001-629, GT-2001-329, GR-2002-356, GO-2004-0443, GR-2005-0284, GR-2007-0208, GR-2010-0171, GT-2009-0026, ER-2010-0036, GC-2011-0006 and GC-2011-0098. Further, I provided oral testimony before the Commission regarding the Infrastructure System Replacement Surcharge rulemaking in Case No. AX-2004-0090.

## PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present evidence to the Commission concerning the propriety of the Company's application to establish a new depreciation rate for the new enterprise information management system ("EIMS") that the Company is in the process of implementing so that it can continue to provide high quality utility service to its customers. To that end, I will summarize the scope, nature and timing of this new system, outline the limited accounting authorizations that the Company is requesting to account for this new system in a proper and accurate manner, and describe the full range of issues that any party would still be able to raise in any future rate case proceeding if the Company's request is granted. Finally, I will conclude by responding to the factual assertions made by the Office of the Public Counsel ("OPC") in its recently filed Motion for Summary Determination in which it asks the Commission to dismiss the Company's application.

## SCOPE, NATURE AND TIMING OF EIMS

Q. What is EIMS?

A. For well over a year now, Laclede has been involved in the planning, design, and preliminary implementation of EIMS. As a result of this initiative, the Company will, for the first time in its history, have a fully integrated and comprehensive information management system that will be capable of providing enhanced accounting tools, cross-functional communication, data tracking and analyses, and other essential business processes in the areas of customer service, billing and information, financial performance, supply chain/inventory, human resources and asset management. In fact, the transformative nature of this undertaking to Laclede and how it operates is such that the Company and its employees refer to it as the Company's "newBLUE" project.

Q. Can you describe the various components of EIMS?

A. Yes. As set forth in Schedule GWB-D1, these components include the Oracle Enterprise Systems applicable to accounting, reporting, payment processing and supply chain functionality, the PowerPlant system applicable to fixed asset and tax accounting, the Oracle Customer Care and Billing System applicable to billing, collections and customer service functions, and the IBM Maximo system applicable to enterprise asset management and work management.

Q. What enhancements will EIMS bring to the Company's provision of utility service?

A. Once fully implemented in the summer of 2013, EIMS will provide the Company with additional tools to improve customer care and operate even more efficiently.

Q. What contribution will EIMS make to enhancing customer care?

A. For one thing, it will make additional customer support information available to customer service personnel operating out of the Company's call center – an enhancement that should lead to greater "first call" resolution for customer inquiries and, in the process, produce greater efficiency through the ability to take more calls and/or to reduce average speed of answer. EIMS will also provide the Company with greater flexibility to design and implement more individualized service offerings for customers with distinct needs, requirements and operating characteristics. The value of this flexibility to Laclede's customers should be particularly evident when it comes to easier accessibility to information helping customers to better understand their energy usage and to benefit from the more efficient use of those energy resources. Similar benefits should also accrue in the design, implementation and evaluation of the Company's energy efficiency, affordability and weatherization programs.

Q. Will EIMS also allow the Company to operate more efficiently over the long-term?

A. Yes. EIMS should also benefit customers over the long-term by enabling the Company to operate more efficiently across a wide spectrum of business functions. Among other things, it will help to streamline and automate business processes and provide management with easy access to operational metrics for use in making timely and efficient management decisions. It will also provide for more robust time and labor tracking, reporting and financial analysis and enhance our ability to conduct spend analysis in support of strategic sourcing. All of these enhancements will help to eliminate work duplication in the gathering, reporting and evaluation of data and improve our ability to coordinate field operations in an even more efficient and systematic manner.

Q. Will EIMS also provide the Company with additional ways to enhance the safety of its system?

A. Yes. Its features will also enhance the Company's ability to centralize, more rapidly access and more robustly analyze and track safety-related infrastructure data and records as well as compliance requirements. In short, the introduction of these new information management tools will do for Laclede what the expanded use of such technology has done for countless other businesses – enable the Company to ultimately provide its customers with higher quality utility service in a more efficient manner.

Q. Are these anticipated enhancements the primary reason why the Company chose to move forward with its EIMS investment?

A. They were certainly a very important factor. But moving forward with this transformation of the Company's information management system was also a by-product of necessity. Laclede takes very seriously its obligation to make such large investments only where there is a compelling case to do so. That's exactly why the Company has maintained and has continued to operate the same Customer Information System ("CIS") for 25 years. Because of its age, however, it had become increasingly difficult to find programmers and software providers with the knowledge and expertise to maintain and, in the event of an emergency, repair the CIS system. Accordingly, it became increasingly important to move forward with a new information management system and the Company has now done so.

## ACCOUNTING AUTHORIZATIONS SOUGHT

Q. Please explain what accounting authorizations the Company is requesting in connection with its implementation of EIMS.

A. As the Company begins to implement the various components of EIMS, it is critical that Laclede have an authorized, Commission-approved depreciation rate effective for the beginning of the Company's next fiscal year (October 1, 2012) that can be applied to this kind of transformative information management asset. Currently, Laclede has only one depreciation account in effect for software, and it is wholly inapplicable to the kind of fundamental restructuring of information management assets represented by EIMS. Indeed, given their cost and complexity, it has been the Company's experience that such wholesale changes to its information management systems for core functional areas only occur over intervals spanning from 15 to 25 years, with the CIS system I just discussed being an example of one that has survived the longest.

Q. What then is the Company's proposal for accounting for this new asset in an appropriate manner?

A. As described in the Company's Application, Laclede is requesting two basic aceounting authorizations from the Commission. First, the Company requests that the Commission authorize Laclede to establish a new subaccount denominated as Account 391.5 – Enterprise Information Management System (EIMS) applicable to the EIMS assets identified in Schedule 1 to the Company's Application, and attached hereto as Schedule GWB-D1.

Q. Does Schedule GWB-D1 include a complete description of the various components of the EIMS project?

A. Yes, it does. As set forth in Schedule GWB-D1, these components include both the internal and external costs incurred by the Company to design, configure, test and implement all of the core components of EIMS.

Q. What is the second major accounting authorization requested by the Company?

A. The Company further requests that the Commission establish and assign a five percent (5%) depreciation rate for the EIMS investments that are included in Account 391.5 beginning with their in-service dates in 2012 and 2013 and that such depreciation continue to accrue until such time, if any, that a new rate for this subaccount is established.

Q. Are these depreciation-related accounting authorizations consistent with others recently granted by the Commission?

A. Yes. They are nearly identical to the authorizations recently granted by the Commission in connection with a similar enterprise information system being implemented by Missouri-American Water Company. Based on the unanimous recommendations of all of the parties in the Stipulation and Agreement that resolved Missouri-American's most recent rate case proceeding, Case No. WR-2011-0337, the Commission concluded that a 5% depreciation rate was appropriate for at least the initial years of that utility's implementation of its enterprise information system. For the reasons previously discussed, the Company believes such a rate is equally appropriate for its EIMS investment.

Q. Did the Commission also require that Missouri-American conduct and file a depreciation study in the next rate case following full implementation of Missouri-American's new system so that any potential changes to the depreciation rate could be evaluated?

A. Yes. And the Company is certainly willing and has, in fact, proposed that the Commission impose a similar condition on Laclede as part of any order approving the Company's application.

## RESERVATIONS OF RIGHTS

Q. As part of the authorizations it is requesting in this case, is the Company seeking any ratemaking determination by the Commission in this case?

A. No. Similar to other instances where the Commission has issued accounting authorizations, including orders establishing new depreciation rates, the Company fully recognizes that such authorizations do not include any ratemaking determinations. To the contrary, Laclede understands that the parties will be free to raise in a subsequent case whatever issues they may have regarding the prudence of this investment.

Q. Does that include the prudence of both the Company's decision to make this investment as well as the prudence and reasonableness of management's implementation of EIMS?

A. Yes. It includes both.

Q. Will the parties also be free to suggest changes to the depreciation rate established by the Commission if it approves the Company's Application?

A. Yes. Similar to what the Commission approved in connection with the authorizations given for the Missouri-American enterprise information management system, the Company understands that the parties would be free to propose a different rate once a depreciation study is filed following full implementation of the EIMS.

Q. Has the Company communicated to the other parties its willingness to recognize these reservation of rights in this case?

A. Yes. The Company has already proposed in its Application that the Commission include these disclaimers and reservations of rights in any order granting the Company's Application. In addition, as a result of its previous discussions with the Staff and

OPC, the Company has also offered to provide additional assurances in this regard, including assurances relating to the parties' access to any information that may be required to audit and evaluate the prudence of any EIMS expenditures or the propriety of the depreciation rate applicable to the investment. It is the Company's hope that these additional assurances will be reflected in a Stipulation and Agreement that the Company has been working on with the Staff.

**RESPONSE TO OPC'S MOTION**

Q. Have you had an opportunity to review the factual assertions made by OPC in support of the Motion for Summary Determination which it filed in this proceeding on June 13, 2012?

A. Yes, I have.

Q. Do you have any comments on the Motion?

A. Because I am not an attorney, I will not comment on any of the legal conclusions set forth in the Motion. I will instead focus on what I believe are a number of fundamental factual errors underlying the assertions made by OPC in support of the Motion. The first has to do with OPC's assertion that the Company's request to establish a new depreciation rate for its EIMS investment is analogous to a proposal that was made by OPC in an Ameren electric rate case in which OPC unsuccessfully proposed to lower the depreciation rate applicable to Ameren's Callaway nuclear plant. As OPC notes in its Motion, the Commission rejected OPC's proposal because no overall depreciation study had been done for the case, although the Commission emphasized that a complete depreciation study had just been performed in Ameren's previous rate case. Absent such a study, the Commission was concerned that OPC's proposed change for Callaway might lower

Ameren's overall rates even though a complete depreciation study might have resulted in offsetting increases in rates for other items The Commission accordingly declined to accept OPC's proposal based on the Commission's perception that such action might be somewhat analogous to single issue ratemaking.

Q. Did the Commission consider OPC's proposed depreciation rate change?

A. Yes, unlike the kind of summary rejection that OPC has proposed in this case, the Commission thoroughly considered OPC's evidence and position before it ruled on the issue. In fact, the Commission specifically considered OPC's argument that special circumstances, including an extension of the operating license for Callaway, existed to support the change in depreciation rate, but determined that these circumstances were not new or unusual. The point is that the Commission clearly entertained OPC's arguments and evidence, leaving me with the impression that even if the Company were asking for a change in depreciation rates, rather than the establishment of a new one, the Commission would still be open to considering evidence and taking such action if there were circumstances justifying it. .

Q. Are the factual circumstances underlying the Company's request for a new depreciation rate for its EIMS investment in this case similar to the circumstances present in the Ameren case?

A. No. In fact, they are very different. To begin with, in the Ameren case, the Commission was faced with a depreciation proposal by OPC that would have had an *immediate* impact on rates in that case. In other words, Commission acceptance of OPC's proposal would have resulted in an immediate reduction in the rates being authorized by the Commission in that case. In contrast, Commission approval of the new depreciation rate proposed by

the Company would have no impact on rates at this time – a difference that OPC seems to recognize in its Motion by implying that approval of the depreciation rate proposed in this case *might* have an impact on *future* rates.

Q. Is this potential impact on future rates a legitimate basis for not establishing a depreciation rate at this time?

A. No. The Commission has routinely taken actions between rate cases that may have an impact on future rates. Among others, these have included the issuance of accounting authority orders permitting utilities to defer a variety of costs for consideration in a future rate case, financing orders authorizing utilities to issue stock and incur debt, and rulemakings requiring utilities to incur costs that they weren't incurring before. All of these actions could, at some point, have an impact on future rates. That possibility, however, has never prevented the Commission from acting. In fact, it is my understanding, based again on advice of counsel, that Missouri courts have expressly rejected the argument that such actions violate the general prohibition against single issue ratemaking because there may be a future impact on rates. To the contrary, so long as the costs being addressed by the Commission remain subject to review and adjustment in a future rate proceeding, as the Company proposes they should be in its Application, the courts have held that the Commission is entirely free to act.

Q. Is there anything else you find disconcerting about OPC's alleged concern regarding the future rate impact of the Company's proposal?

A. Yes. I find it strange that OPC would resist the Company's efforts to establish a realistic 5% depreciation rate for this asset on the theory that there is already a higher 20% depreciation rate in effect that could be applied to this asset. While I believe OPC is

factually incorrect in asserting that this higher depreciation rate could be reasonably applied to this asset, its worth noting that implementation of OPC's position in the Company's next rate case would result in customers being charged 6 or 7 million dollars more in depreciation expense than would be the case under the Company's proposal. It would also require current customers to finish paying for the new system in its entirety years in advance of when the system would be ultimately be retired from service. If that is the desired outcome, then OPC can propose a 20% depreciation rate in the future. In the meantime, however, I have a difficult time reconciling OPC's stated concerns over future rate impacts with OPC's recommendation to require Laclede's current customers to pay off an expensive long-lived asset in just five years.

Q. Are there other factual differences between the Ameren depreciation issue referenced by OPC and the depreciation proposal by the Company in this case?

A. Yes. In the Ameren case, OPC was proposing to change an existing depreciation rate applicable to the Company's decades-old Callaway plant. In this case, however, Laclede is seeking the establishment of a new depreciation rate for a brand new investment for which there simply isn't a class with a currently applicable depreciation rate. As a result, there is an absolute need for the Commission to establish such a rate so that the Company can begin accounting for this investment in an appropriate manner.

Q. But hasn't OPC pointed to an existing depreciation rate that Laclede has for computer software in support of its argument that the Company does have an existing depreciation rate that could be applied to this investment?

A. Yes. But there is no simply no factual basis that would support applying the existing 20% depreciation rate for computer software to the kind of enterprise-wide integrated

replacement of the of the Company's information management system represented by EIMS. While a five year service life may be appropriate for a desktop software upgrade from say Microsoft Office 2003 to Microsoft Office 2007, it doesn't begin to reflect the service life that can be expected for a massive upgrade affecting over 80% of the Company's information systems functions. To the contrary, the 5%/20 year service life proposed by the Company in its application for this investment is far more representative of its expected useful life.

Q. Is your conclusion supported by the Company's historical experience with these kinds of large, system-wide upgrades?

A. Yes. Although the Company has never implemented information systems upgrades as comprehensive and massive as EIMS, other large system upgrades that the Company has made in the past three decades have experienced service lives far in excess of 5 years. As I previously noted, for example, the Company's current Customer Information System was first placed in service in 1987 or approximately 25 years ago. Other major information systems, including the Company's Walker Accounting and MMS systems, have been in service for 15 year to 20 years. Given this history and the basic purpose of depreciation (which is to match cost recovery with the period over which an asset is likely to be in service and provide customer benefits), the Company's proposed depreciation rate is an appropriate and fully supported starting point for depreciating this asset, particularly in view of the fact that the rate will be subject to review and adjustment in subsequent rate case proceedings. By the same token, the current five year service life for computer software is plainly inapplicable to this new investment based on any reasonable assessment of the new system's probable service life.

Q. So not all software is alike in terms of its expected service life?

A. No. And that shouldn't come as a surprise. There are a variety of assets that may fall under the same general category, but still have significantly different service lives. An example is the different types of transportation equipment the Company has. Transportation Equipment – automobiles (392.1) are simpler, less expensive vehicles that have been assigned a 6 year life. Transportation Equipment – trucks (392.2) are more complex, more expensive and more time consuming to construct, and have been assigned an 11 year life. In effect, Laclede currently has the automobile version of software, but not the truck version. EIMS definitely fits into the truck version category and not the automobile version category.

Q. Is there other support for utilizing the 5% depreciation rate and 20 year service life for EIMS proposed by the Company?

A. Yes. As I have previously discussed, the Commission recently approved a 5% depreciation rate (as part of an overall comprehensive rate case settlement) and a 20 year service life for the new Missouri-American enterprise-wide management information system – a system that is remarkably similar to the Company's EIMS investment. Like the Company's proposed approach in this case, the depreciation rate for Missouri-American's new system will be subject to potential revision once it is fully implemented. In the meantime, however, the Commission's action in Missouri-American provides strong support for the Company's proposal to utilize a 5% depreciation rate for EIMS pending further review. It also provides a further demonstration of why applying a 20% depreciation rate and a five-year service life to this investment, as suggested by OPC, would be fundamentally inappropriate.

Q. OPC also suggests in its Motion that the Commission should require the Company to conduct an overall depreciation study before it establishes a new depreciation rate for EIMS. Is such a study necessary as a prerequisite to establishing a new rate?

A. No. As I previously indicated, unlike the situation in the Ameren case, the Company is not proposing to change the rates it charges its customers based on the new depreciation rate that would be established by the Commission if it approves the Company's application. Because rates are not changing, there is absolutely no need to conduct an overall depreciation study at this time to ensure that there are no offsetting changes in other depreciation rates since there is nothing to offset.

Q. Given all of these considerations, is there another Commission precedent, in addition to the Missouri-American decision, that is more applicable to the Company's requested relief than the Ameren decision relied upon by OPC?

A. Yes. Just recently, in Case No. EO-2012-0340, the Commission Staff recommended new depreciation rates and amortization provisions for certain assets owned by KCP&L and KCP&L Greater Missouri Operations ("GMO"), including a bridge built by the utility in connection with its Iatan plant and certain miscellaneous power equipment. Notably, OPC did not oppose this action even though the depreciation rates and amortizations were established outside of a general rate case and were not accompanied by the kind of overall depreciation study that OPC has suggested in connection with Laclede's request. Apparently, OPC was able to recognize in that case that since the requested depreciation actions had no immediate impact on rates, there was no basis for opposing it. Laclede respectfully submits that the actions requested of the Commission in Case No. EO-2012-0340, and OPC's apparent concurrence therein, provide a far more

helpful and pertinent precedent for how the Commission should proceed in this case, than does the Ameren case cited by OPC.

## CONCLUSION

Q. Do you have any concluding observations to make?

A. Yes. Laclede believes that it has done the right thing with its EIMS investment by working extremely hard to transform its information systems in a way that will enable the Company to further enhance the quality, safety and efficiency of the services it provides to its Missouri customers. All it asks of the Commission in this case is that it timely establish a new depreciation rate that reasonably reflects the useful service life of this significant investment pending its full implementation and the parties' exercise of their rights to raise whatever issues they may have regarding the investment at the time the Company seeks recovery of the costs. Laclede does not believe that is too much to ask and respectfully requests that the Commission grant the relief requested in its Application in this case.

Q. Does this complete your direct testimony?

A. Yes, it does.

## ENTERPRISE INFORMATION MANAGEMENT SYSTEM

Amounts capitalized to implement the EIMS will include both internal and external costs (including consulting costs) to design, configure, test and implement this enterprise software in accordance with GAAP.

- Oracle Enterprise Business Systems – core system functionality including accounting, reporting, payment processing and supply chain functionality (calendar Q4 2012 targeted implementation)
- PowerPlant – a utility-focused suite of applications supporting fixed asset and tax accounting (Q4 target)
- Oracle Customer Care and Billing – supporting all customer-facing functionality including billing, collections, and customer service functions (Q3 2013 target)
- IBM Maximo - Enterprise asset management and workflow system (two phased implementation targeted for Q1 and Q3 2013)

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

| | | |
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| In the matter of Laclede Gas Company's application to establish depreciation rates for Enterprise Computer Software Systems | ) ) ) | **Case No. GO-2012- 0363** |

AFFIDAVIT

STATE OF MISSOURI )
) SS.
CITY OF ST. LOUIS )

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager-Financial Services of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, on behalf of Laclede Gas Company.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Glenn W. Buck

Glenn W. Buck

Subscribed and sworn to before me this 19 day of June, 2012.

Lisa M. Reed

Notary Public

LISA M. REED
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Nov. 7, 2015
Commission # 11265169