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Witness: Jolie L. Mathis
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2004-0209
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

JOLIE L. MATHIS

FILED

JUL 13 2004

Missouri Public
Service Commission

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Jefferson City, Missouri
June 2004

Exhibit No. 824
Case No(s) GR-2009-0209
Date 6-21-04 **Rptr** _____

824

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

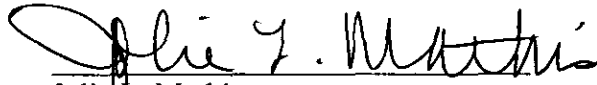
In the Matter of Missouri Gas Energy's)
Tariffs to Implement a General Rate)
Increase for Natural Gas Service)

Case No. GR-2004-0209

AFFIDAVIT OF JOLIE L. MATHIS

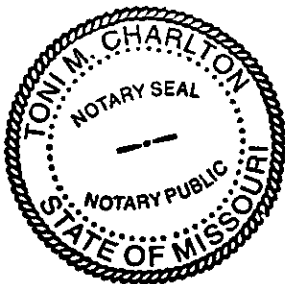
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Jolie L. Mathis, being of lawful age, on her oath states: that she has participated in the preparation of the following surrebuttal testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the following surrebuttal testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Jolie L. Mathis

Subscribed and sworn to before me this 10th day of June 2004.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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**TABLE OF CONTENTS OF
SURREBUTTAL TESTIMONY OF
JOLIE L. MATHIS
MISSOURI GAS ENERGY
CASE NO. GR-2004-0209**

DEPRECIATION RATES 1
RESERVE..... 5

Surrebuttal Testimony of
Jolie L. Mathis

1 A. The current 2.27% depreciation rate for Account 380 – Services is based
2 on a 44-year Average Service Life (ASL), comparable to the currently prescribed 44-year
3 ASL for Laclede Gas Company.

4 Q. Why is this the basis for the ASL of this account?

5 A. As stated in my direct testimony for this case, the lack of retirement data
6 files from MGE makes it difficult to determine average service lives account by account.
7 In Case No. GR-2001-292, Staff witness Paul Adam prescribed an average service life of
8 44 years for MGE's Services account, relying on the data of Laclede Gas Company
9 (Laclede) because of his depth of knowledge about Laclede's historical data and the
10 similarity of plant between Laclede and MGE. He had visited Laclede several times in
11 six years, analyzed the Laclede data to determine ASLs and depreciation rates account by
12 account, and had spoken with Laclede's operations personnel and plant engineers
13 specifically regarding Laclede's gas plant.

14 Q. How does the Company's actuarial data effect an analysis for determining
15 a depreciation rate?

16 A. MGE only has historical data from 1994 to present, or nine years of data.
17 I believe at least 20 to 30 years of historical data is needed to perform an adequate
18 actuarial analysis of a plant account. The lack of suitable data for MGE hindered the
19 possibility of doing an actuarial analysis to determine the appropriate depreciation rate.

20 Q. Are there comparable companies for assessing the appropriateness of
21 Staff's recommended ASL of 44 years?

22 A. Yes. The Missouri gas operations of Aquila, AmerenUE and Laclede can
23 be considered comparable.

Surrebuttal Testimony of
Jolie L. Mathis

1 Q. What characteristics may lend themselves as appropriate for comparison?

2 A. Characteristics such as size of the plant, and the age and location of the
3 plant.

4 Q. What are Staff's recommended ASLs for Account 380 for these
5 companies?

6 A. Aquila is 45 years, AmerenUE is 36 years, and Laclede is 44 years.

7 Q. Is the Company's determination of depreciation rates based on an analysis
8 of actuarial data?

9 A. No, it is not. It is based on a simulated depreciation study, or Simulated
10 Plant Record (SPR) study.

11 Q. What is a Simulated Plant Record (SPR) study?

12 A. A SPR study uses a trial and error method to estimate the average service
13 life of utility property. It simulates retirements and plant balances and compares it with
14 historical data to obtain the survivor curves that best represent the life characteristics of
15 the property.

16 Q. Does the Staff recommend use of an SPR study to set depreciation rates
17 for MGE in this case?

18 A. No. The Staff continues to prefer the use of comparable company
19 actuarial data when there is a problem of lack of actuarial data for a utility, such as in this
20 case for MGE.

21 Q. Does Staff have concerns with the Company's recommended ASL of 30
22 years for Account 380 - Services?

Surrebuttal Testimony of
Jolie L. Mathis

1 A. Yes. The 30-year proposed ASL is significantly shorter than that of other
2 major gas companies in the state of Missouri such as AmerenUE, Aquila and Laclede.

3 Q. What factors or circumstances does Mr. Sullivan identify as the causes of
4 a shortened ASL for this account?

5 A. Mr. Sullivan is vague when pointing to any circumstances causing this
6 alleged shorter life other than his discussion on the Jackson County, MO housing stock,
7 and how it may have an effect on ASL. Mr. Sullivan's argument is that the number of
8 service lines being retired due to the vacancy or demolition of inner-city homes in
9 Jackson County that are 1970 vintage or older are significant enough to support a shorter
10 ASL of 30 years for the account. Mr. Sullivan does not provided any quantitative
11 analysis of this alleged factor. Other than housing demolition, he does not list any
12 drivers that may be causing a 30-year ASL for services.

13 Q. Does the Company's current Safety Line Replacement Program affect
14 retirements in this account?

15 A. Yes, it does. More than 230,000 service lines have been replaced by MGE
16 up through year-end 2000. That is approximately 50% of the total number of services in
17 system at the end of the year in 2003.

18 Q. What is the current make up of Account 380 services?

19 A. As of the end of year 2003, Account 380 consisted of: 2,113 copper lines,
20 58,110 steel lines (38,033 unprotected, 20,077 cathodically protected), and 413,735
21 plastic lines. As it stands, the number of service lines represent 87% of the total number
22 of services in the system.

23 Q. How does that effect the average service life of the account?

Surrebuttal Testimony of
Jolie L. Mathis

1 A. Since the technology in that account will be mostly plastic, and
2 approximately one-half of the investment is practically brand new, it supports the longer
3 ASL of 44 years recommended by the Staff for this account, as opposed to the shorter 30-
4 year ASL proposed by Mr. Tom Sullivan. Plastic services will have longer lives than
5 metallic services, and because this account is currently 87% plastic, it will eventually
6 demonstrate a longer ASL when enough supporting data can be plotted for survivor curve
7 analysis. It is reasonable to assume that the current 44-year ASL is appropriate for this
8 account.

9 Q. Is MGE recommending changes to other depreciation rates in this case
10 besides Services?

11 A. Yes, though Mr. Sullivan does not discuss these changes to other rates in
12 his rebuttal testimony. All of these changes are based on SPR analysis from the
13 Company's 2000 depreciation study. The Staff believes the rates established for MGE in
14 Case No. GR-2001-292 should be maintained for all accounts.

15 **RESERVE**

16 Q. Did the Company's most current depreciation study, performed by Black
17 & Veatch in 2000, analyze Account 380's accumulated depreciation reserve?

18 A. Yes.

19 Q. Did this study indicate that the accumulated depreciation reserve for
20 Account 380 is over-accrued?

21 A. Yes, In Mr. Sullivan's 2000 Black & Veatch depreciation study, Table 4-1
22 MGE Analysis of Accumulated Depreciation Reserve, he includes an over-accrual

Surrebuttal Testimony of
Jolie L. Mathis

1 amount of \$22,037,944 for Account 380. It was his recommendation at the time to
2 redistribute this over-accrual to several other accounts that were under-accrued.

3 Q. Has Mr. Sullivan indicated the accumulated depreciation reserve for
4 Account 380 is over-accrued in this case?

5 A. No, Mr. Sullivan has not.

6 Q. Has Staff performed a reserve analysis on this particular account?

7 A. Yes. The current 44-year ASL with an R4 curve comparable to survivor
8 curves used for other gas company services accounts, and 0% salvage, yields a theoretical
9 reserve of \$64,944,088. The actual depreciation reserve as of December 31, 2003, for
10 Account 380 Services is \$115,155,561. The difference results in an over-accrual of
11 \$50,211,473.

12 Q. Is it reasonable to assume that the services account depreciation reserve
13 over-accrual may have grown from \$22 million to \$50 million from 2001 to 2003?

14 A. Yes. It is reasonable to assume that the reserve grew from \$22 million in
15 1999 to \$50 million in 2003, when the life was shorter, and cost of removal was included
16 in the calculation of the services depreciation rate (The services account depreciation rate
17 in 2000 was 5.50%). When that rate is multiplied by plant balances that approximate in
18 the \$200 million range, the resulting accruals will be over \$10 million each year, as
19 opposed to approximately half of that amount using the lower current depreciation rate of
20 2.27%.

21 Q. Given the amount of over-accrual in the depreciation reserve, will a
22 substantially shortened ASL contribute to increasing the over-accrual?

Surrebuttal Testimony of
Jolie L. Mathis

1 A. Yes, it will. A shorter ASL will result in a higher depreciation rate which
2 will increase the accrual rate.

3 Q. What should be done about the over-recovery of depreciation reserve for
4 this account?

5 A. The current ASL of 44 years and depreciation rate of 2.27% should
6 continue to be booked for this account. The depreciation rate for Services should not be
7 increased at this time, on account of the over-accrual.

8 Q. Does Sullivan Schedule TJS-12, which purports to show current Service
9 depreciation rates for Missouri gas utilities, reflect current information?

10 A. No. A new depreciation rate and average service life has been ordered for
11 Aquila, Inc. d/b/a Aquila Networks-MPS (Gas) Account 380. In Case
12 No. GR-2004-0072, a depreciation rate of 2.22% was prescribed with an ASL of 45
13 years.

14 Q. What change would you like to make for Account 394 Tools?

15 A. After further analysis of Account 394, I am proposing a change to a 19-
16 year ASL, resulting in a 5.3% depreciation rate for the Tools account.

17 Q. What is your final recommendation for depreciation expense for MGE?

18 A. I still recommend no change to the currently authorized depreciation rates
19 determined in Case No. GR-2001-291, as listed on Schedule 2 of my direct testimony,
20 except for the case of Account 394, Tools.

21 Q. Does this conclude your surrebuttal testimony?

22 A. Yes, it does.