EXHIBIT

Exhibit No.:	
Issue(s):	Depreciation Rate Authorization
Witness/Type of Exhibit:	Robertson/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	GO-2012-0363

SURREBUTTAL TESTIMONY

OF

TED ROBERTSON

FILED
AUG 23 2012
Missouri Public
Service Commission

Submitted on Behalf of the Office of the Public Counsel

LACLEDE GAS COMPANY

CASE NO. GO-2012-0363

July 30, 2012

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

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Application to Establish Depreciation Rates for Enterprise Computer Software Systems	))))	Case No. GO-2012-0363

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am the Chief Public Utility Accountant 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.

Ted Robertson, C.P.A.
Chief Public Utility Accountant

Subscribed and sworn to me this 30th day of July 2012.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2013.

TABLE OF CONTENTS

Testimony	Page
Introduction	1
Purpose of Testimony	1
Depreciation Rate Authorization	2

SURREBUTTAL TESTIMONY
OF
TED ROBERTSON

LACLEDE GAS COMPANY
CASE NO. GO-2012-0363

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, P. O. Box 2230, Jefferson City, Missouri 65102.

Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED REBUTTAL TESTIMONY IN THIS CASE?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of this Surrebuttal Testimony is to address the Rebuttal Testimony of Missouri Public Service Commission (MPSC or Commission) Staff witness, Mr. John A. Robinett, regarding the Laclede Gas Company's (Laclede or Company) Application for authorization of a new depreciation rate for its new information management systems.

III. DEPRECIATION RATE AUTHORIZATION

Q. PLEASE SUMMARIZE THE MISSOURI OFFICE OF THE PUBLIC COUNSEL'S (PUBLIC COUNSEL OR OPC) POSITION ON THIS ISSUE?

A. It the Public Counsel's recommendation that the Commission not authorize the Company's Application for a new depreciation rate for its new Enterprise Information Management System (EIMS). Our recommendation is based on the fact that the EIMS does not represent a new class of investment for which the Company does not already have an authorized depreciation rate. In addition, the Company's Application, as requested, is analogous to single-issue ratemaking and, if authorized, will have a significant and improper ratemaking effect on ratepayers.

Q. DID MR. ROBINETT PERFORM OR SPONSOR A FULL DEPRECIATION STUDY FOR THE INSTANT CASE?

A. No. This fact is corroborated by Mr. Robinett's response to OPC Data Request No. 9, where he concedes that, "Staff did not perform a full depreciation study in this case."

Q. BEGINNING ON PAGE 1, LINE 18, OF HIS REBUTTAL TESTIMONY, MR. ROBINETT STATES IF THE MPSC SETS THE RATE AT 7%, IT WILL BE REVIEWED IN A FUTURE RATE CASE WHERE ALL, "PLANT ACCOUNTING AND DEPRECIATION RATES WILL BE STUDIED AND EXAMINED IN THEIR

TOTALITY." IS MR. ROBINETT CONCEDING THAT A FULL DEPRECIATION STUDY IS REQUIRED TO DETERMINE THE APPROPRIATE DEPRECIATION RATE FOR ALL OF COMPANY'S INVESTMENT INCLUDING ITS INFORMATION MANAGEMENT SYSTEMS?

A. Yes. Mr. Robinett's testimony supports OPC's position that the best approach is to consider the requested change for the EIMS in a rate case where the parties can prepare and submit a full depreciation study because the real test of whether 7% is the correct rate won't happen until that occurs.

Q. BEGINNING ON PAGE 2, LINE 3, OF HIS REBUTTAL TESTIMONY, MR. ROBINETT STATES THE PURPOSE OF STAFF'S DEPRECIATION RECOMMENDATION IS TO, "ADOPT THE MOST REASONABLE DEPRECIATION RATE FOR THE EIMS ASSETS THAT CAN BE DETERMINED AT THIS TIME." DOES STAFF'S RECOMMENDATION ACHIEVE ITS STATED GOAL?

A. No. What Mr. Robinett describes as reasonable "at this time" might not be reasonable when given a full review in a rate case where a full depreciation study is submitted. In fact, continuing on lines 9 and 10, of his Rebuttal Testimony, he recognizes this and adds, "while recognizing that the EIMS can be further evaluated and its treatment modified in future cases." Clearly, Mr. Robinett's recommendation is not based on any evidence associated with the actual lives of Company's total investments much less the

EIMS. At the moment, the only real evidence that exists are the current authorized rates which were developed from the studies prepared in Company's last rate case and those studies included analysis on the lives of the similar investments which are being replaced by the EIMS.

Q. BEGINNING ON PAGE 2, LINE 15, OF HIS REBUTTAL TESTIMONY, MR. ROBINETT STATES THAT COMPANY IS ASKING FOR AN ACCOUNTING AUTHORITY ORDER (AAO). IS HIS ALLEGATION CORRECT?

A. No, it is not. Mr. Robinett's allegation that Company is requesting an AAO is a false and completely absurd mischaracterization of Laclede's Application in the instant case. It is false because an AAO is a cost deferral mechanism which utilizes an abnormal accounting process resulting from extraordinary and unique costs not regularly occurring in a utility's cost of service. Further, it is not supported with an analysis of the Commission's requirements for implementation of an AAO.

The Uniform System of Accounts, which this Commission has adopted, states that AAOs are only for, "events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future." Laclede's purchase of new software to replace old software is not abnormal or significantly different from the ordinary activities of Laclede.

The changing of the depreciation rate for the EIMS is not an extraordinary and unique cost not regularly occurring in a utility's cost of service and Company is not requesting in its Application a cost deferral. The costs for upgrading Laclede's information management systems have occurred as needed in the past and are expected to recur indefinitely in the future. The costs for these investments are always audited and/or reviewed for prudence and reasonableness during a rate case. Mr. Robinett's allegation that Laclede's Application is a request for an AAO is, in my opinion, disingenuous and it shows a complete lack of understanding or knowledge on his part of the history and purpose of the abnormal accounting processes it represents.

Q. DOES AN AAO HAVE ANY CONSUMER IMPACTS IF REJECTED IN A RATE CASE?

A. No. An AAO is only a tracking mechanism. However, if the MPSC grants Laclede its request to change the EIMS depreciation rate to 5%, yet rejects that change in the rate case, there will be a consumer impact in that future ratepayers will be forced to pay for plant that should have already depreciated. This is an important distinction between an AAO and the Company's Application.

Q. DOES THE DEFERRAL OF COSTS IN AN AAO GUARANTEE A UTILITY A RIGHT TO RECOVER THE COSTS IN A FUTURE RATE CASE?

A. No. The deferral of costs in an AAO does not guarantee a utility any right to ultimately recover the amounts deferred in a future rate case (see Missouri Gas Energy v. Pub. Serv. Comm'n, 978 S.W.2d 434 (Mo. App. W.D. 1998)). That too is a major difference between an AAO and what Company has requested in the instant case because if Laclede's Application is approved, it will guarantee that Laclede gets to depreciate a smaller portion of the costs of the EIMS investment at the new rate regardless of what happens in the next or future rate cases.

Q. HAS THE COMMISSION PREVIOUSLY DEFINED WHAT AN AAO ACTUALLY REPRESENTS?

A. Yes. In the Sibley case (upheld in Public Counsel v. Pub. Serv. Comm'n, 858 S.W.2d 806 (Mo. App. W.D. 1993)), a seminal case for AAOs in this State, the MPSC stated that an AAO must be for costs that are "extraordinary, unusual and unique, and not recurring." In the Report and Order in GU-2010-0480 (p.8), the MPSC held, "The classic example of an event that would be extraordinary, unusual and unique, and not recurring would be a fire, or flood, or ice storm that causes a large amount of damage to the utility's property." Replacing Company's information management systems with new and improved information management systems is not extraordinary, unusual, or unique and it will reoccur in the future.

Q. BEGINNING ON PAGE 2, LINE 15, OF HIS REBUTTAL TESTIMONY, MR. ROBINETT STATES THAT A DEPRECIATION AUTHORITY ORDER IS AN AAO THAT HAS, IN THE PAST, BEEN AUTHORIZED WITH SOME FREQUENCY FOR OTHER UTILITIES? IS HIS ALLEGATION CORRECT?

A. No. Mr. Robinett's allegation that the Commission has defined or authorized an AAO called a Depreciation Authority Order is not supported by any evidence. Mr. Robinett's testimony does not identify a single case for OPC, or the MPSC, to reference, rather, in a footnote on page 2 of his testimony, he simply states there is a "paper file" of past Depreciation Authority Orders maintained in the Commission's Data Center. This evidence is not adequate to prove the points he has alleged.

Q. DOES MR. ROBINETT ACTUALLY BELIEVE THAT THE EIMS IS AN EXTRAORDINARY AND UNIQUE OR NON-RECURRING COST?

A. Staff's response to OPC Data Request No. 5, which requested this information, states, "No." He added further, "Depreciation Authority Orders (DAO) and Accounting Authority Orders (AAO) differ in that a DAO establishes a specific depreciation rate and/or USOA plant account or sub-account by which company assets may be booked and reviewed for possible inclusion in future rate setting." And, "That is not the purpose of an AAO."

Q. IS STAFF'S RECOMMENDATION BASED SOLELY ON WHAT IT CALLS THE DIFFERENT FUNCTIONS ASSOCIATED WITH EIMS AND THE SYSTEMS BEING REPLACED?

A. Yes. Beginning on page 5, line 9, of his Rebuttal Testimony, Mr. Robinett describes his 7% depreciation rate recommendation for the customer billing, accounting, asset management, and payroll functions of the EIMS as, "going beyond maintaining basic customer information" because the EIMS, "provide additional analytical and tracking tools such as automated meter reading (AMR)." However, simply stating that the new systems provide additional analytical and tracking tools does not provide any explanation as to why a 7% depreciation rate is appropriate. It only states that the new systems are an improvement over the older systems, as would be expected with a computer system upgrade. Furthermore, Laclede's AMR was fully implemented years ago and any claim that the AMR system came about as a result of EIMS is incorrect and suggests a misunderstanding by Mr. Robinett of both the EIMS and AMR.

Q. IS MR. ROBINETT AN EXPERT IN THE DEVELOPMENT AND UTILIZATION OF PUBLIC UTILITY INFOMATION SYSTEMS?

A. No. This fact is corroborated by Mr. Robinett's response to OPC Data Request No. 8 which states he has reviewed the enterprise management systems of several other utilities in the state of Missouri; however, even though requested, he provided no support of his qualifications in the area of development or utilization of public utility information

systems. He does state, "Mr. Robinett performed his duties under the direct supervision of Mr. Guy Gilbert, the Engineering Supervisor of the Engineering and Management Services Unit of the PSC who has many years of depreciation experience including reviewing such EIMS systems as those being reviewed in the context of Case No. GO-2012-0363." (emphasis added by OPC) However, Mr. Gilbert did not file any testimony in this case so, though he may have many years of depreciation experience, neither individual has provided any evidence that they are experts in the "functionality" or use of the management information systems being replaced and the EIMS.

Q. DOES MR. ROBINETT CONCEDE THAT THE PURPOSE OF THE INVESTMENT IN THE EIMS IS INTENDED MERELY TO REPLACE EXISTING INFORMATION MANAGMENT SYSTEMS?

A. Yes. Beginning on page 3, line 11, Mr. Robinett identifies that the EIMS is, "a computerized system designed to replace the Company's current computerized billing, asset management and payroll systems with a more integrated system..." Mr. Robinett acknowledges that the EIMS is simply replacing existing systems rather than establishing an entirely new class of investment which does not already have an existing Commission authorized depreciation rate. Public Counsel is of the opinion that it is irrational to believe that the cost of the individual components of the EIMS, e.g., billing, asset management, payroll and the other EIMS systems cannot simply be booked into the currently authorized USOA accounts for the same systems which they are replacing.

Q. BEGINNING ON PAGE 4, LINE 2, OF HIS REBUTTAL TESTIMONY, MR. ROBINETT STATES THAT THE EIMS ASSETS DIFFER SIGNIFICANTLY IN FUNCTIONALITY FROM THE OTHER ASSETS RECORDED IN ACCOUNTS 391.1 AND 391.3. HE THEN ATTEMPTS TO SUPPORT THE STATEMENT BY IMPLYING THAT THE ASSETS ARE SIMILAR TO AND HAVE A LONGER LIFE EXPECTANCY THAN A DESKTOP COMPUTER. ARE THE SYSTEM COSTS CURRENTLY BOOKED IN ACCOUNTS 391.1 AND 391.3 ONLY ASSOCIATED WITH DESKTOP COMPUTERS?

A. No. Clearly, Mr. Robinett's testimony is misleading the Commission. His testimony is not supported by any claim made by Laclede that the EIMS is replacing desktop computers. Moreover, he says nothing of the information management systems that are being replaced and whether those systems perform the same or different functions as the systems being replaced. In fact, Laclede's response to OPC's Data Request No. 9 (referenced in my Rebuttal Testimony) shows that each new system purchased by Laclede is replacing a current system or software. His comparison of EIMS to desktop computers suggests a significant misunderstanding on his part of Laclede's Application.

Q. IS IT MR. ROBINETT'S BELIEF THAT THE EIMS CONSISTS OF PERSONAL COMPUTERS OR PERSONAL COMPUTER SOFTWARE?

A. No. This fact is corroborated by Mr. Robinett's response to OPC Data Request No. 6 which states, "EIMS doesn't consist of personal computers or personal software." And, "Staff is not aware that personal computers or personal computer software is being replaced by EIMS." Thus, if Mr. Robinett's purpose of comparing EIMS to desktop computers is to show that the depreciation rate for the current in-service information management systems is based only upon the depreciation life of desktop computers, that claim is not supported by any analysis of the type of plant investments currently depreciating at 20%. In fact, that authorized depreciation rate is based on a depreciation study which included analysis of most, if not all, of the similar assets being replaced and was supported by both Company and Staff in Company's 2010 rate case.

Q. WOULD AUTHORIZATION OF COMPANY'S APPLICATION FORCE RATEPAYERS TO PAY MILLIONS OF DOLLARS MORE THAN WHAT WOULD OCCUR UTILIZING THE CURRENT AUTHORIZED DEPRECIATION RATE?

A. Yes. Beginning on page 4, line 18, of his Rebuttal Testimony, Mr. Robinett describes the EIMS and the information management systems being replaced as, "two different types of systems...," that require a separate account that allows tracking for a, "future comprehensive depreciation study to determine if the correct depreciation rate has been set for this type of equipment." Here again, Mr. Robinett suggests that his proposal might not be the correct rate, and that the correct rate can only be determined in the rate case with a full depreciation study. His testimony supports OPC's position that no

changes should be made until that depreciation study is filed in a general increase rate case, because to err now could potentially force future ratepayers to pay millions of dollars in depreciation for an asset that should have depreciated at a faster rate.

Q. BEGINNING ON PAGE 5, LINE 22, OF HIS REBUTTAL TESTIMONY, MR. ROBINETT STATES THAT UTILIZING THE CURRENT AUTHORIZED DEPRECIATION RATES FOR THIS TYPE OF INVESTMENT WOULD REQUIRE COMPANY TO BOOK SOME $12.16 MILLION ANNUALLY THAT IS NOT BUILT INTO ITS CURRENT REVENUE REQUIREMENT? IS HIS ALLEGATION CORRECT?

A. No. Common sense dictates that the alleged underearning he has described is not a complete picture of the depreciation expense built into the Company's current revenue requirement. For example, if the Company actually invests the total $60.8 million for EIMS (as identified on page 3, line 15, of Mr. Robinett's testimony), the annual depreciation expense for only the EIMS investments utilizing the authorized 20% rate would be $12.16 million annually. However, Company currently has built into its revenue requirement depreciation expense for the in-service systems authorized in its last rate case. When those systems are retired, the depreciation expense currently built into the revenue requirement does not cease. In addition, the continuing depreciating of the systems being replaced, all other thing being equal, have decreased the value, i.e., the net rate base, for those investments since the current rates were authorized. That means

Company is earning a level of depreciation expense built from a rate base that is now less than it was when rates were set. The result is that regulatory lag is benefiting rather than harming the Company. Furthermore, similar rate base changes in Company's other investments could also affect the overall level of net rate base and annual depreciation expense, but identifying those changes is the purpose of a full depreciation study which Public Counsel's position supports.

In addition, lowering the authorized depreciation rate outside of a rate case has the potential to increase Laclede's book earnings because again, all other things being equal, its total expenses would be lower. The higher earnings achieved would, to some degree, offset the $12.16 million underearning Mr. Robinett incorrectly alleges. Mr. Robinett's testimony only describes a portion of the effect of continuing to utilize the current authorized depreciation rate for the information management systems investment, thus acceptance of Staff's recommendation does not result in a just and reasonable outcome.

Q. DOES MR. ROBINETT BELIEVE THAT IT IS THE COMMISSION'S DUTY AND/OR RESPONSIBILITY TO GUARANTEE THE COMPANY'S EARNINGS?

A. Mr. Robinett's response to this question in OPC Data Request No. 10 was "No." Though his Rebuttal Testimony insinuates a potential underearning situation caused by the EIMS implementation, Mr. Robinett appears to be aware that regulatory ratemaking only provides the Company with the "opportunity" to achieve its Commission authorized

revenue requirement. The Commission does not "guarantee" the Company that it will achieve those earnings and any resulting regulatory lag can either harm or benefit both shareholders and ratepayers alike.

Q. IS IT YOUR UNDERSTANDING THAT COMPANY WILL FILE A RATE CASE IN THE NEAR FUTURE?

A. Yes. Laclede has stated that it intends to file a rate case within a few months after implementation of the EIMS. Therefore, Public Counsel believes that that rate case represents an ideal situation in which this issue can be appropriately resolved. Laclede should prepare and present to the Commission, in that rate case, a full depreciation study that will either support the depreciation rate modification requested in the instant case or identify, based on the actual evidence of the service lives of the investments, a different, but appropriate rate to utilize. Thus, eliminating the need to rely upon Mr. Robinett's inappropriate guess for a "placeholder" rate. The correct rate, whether or not it differs from the current authorized information management systems depreciation rate, would then be based upon a depreciation study that takes all the Company's investment into account along with actual revenues being earned and expenses being incurred.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.