

Exhibit No.:  
Issues: Depreciation  
Witness: Paul W. Adam  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Rebuttal Testimony  
Case No.: GR-2001-292  
Date Testimony Prepared: May 22, 2001

**MISSOURI PUBLIC SERVICE COMMISSION**  
**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**PAUL W. ADAM**

**FILED<sup>2</sup>**  
**MAY 22 2001**  
**Missouri Public**  
**Service Commission**

**MISSOURI GAS ENERGY**  
**A DIVISION OF SOUTHERN UNION COMPANY**

**CASE NO. GR-2001-292**

**Jefferson City, Missouri**  
**May 2001**

**\*\*Denotes Highly Confidential Information\*\***

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**REBUTTAL TESTIMONY  
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**PAUL W. ADAM**

**MISSOURI GAS ENERGY,**

**A DIVISION OF SOUTHERN UNION COMPANY**

**CASE NO. GR-2001-292**

Q. Please state your name and business address.

A. Paul W. Adam, P.O. Box 360, Jefferson City, MO 65102.

Q. Are you the same Paul W. Adam that submitted direct testimony in this case?

A. Yes.

Q. Have you ever testified before the Commission?

A. Yes.

Q. What is the purpose of your rebuttal testimony in this case?

A. There are two items I will discuss in this rebuttal. First, Missouri Gas Energy's (MGE's or Company's) proposed depreciation rates are not supported by a study of plant life and net salvage cost. No base parameters, Average Service Lives (ASLs) and net salvage rates have been submitted to support the proposed rates. Second, the Company's move to plastic services and some plastic mains as replacement for metal services and mains will lengthen ASLs.

Q. Addressing your first item, will you explain the basis for the Company's proposed depreciation rates?

1           A.     The proposed depreciation rates appear to be a mathematical average of  
2 the currently ordered depreciation rates and depreciation rates determined by Black &  
3 Veatch (B&V) in a June 2000 study conducted for the Company.

4           Q.     Does this averaging present problems?

5           A.     Yes. The study completed by B&V, attached as a Schedule 1, studied  
6 plant life and net salvage cost for each account. These parameters were used to  
7 determine a depreciation rate for each account. The B&V depreciation rates calculate a  
8 smaller annual accrual than an annual accrual determined from currently ordered rates.  
9 For this case, the Company proposes depreciation rates that are different than the  
10 depreciation rates determined by the Company's consultant B&V. The Company's  
11 proposed rates will increase the annual accrual above the B&V proposal. It appears that  
12 the Company has moved halfway from the B&V depreciation rates toward the currently  
13 ordered depreciation rates. The rates proposed by the Company do not have associated  
14 ASL or net salvage cost for each account. There is no tie between the Company's  
15 proposed depreciation rates and the observed life of plant and the observed annual net  
16 salvage cost.

17          Q.     How do these average depreciation rates, proposed by the Company,  
18 present a logical problem?

19          A.     If it is assumed that the plant life determined by B&V is correct, then the  
20 lower depreciation rates proposed by the Company are the result of lower net salvage  
21 cost. But, the Company has not presented evidence that net salvage costs are lower than  
22 when B&V conducted their study in 2000. On the other hand, if it is assumed that the net  
23 salvage costs determined by B&V are correct, then the lower depreciation rates proposed

1 by the Company are the result of shorter ASLs. But, the Company has not presented  
2 evidence that ASLs are shorter than when B&V conducted their study in 2000. It could  
3 be assumed that both ASLs and net salvage costs are less than when B&V did their study  
4 but the Company has not submitted a study to support any changes to ASLs and/or net  
5 salvage costs subsequent to the June 2000 B&V study. The result is that there is no  
6 logical support of the depreciation rates proposed by the Company in this case.

7 Q. What is your conclusion to the Company's proposal versus the B&V  
8 study?

9 A. It is my conclusion that the Company has no justification for ignoring the  
10 ASLs and net salvage costs determined by their consultant, B&V. They have not  
11 presented an argument that their consultant's, B&V's, determinations are wrong and that  
12 the depreciation rates proposed by the Company in this case are the result of a "new,"  
13 more correct depreciation study based on different ASLs and/or net salvage costs.

14 Q. Your second item concerns the conversion to plastic services and some  
15 plastic mains. How does this affect the ASLs of these two accounts?

16 A. The life of plastic services and mains will be nearly infinite exclusive of  
17 backhoe, other damage or retirement. The low flow rates cannot be expected to induce  
18 internal wear and plastic is not attacked by the electromotive forces that can destroy  
19 metal services and mains. Because plastic services and mains will have longer lives than  
20 metal services and mains, and because each account is totally or largely made up of  
21 plastic now, these accounts will display longer ASLs when survivor curves are plotted  
22 and analyzed in the future. Ironically, there must be retirements of plastic to develop a  
23 survivor curve, other than a 100% surviving survivor curve. It may be many decades

1 before the plastic retirements are fully reflected by the services' and the mains' survivor  
2 curves. In the mean time, the survivor curves that are used to determine ASL for services  
3 and mains include mortality of metallic services and mains. The affect is that the ASLs  
4 determined from survivor curves for services and mains are shorter than the ASL will be  
5 when the survivor curves reflect retirements of plastic services and mains only.

6 Q. What conclusion do you draw about ASLs as a result of the replacement  
7 of plastic for metallic pipe in services and mains?

8 A. It is my conclusion that using analogous ASLs from companies that are  
9 also installing plastic services and mains is the best determination of ASL for MGE's  
10 services and mains because: 1) other companies, for example AmerenUE and Laclede,  
11 have mortality data on plastic life exclusive of metallic life; 2) MGE does not have  
12 sufficient mortality history to make a Company-specific determination of ASL for plastic  
13 services and mains. Staff's work papers for the Services account of AmerenUE and  
14 Laclede are attached as Schedule 2 and 3 respectively showing how Staff's proposed  
15 44 year life for MGE's services was determined.

16 Q. Were studies using analogy completed for this case?

17 A. Yes. The Staff conducted a study, attached as Schedule 4, using Missouri  
18 Public Service Commission regulated companies as analogies. Also, Staff toured  
19 facilities of AmerenUE, Laclede and MGE to determine similarity of plant. The  
20 Company, by rule, has submitted the B&V depreciation study dated June 2000, that is  
21 also an analogy study but it includes the plant lives of gas companies located in other  
22 states. Therefore, these other companies are not under the Missouri Public Service

1 Commission's regulatory rules, nor are they monitored by the Missouri Public Service  
2 Commission's Gas Department.

3 Q. What is the conclusion of your rebuttal testimony:

4 A. 1) That the Company has no study that determines ASLs and net  
5 salvage rates in support of the depreciation rates they propose.

6 2) That Staff's depreciation rates should be ordered because  
7 considerable time was spent by Staff engineers over several months to  
8 determine ASLs of similar plant owned by Missouri Companies that are  
9 regulated by the Missouri Public Service Commission. These ASLs were  
10 used to determine Staff's ASLs.

11 3) That plastic services and mains will lengthen life. If this is not  
12 true, management has not been prudent in installing plastic services and  
13 mains as a replacement for metallic pipe. But, Staff believe the Company  
14 have been prudent and that plastic services and mains, that are and will be  
15 installed, will have longer ASLs on survivor curves that are plotted in the  
16 future.

17 Currently, the best analysis of MGE's services' and mains' lives is  
18 by analogy to similar plant of similar Missouri companies as was done by  
19 Staff in this case.

20 Q. Does this conclude your rebuttal testimony?

21 A. Yes.

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

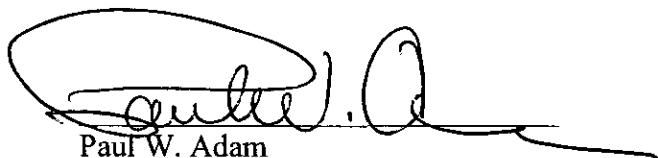
In The Matter of Missouri Gas Energy's Tariff     )  
Filing For General Rate Increase                     )

Case No. GR-2001-292

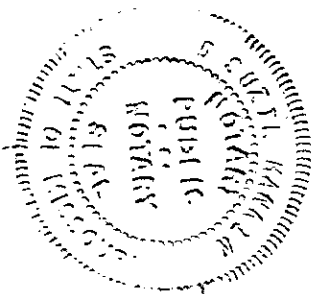
AFFIDAVIT OF PAUL W. ADAM

STATE OF MISSOURI     )  
                                   )  
COUNTY OF COLE     )     ss.

Paul W. Adam, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
Paul W. Adam

Subscribed and sworn to before me this 21<sup>st</sup> day of May 2001.





**D SUZIE MANKIN**  
**NOTARY PUBLIC STATE OF MISSOURI**  
**COLE COUNTY**  
**MY COMMISSION EXP. JUNE 21, 2004**