

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

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

**SUGGESTIONS IN SUPPORT OF
MOTION FOR SUMMARY DETERMINATION**

COMES NOW the Missouri Office of the Public Counsel (OPC) and for its Suggestions in Support of Motion for Summary Determination, filed pursuant to 4 CSR 240-2.117, respectfully states as follows:

1. Depreciation has been defined by Black's Law Dictionary as the spreading out of the cost of a capital asset over its estimated useful life.¹ The Commission has defined depreciation as "the means by which a utility is able to recover the cost of its investment in its rate base by recognizing the reduction in value of that property over the estimated useful life of the property."² Each type of utility plant is accounted for in a separate account with its own depreciation rate. A depreciation study, which public utility companies are required to file periodically, examines all depreciation accounts and depreciation rates in detail.

2. Laclede Gas Company's Application to Establish Depreciation Rates for Enterprise Computer Software Systems (Application) seeks to change Laclede's current depreciation rates for computer software from 20% to 5% without the support of a depreciation study that considers all relevant factors. Laclede seeks to establish the new

¹ Black's Law Dictionary, p.302 (7th Edition).

² Report and Order, PSC Case Number ER-2008-0318, issued January 27, 2009, p. 92.

rate now and postpone a depreciation study that studies the change until the first general rate case following complete implementation of the upgrade. If approved, and Laclede files a general rate increase case before the system is completely implemented, Laclede would not be required to file a depreciation study that either proves or disproves the rate change until December 4, 2015.³

3. OPC opposes Laclede's request to change its current 20% depreciation rate for computer software (set by the Commission in 2010)⁴ to a new 5% rate. The proposed change is not in the interests of Missouri ratepayers because it is unlawful and unreasonable in that it would allow Laclede to pass current costs to future customers by exaggerating the expected life of plant, resulting in less plant depreciating between rate cases than what would depreciate under current rates. Laclede's proposal is also unjust and unreasonable because it is not supported by competent and substantial evidence in the form of a depreciation study that specifically considers Laclede's computer software depreciation account and depreciation rate along with all other depreciation accounts and rates (all relevant factors) in a general rate case.

4. Laclede last submitted a depreciation study on December 4, 2010 with its general rate case filing in Case Number GR-2010-0171. Laclede's 2010 depreciation study supported a 20% depreciation rate for computer software.⁵ Likewise, the Staff's depreciation expert also proposed a 20% depreciation rate for computer software.⁶

³ According to 4 CSR 240-3.275(2), Laclede is required to file a depreciation study every five years, and Laclede last filed a depreciation study with its 2010 rate case filing in Case Number GR-2010-0171.

⁴ Report and Order, Case Number GR-2010-0171, Issued August 18, 2010.

⁵ Direct Testimony of John J. Spanos, Case No. GR-2010-0171, Table 1 (Account 391, Data Processing Systems).

⁶ Direct Testimony of David Williams, Case No. GR-2010-0171, Schedule DCW-R6 (Account 391.2).

5. If approved, the change to Laclede's depreciation rate would have a significant impact on the amount of investment that Laclede depreciates before the computer software depreciation rate is reset by the Commission with the support of a depreciation study. A lower depreciation rate allows the plant investment to depreciate slower, thereby leaving more of the investment to be incorporated into future rates for recovery from ratepayers when the plant investment is considered in a depreciation study.

6. It is very possible that the future depreciation study could determine that 20% is the appropriate depreciation rate for Laclede's software upgrade rather than Laclede's proposed 5%. In that instance, if Laclede has been allowed to change its depreciation rate on this single item (computer software), Laclede will have effectively forced future ratepayers to pay for plant that should have already depreciated.

7. Until Laclede conducts a full depreciation study that studies *all* depreciation rates, OPC urges the Commission to deny Laclede's request to establish new depreciation rates for its computer software upgrade. A full depreciation study will ensure that all depreciation rates are set appropriately, rather than decreasing a depreciation rate while not knowing whether other depreciation rates should also be adjusted to reflect changes to the lives of other depreciable plant investments.

8. Section 393.270 RSMo requires consideration of all relevant factors when setting rates. *State ex rel. Utility Consumers Council of Missouri, Inc. v. Public Service Commission*, 585 S.W.2d 41 (Mo. 1979). Setting rates without considering all relevant factors constitutes prohibited "single issue ratemaking." *State ex rel. Missouri Gas Energy, et al. v. Public Service Commission*, 210 S.W.3d 330 (Mo. App. W.D. 2006).

9. In a recent Commission decision, the Commission concluded that changing depreciation rates without a depreciation study is analogous to single issue ratemaking. In Commission Case Number ER-2008-0318, *In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area*, an issue before the Commission was whether the Commission should change Union Electric Company's (UE) depreciation rates for its Callaway nuclear plant without the benefit of a depreciation study. OPC proposed changes to UE's depreciation rates because the existing rates understated the amount of the Callaway investment that had already been recovered from customers. UE and the Staff opposed OPC's proposed change on the basis that "the Commission should not "cherry pick" a few isolated accounts to adjust outside the context of a complete depreciation study, which was not conducted for this case."⁷ In rejecting OPC's attempt to adjust depreciation rates without a depreciation study, the Commission concluded:

Staff and AmerenUE contend no adjustment should be made at this time without the benefit of a full depreciation study. The Commission finds that Staff and AmerenUE are correct in their concern about making an isolated adjustment to a few depreciation accounts outside the context of a full depreciation study. Such an isolated adjustment is closely analogous to the larger concept of single-issue ratemaking. Just as it would be inappropriate to adjust a utility's rates based on a change to a single item without considering changes in all other items that may off-set that single item, it would be to adjust a few depreciation rates without looking at all depreciation rates in a complete study. In a complete study, depreciation rates for some accounts may increase, while others decrease. The balance of the increases and decreases is what is important in establishing depreciation rates for the company.⁸

⁷ Report and Order, PSC Case Number ER-2008-0318, issued January 27, 2009, p. 93.

⁸ *Id.*, p. 95.

A decision denying Laclede's request to change depreciation rates without a depreciation study would be consistent with the Commission's decision rejecting OPC's proposed depreciation changes for UE.

10. In conclusion, OPC urges the Commission to summarily deny Laclede's attempt to change its depreciation rates without a depreciation study. If Laclede believes a denial of its Application will hurt its ability to earn its authorized rate of return (which Laclede has not suggested), the Missouri statutes provide an avenue for Laclede to seek changes to its depreciation rates through the filing of a depreciation study in a general rate increase request filed under Section 393.150 RSMo.

WHEREFORE, the Office of the Public Counsel respectfully requests that the Commission grant this Motion for Summary Determination and deny Laclede's Application to new depreciation rates.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all counsel of record this 13th day of June 2012:

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