

Exhibit No.: _____
Issues: Depreciation Study
Witness: Dane A. Watson
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp. d/b/a Liberty
Case No.: GR-2024-0106
Date Testimony Prepared: August 2024

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

Rebuttal Testimony

of

Dane A. Watson

on behalf of

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

August 22, 2024



REBUTTAL TESTIMONY OF DANE A. WATSON
LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP. D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2024-0106

1 **Q. Please state your name and business address.**

2 A. My name is Dane A. Watson. My business address is 101 E. Park Blvd., Suite 220,
3 Plano, Texas, 75074.

4 **Q. Are you the same Dane A. Watson who provided direct testimony in this matter**
5 **on behalf of Liberty Utilities (Midstates Natural Gas) Corp. (“Liberty” or the**
6 **“Company”)?**

7 A. Yes.

8 **Q. What is the purpose of your rebuttal testimony in this proceeding before the**
9 **Missouri Public Service Commission (“Commission”)?**

10 A. I will be addressing certain recommendations by Office of the Public Counsel (“OPC”)
11 witness John Robinett and Missouri Public Service Commission Staff (“Staff”) witness
12 Amanda Coffey from their direct testimony.

13 **Q. What are OPC witness Mr. Robinett’s recommendations?**

14 A. Mr. Robinett opposes the Company’s proposed adoption of general plant amortization,
15 FERC Accounting Release 15m, for the Company’s amortized general plant.

16 **Q. Have other jurisdictions reviewed your study for Liberty and your proposed**
17 **rates?**

18 A. Yes. Recently, the Illinois Commerce Commission Staff in Docket No. 24-0043
19 reviewed the Liberty study and approved materially all of the proposed depreciation

1 rates. The only change from my recommendations was the adoption of a shorter life
2 for a software account.

3 **Q. Is there harm to customers when a Company implements general plant**
4 **amortization?**

5 A. No. There is no harm to the customers when implementing Vintage Group
6 Amortization (FERC Accounting Release 15 or AR-15). Implementing AR-15 has
7 zero impact on net book value and results in no change in rate base. I can illustrate this
8 concept using a simple example. Let's assume there is \$100,000 of Plant in Service in
9 Account 3722 Office Furniture and \$50,000 of Accumulated Depreciation for that
10 account. The current net book value is \$50,000 (\$100,000-\$50,000). In this example,
11 we are going to retire \$20,000 of assets that have reached the average service life for
12 this account. The entry for that retirement is to credit Plant in Service \$20,000 and
13 debit Accumulated Depreciation \$20,000. The balance in Plant in Service after the
14 retirement is now \$80,000 (\$100,000-\$20,000) and the balance in Accumulated
15 Depreciation after retirement is now \$30,000 (\$50,000-\$20,000), resulting in the same
16 net book value of \$50,000 (\$80,000-\$30,000) after retiring the amortized general plant
17 assets.

18 **Q. Are there clear benefits from adopting general plant amortization?**

19 A. Yes. With the adoption of vintage group amortization, it is no longer necessary to keep
20 track of the location and retirement of specific assets. The goal of AR-15 is to reduce
21 the administrative burden related to tracking small dollar, large volume assets and to
22 ensure the timely retirement of those assets, which is beneficial to customers. Annually,
23 assets are retired after reaching the average service life for that account (auto
24 retirement). Additionally, it should be noted the Company property records will be

1 maintained at the retirement unit level as to specific assets that are retired under AR-
2 15.

3 **Q. Is this approach widely used?**

4 A. Yes, very widely used. Most of the utilities across the United States have implemented
5 AR-15 and use the auto retirement process. For Liberty, the following property
6 accounts are proposed for AR-15 treatment: Account 3910 Office Furniture and
7 Equipment, 3930 Stores Equipment, 3940 Tools, Shop and Garage Equipment, 3950
8 Laboratory Equipment, 3970 Communication Equipment, 3971 Mobile Radios, 3972
9 Fixed Radios, 3973 Telemetry, 3980 Miscellaneous Equipment, 3993 Network
10 Hardware, and 3994 PC Hardware Equipment.

11 **Q. Please give an example of how this approach is used.**

12 A. AR-15 makes it possible to retire asset groups that consist of items that are small in
13 cost without the need for detailed inventories. It is difficult for small assets such as
14 tools, furniture, or laboratory equipment to be accurately retired without detailed, time-
15 consuming inventories. Operations personnel may not realize a chair or tool is a capital
16 asset that should be reported as retired and when broken or lost - frequently they will
17 simply be thrown away. AR-15, as approved by FERC, would allow more accurate
18 record keeping since these small assets would be retired in a timely manner with
19 minimum administrative burden.

20 For Liberty, the plant balance of these accounts is only 2.15% of the Company's
21 total depreciable plant at December 31, 2021.¹ Implementing AR-15 requires a
22 retirement of \$235,157 related to general plant assets that have reached the average

¹ Total Plant Appendix A1 / Total Depreciable Plant = \$3,865,198/\$179,872,852.

1 service life for each account. These AR-15 general plant retirements are fully
2 depreciated at the time of retirement.

3 **Q. Has the Commission previously approved AR-15 treatment for other companies?**

4 A. Yes. The commission approved AR-15 for Ameren Missouri in Case No. ER-2022-
5 0337 and The Empire District Electric Company in Case No. ER-2021-0312. There is
6 no reason to deny the Company's proposed implementation of AR-15. AR-15
7 simplifies fixed asset accounting and leads to more consistent and timely retirements,
8 which benefits customers. This methodology is used by nearly all utilities across the
9 country.

10 **Q. What are Staff witness Ms. Coffey's recommendations?**

11 A. Ms. Coffey recommends retention of the Company's current depreciation rates. She
12 states, "Due to ongoing issues with Staff's software, Staff has been unable to complete
13 a depreciation study."² My workpapers contained sufficient information for an analyst
14 to determine the reasonableness of my study and recommendations and should have
15 been taken into consideration to form a recommendation in spite of technical issues
16 with software.

17 **Q. Do you have any concluding remarks to add to your rebuttal testimony?**

18 A. Yes. The Commission should approve the implementation of AR-15 for Liberty. AR-
19 15 simplifies fixed asset accounting and leads to more consistent and timely
20 retirements, which benefits customers. This methodology is used by nearly all utilities
21 across the country. The Company's continued use of the average life group, remaining
22 life methodology and conducting theoretical reserve analysis when completing its
23 depreciation study eliminates the need to calculate reserve adjustments in this and

² Coffey Direct: page 3, lines 18-19.

1 future depreciation studies to resolve reserve imbalances that impact shareholders and
2 ratepayers.

3 **Q. Does this conclude your rebuttal testimony?**

4 **A.** Yes it does.

VERIFICATION

I, Dane A. Watson, under penalty of perjury, on this 22nd day of August, 2024, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Dane A. Watson