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Case No.: GR-2024-0106

SURREBUTTAL 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

September 19, 2024

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

CASE No. GR-2024-0106

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

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

3 **Q. Are you the same John A. Robinett who filed direct testimony on behalf of the**
4 **Missouri Office of the Public Counsel (“OPC”) in this proceeding?**

5 A. Yes.

6 **Q. What is the purpose of your surrebuttal testimony?**

7 A. In this testimony, I will discuss Public Service Commission Staff’s (“Staff’s”) update to its
8 recommended depreciation rate schedule. Then, I will address my concerns with the plant-
9 in-service accounting schedule and the accumulated depreciation reserve accounting
10 schedule in Staff’s rebuttal testimony. Finally, I will respond to the rebuttal testimony of
11 Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty (“Liberty”) witness Mr. Dane
12 A. Watson on Vintage Group Amortization/General Plant Amortization method.

13 **Staff’s Updated Depreciation Rate Schedule**

14 **Q. What changes did Staff make to its depreciation recommendation between its direct and**
15 **rebuttal testimony?**

16 A. Staff completely overwrote its prior recommendation. In direct, Staff argued for the
17 Commission to continue with the previously ordered depreciation rates, but in rebuttal, Staff
18 argued for an all-new set of rates.

1 **Q. Did Staff explain why their depreciation rate recommendation changed?**

2 A. Yes. Staff witness Amanda Coffey's rebuttal testimony, states:

3 "Staff was unable to perform a depreciation study at the time due to
4 technical difficulties with its depreciation software. These issues have since
5 been resolved and Staff was able to move forward with its depreciation
6 study."¹

7 **Q. What concerns do you have about Staff's new depreciation schedules and recommended
8 accumulated depreciation reserve adjustments?**

9 A. My concerns are related to Staff's depreciation expert lacking an explanation for all the
10 adjustments made in Staff's calculated depreciation reserves and the impacts of those
11 adjustments.

12 **Q. Can you please elaborate?**

13 A. Certainly. After reviewing Staff's new depreciation study, I issued two data requests to
14 Staff related to its changed position regarding depreciation and recommended reserve
15 adjustments. The first data request was number 0362, attached to my testimony as Schedule
16 JAR-S-1. This data request asked for citations for discussion of reserve transfers that were
17 being recommended as part of the Staff's rebuttal accounting schedules. Staff's response
18 does not provide the requested citation. I also reviewed Ms. Coffey's rebuttal testimony
19 and determined that she did not discuss or explain Staff's reserve transfers.

20 Because Staff did not discuss Liberty's reserve transfers in its testimony, there is
21 no explanation of Depreciation Staff's recommended reserve transfers, the accounts to
22 place those transfers, or why the reserves transfers are necessary. It is not clear if

¹ Rebuttal Testimony of Amanda Coffey, page 1 lines 17 through 19, Case No. GR-2024-0106, EFIS Item No. 88.

1 accumulated reserves are being reallocated solely within a single functional group or
2 among multiple functional groups.

3 **Q. What do you mean by a “functional group?”**

4 A. A function group refers to a larger category of plant accounts. So, for example,
5 “distribution plant” would be a functional group while the individual mains and service
6 lines that make up a company’s distribution system will all be under separate plant accounts
7 within that functional group.

8 **Q. What about the adjustment impact and the second data request?**

9 A. The second data request, number 0363 (which I have also included and attached as
10 Schedule JAR-S-1) asked if Staff had performed a calculation to determine the impact of
11 its revised depreciation recommendation compared to the continued use of currently
12 ordered depreciation rates as recommended in direct testimony. Staff’s response, attached
13 as Schedule JAR-S-2, was that Depreciation Staff did not calculate the cost difference
14 between the positions or what affect that difference has on customers going forward.

15 **Q. Why is this response concerning?**

16 A. It shows that Staff has not performed the calculation to inform them of the ramifications of
17 their recommendation has on rates and, by extension, Liberty’s customers. The
18 Commission should be very cautious to approve depreciation rates without knowing what
19 impact that will have to the Company’s revenue requirement.

20 **Q. Given these issues, what is your recommendation?**

21 A. There is not a good solution to the present situation. However, given the lack of information
22 available regarding Staff’s proposal, I would recommend the Commission maintain Liberty

1 Midstate's current depreciation rates. This recommendation follows Staff's argument in
2 their direct testimony.

3 **Accounts 376.1, 376.2 and 378 changes between direct and rebuttal accounting schedules**

4 **Q. What was Staff's recommendation regarding these three accounts?**

5 A. In direct, Staff transferred \$21 million from account 376.1, T&D-Mains-STL, which concerns
6 steel ("STL") mains, to account 376.2, T&D-Mains-PLST, which concerns plastic ("PLST")
7 mains.

8 In rebuttal, the \$21 million is still being removed from Account 376.1, but the name
9 of the account has been changed to T&D-LandRights-STL. In addition, the dollars are no
10 longer being transferred to account 376.2, but are now being transferred to account 378, which
11 is Measuring & Regulation Station Equipment-General.

12 **Q. Was there an explanation give for this change?**

13 A. I was unable to find one. I believe that this may have just been an error, but I have not been
14 able to verify that assertion.

15 **Q. What problems arise from this change?**

16 A. This change creates at least two problems. The first problem is that the name-change for
17 account 376.1 should change the depreciation rate being applied to the account as mains are
18 depreciable but land and land rights are not. However, account 376.1 still has a non-zero rate
19 which implies that Staff is now depreciating land rights. Again, this account should not
20 depreciate if land and land rights is truly the correct designator. The second problem is that
21 this change increases Liberty's depreciation expense by \$261,113 because account 378
22 applies a 3.13% depreciation rate as opposed to the 1.92% rate that applies to account 376.2.

1 **Q. What recommendation would you make in light of these problems?**

2 A. Staff needs to clarify why these changes were made. Given that this is already surrebuttal
3 testimony, the best course of action for the Commission is to continue the existing, ordered
4 depreciation rates.

5 **Q. Why is this \$21 million transfer being made in your opinion?**

6 A. In my opinion, this transfer is being driven by the Company's switch to customer first and the
7 change in asset management software.

8 After rebuttal testimony, I issued a few data requests to Liberty so I could understand
9 whether the adjustments in its accounting schedules were consistent with Staff's. The
10 response that stood out to me regarded OPC data request 8543, which is attached as schedule
11 JAR-S-3. This data request asked about the negative totals present in several plant-in-service
12 accounts in both Staff's direct and rebuttal accounting schedules. If these accounts were, in
13 fact, negative, it would mean that the Company's retirements and adjustments cost more than
14 the assets Liberty currently has in-service. Liberty responded that the retirements and
15 adjustments do not actually exceed the original cost of assets that are in-service but are
16 negative as a result of a "presentation issue" between data from legacy system and SAP.
17 However, Liberty's response just creates a concern that a level of detail present in the legacy
18 plant accounting is being lost in the roll up to this new software.

19 **Q. Do you have any recommendations to directly address this problem?**

20 A. I recommend the continued use of major and minor subaccounts for plant. The assets should
21 continue to be booked into separate subaccounts by type for example main material types as
22 was done in the legacy plant accounting system.

1 **General Plant Amortization/ Vintage Group Amortization**

2 **Q. As a refresher, what is General Plant Amortization and/or Vintage Year Accounting?**

3 A. As I stated in my direct testimony, General Plant Amortization and Vintage Year Accounting
4 are interchangeable terms. Essentially, both terms refer to a method of amortization that
5 focuses on the period of time that a utility may recover the cost of capital in certain accounts,
6 disconnected to the assets' expected life.

7 General Plant Amortization focuses on 1) the total capital additions that a utility has
8 made, in each account, during a vintage year and 2) the general amortization period assigned
9 to each account, over which an investment may be recouped. Basically, General Plant
10 Amortization is connected to the dollars invested in each utility account, rather than to the
11 specific asset that the Company invested in.

12 **Q. In your direct testimony, what was your position regarding Liberty's possible transition
13 to General Plant Amortization?**

14 A. I did not support the transition.

15 **Q. Why not?**

16 A. My main concern was, and still is, that transitioning to the General Plant Amortization method
17 diminishes the Commission's ability to perform an effective prudence review. This method
18 of accounting does not track the Company's retirement of individual assets. Rather, it relies
19 on the Company's retirement of the annual costs that exceed the amortization period, on an
20 account-by-account basis.

1 **Q. Mr. Watson's rebuttal testimony says that implementing General Plant**
2 **Amortization/Vintage Group Amortization does not result in harm to customers. Do**
3 **you agree with that statement?**

4 A. No, I do not. By focusing on this method's lack of an impact on rate base and net book value,
5 Mr. Watson is ignoring how the implementation of General Plant Amortization actually harms
6 customers. The problem for customers occurs when the Company considers an account under-
7 accrued. There are two methods Liberty could use to collect that under-accrued amount. The
8 first method is to require additional amortization to make up for the account's reserve
9 deficiency. The second method is to increase the depreciation rate over recommended accrual
10 period in order to make up for any under-recovered assets. Both methods of resolving the
11 under-accrual of an account would cause Liberty customers to pay higher rates.

12 **Q. Is that the only problem with what Mr. Watson's argument?**

13 A. No. There is an additional problem that Mr. Watson has failed to address and that is how
14 General plant amortization creates a circular loop of information feeding the depreciation
15 study data on a going forward basis.

16 **Q. Could you please explain exactly what the means?**

17 A. Depreciation studies determine depreciation rates using the experienced mortality, *i.e.*, the
18 historical retirement data, of the assets in an account. In other words, you observe how long
19 plant is lasting before it needs to be retired to determine its average usable or "service" life.
20 However, under the General Plant Amortization method of accounting, plant is retired, from
21 a bookkeeping perspective, as soon as it is "fully accrued" (*i.e.* the accumulated depreciation
22 reserve has met or exceeded the original cost of the plant). Therefore, plant will be retired at
23 the end of its calculated average service life regardless of whether the plant is still in use.

1 Because the retirements are being driven by the average service life and the average service
2 life is the time before the plant is retired, a circular loop is created where the retirement dictates
3 the average service life and the average service life dictates the retirement.

4 **Q. How would someone faced with this circular loop be able to change a general plant
5 amortization in a future rate proceeding?**

6 A. In order to change a general plant amortization rate in the future one would need to review
7 two potential things. The first would be the retirement data for the account one is trying to
8 change. However, that account will only show that the current ordered amortization period is
9 the appropriate value for the retirement rate. The second reference experts can look to would
10 be other similar utilities and their ordered depreciation rates. This also is a problem though,
11 because Mr. Watson's rebuttal states: "This methodology is used by nearly all utilities across
12 the country."² If Mr. Watson is correct, that means almost all utilities are stuck in the same
13 circular loop and just looking to each other when setting rates.

14 As a result, I would not expect many changes to occur to other utilities general plant
15 amortizations rates. The only other chance for a change in rates under general plant
16 amortization would be the implementation of new technology dissimilar from the current
17 assets in place.

18 **Q. Given this problem, what are your recommendations?**

19 A. I recommend that the Commission deny Liberty's request for general plant amortization and
20 require the utility to continue to track the lives of its assets.

² Case Number GR-2024-0106 Rebuttal Testimony of Liberty Utilities witness Mr. Dane A. Watson page 4 lines 20-21.

1 If the Commission allows Liberty to utilize general plant amortization, it should still
2 require the utility to continue to track the lives of its assets to prevent a circular loop of data.
3 Alternatively, the Commission should order the Company to continue to book plant-in-service
4 at the retirement unit level inside the accounts it approves for general plant amortization. This
5 recommendation would allow Staff or the OPC to conduct prudence reviews for all additions.

6 **Q. Does this conclude your surrebuttal testimony?**

7 **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) Case No. GR-2024-0106
Gas Service in the Missouri Service Areas of the)
Company)

AFFIDAVIT OF JOHN A. ROBINETT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

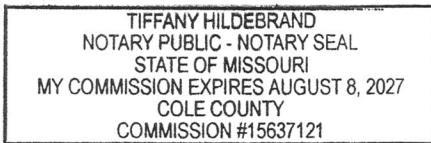
John A. Robinett, of lawful age and being first duly sworn, deposes and states:

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 surrebuttal 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
Utility Engineering Specialist

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





Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.