Exhibit No.:	______________
Issue(s):	Depreciation
Witness/Type of Exhibit:	Robinett/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	GR-2021-0320

REBUTTAL TESTIMONY

OF

JOHN A. ROBINETT

Submitted on Behalf of the Office of the Public Counsel

THE EMPIRE DISTRICT GAS COMPANY D/B/A LIBERTY

FILE NO. GR-2021-0320

March 17, 2022

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas Company's d/b/a Liberty Request to File Tariffs to Change its Rates for Natural Gas Service	))))	Case No. GR-2021-0320

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 rebuttal 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
John A. Robinett
Utility Engineering Specialist

Subscribed and sworn to me this 15th day of March 2022.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121

Tiffany Hildebrand
Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

REBUTTAL TESTIMONY
OF
JOHN A. ROBINETT

THE EMPIRE DISTRICT GAS COMPANY d/b/a LIBERTY

CASE No. GR-2021-0320

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

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

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Utility Engineering Specialist.

Q. Have you previously testified before the Missouri Public Service Commission?

A. Yes. Both as a former member of Commission Staff and on behalf of the OPC.

Q. What are your work and educational background?

A. A copy of my work and educational experience is attached to this testimony as Schedule JAR-R-1.

Q. What is the purpose of your rebuttal testimony?

A. In this testimony I respond to the direct testimonies of Liberty's consultant Mr. Dan T. Stathos and Commission Staff witness Mr. David T. Buttig, P.E. Additionally I discuss how Liberty has stopped depreciation on accounts without Commission authorization, and I recommend adjustments to accumulated depreciation reserve to properly reflect reserves that ratepayers have payed, but which were not recorded on Liberty's books and, instead, have been a profit windfall for Liberty.

Q. Did Mr. Stathos perform a depreciation study?

A. No. Based on his own testimony Mr. Stathos reviewed the depreciation study Black & Veatch performed for Liberty in 2019.[1]

Q. Do you agree with Mr. Stathos' depreciation rate recommendations for recording depreciation expense and depreciation reserve?

A. For the most part I agree; however, I differ with his recommendation for how to return the theoretical over-collection of depreciation reserve to ratepayers. At Page 3 of Mr. Stathos direct testimony he identifies that depreciation reserves are over-accrued by approximately $13 million. Mr. Stathos continues on page 5 of his direct testimony discussing the over-accrued depreciation reserve, and identifies that 95% of the theoretical over-collection exists in two accounts—accounts 376 Mains and 380 Services.

Q. Why do you not agree with his recommendation that this approximately $13 million of over-accrual should be returned to Liberty's retail customers over twenty-eight years?

A. In my opinion Liberty's customers will benefit more if the theoretical over collection remains in the accumulated depreciation reserves and also reduce depreciation rates. Leaving the $13 million theoretical over-collection in reserves will reduce the return that Liberty will receive on the over-collected assets over the remaining life of those assets. Furthermore, Liberty's customers should also get the benefit of reducing the depreciation rates for those over-collected assets to account for needing to collect less depreciation expense over the remaining lives of those assets. This action in addition to the reduced return on will further reduce the overall revenue requirement for these assets. It is

[1] GR-2021-0320 Liberty Direct Testimony of Dan T. Stathos page2 line14 through page 3 line2.

important to note that these accounts are not fully accrued. Based on the Staff's filed accounting schedules Account 376 Mains has a plant-in-service balance of $59,309,956 with a reserve balance of $39,899,428. Similarly, Account 380 Service has a plant-in-service balance of $33,502,271 and an accumulated depreciation reserve of $18,059,0491. Additionally, and more importantly, if Liberty filed this rate case to become eligible to file for an Infrastructure System Replacement Surcharge (ISRS), then the accounts most likely to see retirements as part of an ISRS filing are these very accounts that are theoretically over accrued— accounts 376 Mains and 380 Services. In his direct Liberty witness Michael D. Beatty testifies:

> …this filing will, among other things, enable the Company to seek the creation of an ISRS to recover the cost of eligible infrastructure replacement projects designed to maintain the safety and integrity of its natural gas distribution system.[2]

Q. Are you aware of any utilities who have theoretical under-accruals for accounts 376 Mains or 380 Services?

A. Yes. As the Commission is aware, Spire Missouri just completed a rate proceeding. Depreciation rates were a contested issue that went before the Commission for decision. Part of that decision was specific to account 376 Mains; where Spire Missouri breaks out the types of mains by material type (cast iron, steel, plastic). Both Spire Missouri's consultant and I recommended large increases to the depreciation rate for cast iron mains due to joint encapsulations increases in plant that were not experiencing the same 80-year life that the sub-account had been using based on historical data. This subaccount had become under-depreciated based on the aggressive nature of the replacement program that

[2] GR-2021-0320 Liberty Direct Testimony of Michael D. Beatty page 11 lines 9 through 12.

Spire Missouri was performing, and the lives for new assets were not reaching the lives of the ordered rates as well.

Q. Are there any other concerns you have regarding depreciation in this Liberty Gas case?

A. Yes. During the course of my discovery in this case, I have discovered that Liberty has stopped booking depreciation on several accounts where it has collected depreciation reserves that match or exceed the original cost of the investment. I issued OPC data requests numbers 8500 and 8506 seeking information on account 366 Transmission Structures and account 391.1 Office Furniture & Equipment. Attached to this testimony as Schedule JAR-R-2 is a copy of OPC data request number 8500 and Liberty's response, and attached as Schedule JAR-R-3 is a copy of OPC data request number 8506 and Liberty's response. In both responses Liberty provides the date each of the accounts became "fully depreciated," where "fully depreciated" means the accumulated reserves are equivalent to the original plant-in-service value.

Q. Why does it matter that Liberty has stopped depreciating these accounts?

A. Stopping depreciation on these accounts is in direct conflict with the Commission's order that established depreciation expense in Liberty's 2009 rate proceeding where Liberty was authorized to charge ratepayers an annual amount for depreciation expense for property that was in-service at the time the rates were set. This means that Liberty has stopped booking depreciation expense that it has continued to collect from its retail customers for this property. Instead, these amounts have gone to Liberty's profit, without being booked to accumulated reserves.

Q. Has the Commission ordered or authorized Liberty to stop depreciating these assets?

A. No. Depreciation rates were last set for Liberty's gas properties in its 2009 rate case. This is the first general rate proceeding for these assets since that 2009 rate proceeding, and I am not aware of any Commission order authorizing Liberty to stop recording the depreciation of assets when reserves equal or exceed original cost. Additionally, I am not aware of any petition or filing made by Liberty seeking the Commission's approval to stop booking depreciation expense.

Q. How does Liberty ceasing to record depreciation when its accumulated depreciation (depreciation reserves) equals or exceeds the original cost of the depreciated assets harm customers?

A. Liberty's retail customers have continued to pay depreciation expense in rates since the deprecation rates were ordered in its 2009 rate proceeding, but they have not received recognition of their payments in recorded accumulated depreciation reserves, since Liberty ceased booking it to the depreciation reserve after the accumulated reserve equaled or exceeded original cost of the assets in the account. Based on Liberty's response to my data requests Liberty stopped booking depreciation in May of 2014 for account 366 Transmission Structures, and in January of 2021 for account 391.1 Office Furniture & Equipment.

Q. Have you calculated what depreciation reserves need to be increased by to account for Liberty stopping the booking of depreciation expense to reserves?

A. Yes, I have calculated estimates for reserve adjustments to reflect what Liberty should have booked to depreciation reserves for these two accounts. For these calculations I utilized the plant balances provided in work-papers for account 366 and 391.1 by Liberty as part of its direct filing. I utilized the approved depreciation rates from the 2009 rate proceeding which are a 2.22% for account 366 Transmission Structures and 6.67% for account 391.1 Office Furniture and Equipment. Note that Liberty has two rates for account 391.1; one for gas only property of 6.67% and one for common general plant shared with the electric utility of 5%. Since Liberty stopped depreciation on account 366 in May of 2014, I used eighty-eight months of depreciation to calculate the reserve increase adjustment needed for this account until the true-up date of September 30, 2021. Using the eighty-eight months and the 2.22% depreciation rate for account 366 equals a value of $1,771 for September 30 2021. To calculate a value to the effective date of new rates an additional ten months of depreciation expense are needed. The additional ten months of depreciation expense for account 366 equals an increase of an additional $201. The total adjustment from May of 2014 through July 2022 would be to increase total accumulated reserve by $1,972 for account 366 Transmission structures.

I performed the same exercise on account 391.1 which Liberty stopped depreciating in January of 2021. Eight months of depreciation expense from February 2021 to the True-up date of September 30, 2021 is worth a range of $6,393 (using 5%, assuming all shared gas and electric assets) and $8,529 (using 6.67% assuming all gas assets). To capture all of the stopped depreciation out till the date of new rates an additional ten months of depreciation expense need to be reflected. For an additional ten months of depreciation expense using the 5% depreciation rate an additional $7,992 would need to be added to depreciation reserves if the 6.67% is used and an additional $10,661 would need to be added to accumulated depreciation reserves. To get out to the effective date of new rates, the total needed increase to depreciation reserves for account 391.1 Office Furniture and

Equipment is between $14,385 (using 5%, assuming all shared gas and electric assets) and $19,190 (using 6.67% assuming all gas assets).

Q. Do you have other concerns about Liberty's General Plant account depreciation rates and assets?

A. Yes. The Empire District Electric Company d/b/a Liberty in its electric rate case asked for general plant amortization accounting to be approved for certain general plant accounts. Parties in that case ultimately agreed to allow Empire to begin accounting in that manner, and the Commission ordered the parties to comply with that agreement. My concern in this gas case is that some assets are shared between the electric and gas utilities. Currently, I have outstanding discovery asking Liberty how the authorization of general plant amortization being allowed in the electric utility will affect assets in the general plant accounts for the gas utility (Liberty) that are shared with the electric utility (Empire). At the time of this filing I am still waiting on Liberty's response in order to determine if there is an issue with shared assets between electric and gas utilities that may affect the current recommended depreciation rates proposed by Staff and Liberty.

Q. Do you have concerns about Staff's depreciation recommendations?

A. Yes. My main concerns surround Staff's recommended net salvage percentages. I have serious concerns with Staff recommending 0% net salvage for account 376 Mains and -1% for account 380 Services when Liberty very clearly indicates that a key driver for this rate proceeding is to enable it to file for an ISRS proceeding to get accelerated recovery of plant investment between general rate proceedings. For comparison, the previously ordered net salvage percentage for mains from the 2009 rate case is -104.42% for account 376 Mains and -42.47% for Account 380 Service. If Liberty starts replacing its existing mains and service infrastructure, which it indicates is a key reason for this rate proceeding, then cost of removal will not be zero or nearly zero. Liberty will have to cut and cap the old system so that gas cannot flow on the retired system, this action will have a cost and should be booked as a cost of removal. The only acceptable way for cost of removal of the retired plant to be zero is if Liberty were to charge the cost of retirement as part of the cost of the replacement main or services.

Q. Do you have any other concerns about Staff's depreciation recommendations?

A. Yes. I addressed it slightly above when speaking about my outstanding discovery to Liberty about the effect of its electric utility being granted general plant amortization accounting on the accounting of shared assets for the gas utility. It is unclear from my reading of Staff's direct case if Staff has addressed general plant amortization that has been approved for the electric side and its ramifications for accounting of shared/allocated assets of the gas utility.

Q. What are your recommendations to the Commission regarding depreciation?

A. I recommend that the Commission order Liberty to increase its accumulated depreciation reserves for account 366 transmission mains by $1,973 to reflect stopped depreciation expense since May of 2014. Additionally, the Commission should order Liberty to increase the accumulated depreciation reserves of account 391.1 Office furniture and equipment by at least $14,385 to reflect stopped depreciation since January of 2021, but not to exceed the increase of $19,190 depending on the correct depreciation rate(s) to apply to the assets if some or all are shared with Empire, the electric utility. Finally, I recommend that the Commission order Liberty to utilize the depreciation rates from its 2019 Depreciation study performed by Black & Veatch, as they are more in line with net salvage expectations I have going forward if Liberty seeks an ISRS, as opposed to Staff's zero and near zero percent net salvage for mains and services accounts.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.