Exhibit No.: _______________
Issue(s): Depreciation/General Plant Amortization
Witness/Type of Exhibit: Robinett/Direct
Sponsoring Party: Public Counsel
Case No.: GR-2024-0106

DIRECT TESTIMONY

OF

JOHN A. ROBINETT

Submitted on Behalf of the Office of the Public Counsel

LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
D/B/A LIBERTY UTILITIES'

FILE NO. GR-2024-0106

July 18, 2024

TABLE OF CONTENTS

DIRECT TESTIMONY

OF

JOHN A. ROBINETT

LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP. D/B/A LIBERTY

CASE No. GR-2024-0106

Q. What is your name and what is your business address?

A. John A. Robinett, PO Box 2230, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Utility Engineering Specialist.

Q. Have you previously provided testimony before the Missouri Public Service Commission ("Commission")?

A. Yes. I have testified before the Commission both as a former member of Commission Staff and on behalf of the OPC.

Q. What is your work and educational background?

A. A copy of my work and educational experience is attached to this testimony as Schedule JAR-D-1.

Q. What is the purpose of your direct testimony?

A. In this testimony, I will discuss OPC's recommendation related to General Plant Amortization or Vintage Year Accounting.

<u>Depreciation Definitions</u>

Q. Is there terminology the Commission should know to better understand your ultimate recommendations?

A. Yes. For this testimony, the following depreciation terms need to be defined:

cost of removal, depreciation, amortization, vintage year, final retirement, gross salvage, interim retirements, interim salvage, net salvage, and retirement.

Q. From where are you drawing your definitions?

A. I will be citing two different sources. The first source is the Public Utility Depreciation Practices published by the National Association of Regulatory Utility Commissioners ("NARUC") in August, 1996, pages 313 through 327. The second source is Introduction to Depreciation for Public Utilities and Other Industries ("Introduction to Depreciation"), published by the Edison Electric Institute ("EEI") and the American Gas Association ("AGA") from April, 2013, beginning at page 165.

Q. How does NARUC define depreciation?

A. Depreciation is the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes that are known to be in current operation, against which the company is not protected by insurance, and the effect of which can be forecast with reasonable accuracy. Among the causes to be considered are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and the requirement of public authorities.

Q. How does NARUC define amortization?

A. The process of allocating a fixed amount, such as the total cost of an asset, to an expense account over future accounting periods.

Q. How does NARUC define a vintage year?

A. Year of placement of a group of property.

Q. How does NARUC define a final retirement?

A. A final retirement is the retirement of a major structure unit in its entirety, or a very large part of it, as opposed to interim retirements.

Q. How does NARUC define gross salvage?

A. Gross salvage is the amount recorded for the property retired due to the sale, reimbursement, or reuse of the property.

Q. How does NARUC define an interim retirement?

A. An interim retirement is the retirement of component parts of a major structure prior to the complete removal of the retirement unit from service.

Q. How does NARUC define interim salvage?

A. Interim salvage is the salvage received from the disposition of plant as a result of interim retirements.

Q. How does NARUC define net salvage?

A. Net salvage is the gross salvage for the retired property less its cost of removal.

Q. How does NARUC define a retirement?

A. A retirement is the sale, abandonment, destruction, or withdrawal of assets from service.

Q. How does Introduction to Depreciation define cost of removal?

A. Cost of removal is the costs to demolish, dismantle, tear down, or otherwise remove plant from service, including the cost of handling and transportation. Cost of removal is also used interchangeably with cost of retirement for assets that are retired in place, such as a gas pipeline.

Q. How does Introduction to Depreciation define an interim retirement?

A. Introduction to Depreciation defines interim retirements as the retirement of individual assets occurring prior to the retirement of the overall property group.

Q. How does Introduction to Depreciation define net salvage?

A. Net salvage is defined as the difference between the value of salvage and cost of removal resulting from the removal, abandonment, or other disposition of plant. Positive net salvage results when salvage values exceed removal costs. Negative net salvage results when removal costs exceed the salvage value. Positive net salvage decreases the cost to be recovered through depreciation expense and negative net salvage increases it.

Q. How does Introduction to Depreciation define a retirement unit?

A. A retirement unit is the smallest unit of plant for which addition and retirement records are maintained as defined by utility process and procedures manuals.

<u>General Plant Amortization</u>

Q. What is General Plant Amortization or Vintage Year Accounting?

A. General Plant Amortization and Vintage Year Accounting are just two names for the same method of amortization of assets. However, this amortization method is distinct from depreciation expense, which is calculated using the historical experience of the average lives of the assets contained in an account. General Plant Amortization/Vintage Year Accounting, by contrast, covers a defined period that the Company may recover costs for capital investments in specific accounts which will not be tied to the actual life of the assets in the future.

Q. Has the Federal Energy Regulatory Commission ("FERC") provided any guidance on the issue of general plant amortization or vintage accounting?

A. Yes. FERC issued Accounting Release Number 15 (AR-15), Vintage Year Accounting for General Plant Accounts, effective January 1, 1997. AR-15 allows utilities to use a simplified method of accounting for general plant assets, (referred to as "General Property") excluding structures and improvements. The AR-15 accounting release allows high-volume, low-cost assets to be amortized over the associated useful life, eliminates the need to track individual assets, and allows a retirement to be booked at the end of the theoretical depreciable life. FERC's AR-15 lists certain general plant accounts for which vintage year accounting might be reasonable. Attached as schedule JAR-D-2 is a list of the FERC Accounting Releases along with the language of AR-15 describing vintage year accounting.

For example, the end of the update period for plant additions is December 31, 2023, and the current ordered average service life for account 391, Office Furniture and Equipment, is 22 years. Therefore, any remaining asset from account 391 that is on the books must have been placed into service after December 31, 2001. So, if the Commission approves General Plant Amortization, the in-service dates that need to be retired in this account are for any plant that is older than December 31, 2001. Assets placed into service before that date exceed the amortization period and the Company has fully recovered those investments.

Q. Do you recommend using General Plant Amortization or Vintage Year Accounting for General Plant Accounts?

A. No I do not.

Q. What concerns do you have regarding general plant amortization?

A. General Plant Amortization threatens the Commission's ability to perform any sort of prudence review of plant added into these accounts due to this amortization method failing to track retirement units and original costs. Under the General Plant Amortization method, only two values matter: 1) the total additions for an account in a vintage year and 2) the amortization period over which the original investment can be recouped. The total additions do not reflect the costs per retirement unit, which prevents parties from auditing these additions based on cost per unit.

General Plant Amortization does not yield historical data for depreciation that will differ from the amortization period for the select account. Therefore, any future depreciation study could not properly analyze the actual lives of the asset and match the actual lives with an appropriate depreciation rate. Under General Plant Amortization, amortization periods are not necessarily related to the useful life of the assets. Instead, the retirement booking relates to the retirement of dollars. Depreciation is designed to determine the appropriate return of investment to the Company's shareholders based on the useful lives of its assets. With General Plant Amortization, plant assets may actually retire prior to the amortization period or may survive many years past the amortization period. This method could mask the appropriate recovery period for the Company's assets.

Q. Are there any other aspects of changing to General Plant Amortizations that may cause concern?

A. Yes. I understand that if the method is approved, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a/ Liberty ("Liberty" or "Company") should retire all assets in each requested account that are older vintages than the amortization period. If the Company does not retire these assets, it would allow the Company to continue to recover for assets that have already been fully accrued when switching from depreciation to general plant amortization.

Also, I note that additional amortizations may be needed on an account-by-account basis to correct for reserve imbalances if Liberty's request to use General Plant Amortization is approved.

Q. Do you have any recommendations if the Commission determines that general plant amortization is appropriate?

A. Yes. If the Commission approves Liberty's request for General Plant Amortization, I recommend that the Commission order Liberty to continue specifying the original cost and associated retirement units for all additions to the accounts where General Plant Amortization accounting treatment will occur. Additionally, Liberty should retire all general plant that exceeds the amortization period.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Request of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company	)))))	Case No. GR-2024-0106

AFFIDAVIT OF JOHN A. ROBINETT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

John A. Robinett, of lawful age and being first duly sworn, deposes and states:

1. My name is John A. Robinett. I am a Utility Engineering Specialist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my direct testimony.

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

John A. Robinett
John A. Robinett
Utility Engineering Specialist

Subscribed and sworn to me this 17th day of July 2024.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

Tiffany Hildebrand
Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.