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	)))	**File No. GO-2012-0363**

REPORT AND ORDER

Issue Date: October 3, 2012

Effective Date: October 13, 2012

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	)))	**File No. GO-2012-0363**

APPEARANCES

Michael C. Pendergast, Vice President and Associate General Counsel, and **Rick Zucker**, Asst. General Counsel - Regulatory, Laclede Gas Company, 720 Olive St., Room 1520, St. Louis, Missouri 63101.

For Laclede Gas Company.

Lera Shemwell, Deputy Counsel, and **Goldie Tompkins**, Legal Counsel, P.O. Box 360, 200 Madison Street, Jefferson City, Missouri 65102

For the Staff of the Missouri Public Service Commission.

Mark D. Poston, Deputy Public Counsel, P.O. Box 2230, 200 Madison Street, Suite 650, Jefferson City, Missouri 65102

For the Office of the Public Counsel and the Public.

CHIEF REGULATORY LAW JUDGE: **Morris L. Woodruff**

REPORT AND ORDER

Table of Contents

The Missouri Public Service Commission, having considered all the competent and substantial evidence upon the whole record, makes the following findings of fact and conclusions of law. The Commission in making this decision has considered the positions and arguments of all of the parties. Failure to specifically address a piece of evidence, position, or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision.

Procedural History

On May 18, 2012, Laclede Gas Company filed an application asking the Commission to establish a depreciation rate for the company's new Enterprise Information Management System (EIMS). In compliance with the established procedural schedule, the Commission's Staff, the Office of the Public Counsel, and Laclede prefiled direct, rebuttal, and surrebuttal testimony. The Commission conducted an evidentiary hearing on August 16 and the parties filed post-hearing briefs on September 14.

Findings of Fact

1. Laclede is currently implementing a new enterprise information management system (EIMS). EIMS is intended to be a fully integrated and comprehensive information management system that will be capable of providing enhanced accounting tools, cross-functional communication, data tracking and analyses, and other essential business processes in the areas of customer service, billing and information, financial performance, supply chain/inventory, human resources and asset management.[1]

2. EIMS is composed of several integrated component software systems: 1) Oracle Enterprise Business Systems provides core system functionality, including accounting, reporting, payment processing and supply chain functionality; 2) PowerPlant is a utility-focused suite of applications supporting fixed asset and tax accounting; 3) Oracle Customer Care and Billing supports all customer-facing functionality, including billing, collections, and customer service functions; and 4) IBM Maximo is an enterprise asset management and workflow system.[2]

3. When Laclede has completed implementation of EIMS, it will have added approximately $60.8 million to its rate base.[3] That is a large amount to add to rate base, even by Laclede's standards. In comparison, the company's annual construction expenditures, exclusive of its cast iron replacement program, amount to about $50 million.[4]

4. As soon as the cost of EIMS is added to Laclede's rate base, the company will have to start depreciating the value of the asset on its books. However, Laclede will not be able to recover that depreciation expense through its rates until its rates are recalculated

[1] Buck Direct, Ex. 2, Page 3, Lines 4-9.
[2] Buck Direct, Ex. 2, Schedule GWB-D1.
[3] Robinett Rebuttal, Ex. 4, Page 3, Lines 14-16.
[4] Transcript, Page 68, Lines 5-9

in its next general rate case.[5] Laclede has indicated it will file its next general rate case around December 2012.[6] Since the rates resulting from that rate case are unlikely to go into effect until eleven months after the rate case is filed,[7] Laclede will have to absorb roughly one year of depreciation before it can begin recovering depreciation expense related to the cost of EIMS through its rates.

5. Because of the roughly one-year lag between the time Laclede implements EIMS and the time it will be able adjust its rates to recover future depreciation expenses related to that investment, the rate at which it depreciates the EIMS investment on its books will have a significant financial impact on both the company and ultimately on its ratepayers. If, as Laclede argues, the Commission allows Laclede to establish a new depreciation subaccount to depreciate EIMS at 7 percent, Laclede will be unable to recover approximately $2.3 million in depreciation expense before new rates go into effect. If the company were to depreciate EIMS at 20 percent during that one-year period, it would be unable to recover approximately $7 million in depreciation expense.[8]

6. The technical definition of depreciation is:

> "the loss in service value, not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes which can be reasonably anticipated or contemplated, against which the Company is not protected by insurance."[9]

7. To determine the amount of depreciation expense a utility will be allowed to recover for the loss in service value of a particular item, the Commission relies on expert testimony regarding the expected service life of that item. In the context of a general rate

[5] Robinett Rebuttal, Ex. 4, Page 6, Lines 1-2.
[6] Transcript, Page 67, Lines 3-5.
[7] Under Section 393.150, the Commission may suspend a rate tariff for up to eleven months while deciding whether a utility may increase its rates.
[8] Transcript, Page 71, Lines 1-6.
[9] Spanos Surrebuttal, Ex. 1, Page 7, Lines 9-13.

case, such expert testimony regarding an array of depreciable items owned by a utility is called a depreciation study. Laclede did not submit a depreciation study as part of this case.[10]

8. The expected service life of an item determines the depreciation rate. Thus, a two-year expected service life would result in a 50 percent depreciation rate to allow the utility to recover the cost of the item over its expected life. Similarly, a 100-year expected service life would result in a 1 percent depreciation rate.

9. For purposes of recording depreciation expense relating to computer equipment and software, Laclede currently maintains Uniform Systems of Accounts (USOA) sub-accounts 391.1 Data Processing System and 391.3 Data Processing Software. Both sub-accounts assume a 5-year service life for the equipment and software and record depreciation at an annual rate of 20 percent.[11] Laclede uses those sub-accounts to record depreciation related to desktop computers and associated software.[12] The depreciation rates for those sub-accounts were contained within the depreciation study Laclede submitted in 2010 as part of its last general rate case filing.[13]

10. Rather than record the cost of EIMS in the existing sub-accounts, Laclede asks the Commission for permission to record that cost in a new, separate sub-account, 391.5,[14] for which it asks the Commission to establish a 15-year service life and a 7 percent depreciation rate.[15]

[10] Transcript, Page 41, Lines 17-20.
[11] Robinett Rebuttal, Ex. 4, Page 3, Lines 17-20.
[12] Robinett Rebuttal, Ex. 4, Page 3, Lines 20-22.
[13] Transcript, Page 40, Lines 13-21.
[14] Buck Direct, Ex. 2, Page 6, Lines 14-18.
[15] Buck Surrebuttal, Ex. 3, Page 2, Lines 14-20.

11. Staff's expert witness, John Robinett, and Laclede's expert witness, John Spanos, agree that EIMS is quite different from the computer software for which Laclede has been recording depreciation under the existing sub-accounts. EIMS is likely to have a service life expectancy much longer than five years based on the functions it will be required to perform.[16]

12. The expert testimony offered by Laclede and Staff is quite credible. In particular, the Commission finds it unreasonable to believe that Laclede would contemplate replacing a $60 million management system after only five years when the existing core management systems have lasted between 10 and 25 years, with some modifications through periodic updates and workarounds.[17] The original core management software has already fully depreciated.[18]

13. Because this is in essence a new type of investment that does not fit into an existing depreciation account, it is necessary to establish a new sub-account to record depreciation for this investment. Extensive software applications similar to EIMS have been implemented by other utilities in the United States. The most commonly utilized life for purposes of establishing depreciation rates for those new systems has been 12-15 years.[19]

14. Establishing a new depreciation sub-account will allow the cost of the new EIMS to be tracked separately and analyzed as a part of a future comprehensive depreciation study to determine if the correct depreciation rate has been set for this type of

[16] Robinett Rebuttal, Ex. 4, Page 4, Lines 2-5. Spanos Surrebuttal, Ex. 1, Page 8, Lines 2-4.
[17] Buck Surrebuttal, Ex. 3, Page 4, Lines 6-23. *See also*, Transcript, Pages 49-51.
[18] Transcript, Page 55, Lines 9-12.
[19] Spanos Surrebuttal, Ex. 1, Page 8, Lines 13-18.

equipment.[20] Laclede has committed to submit such a depreciation study as part of its next rate case.[21]

15. In the expert opinions of Laclede witness John Spanos and Staff witness John Robinett, an appropriate service life for EIMS is 15 years. Those opinions are based on a comparison to the assigned service life for software systems recently implemented by other utilities around the country, on the extensive functions performed by EIMS, and the magnitude of the cost of the system.[22] The Commission finds those expert opinions to be credible.

16. Furthermore, assigning this asset a 15-year life and corresponding depreciation rate will realistically match the consumption of the asset with the utilization of the asset.[23] That means the customers who will benefit from EIMS during its useful life will pay their fair share of the cost of the asset.

Conclusions of Law

A. Laclede Gas Company is a Public Utility and a Gas Corporation as defined by Section 386.020(18) and (43) (RSMo Supp. 2011). As such, it is subject to the Commission's general jurisdiction as provided by Section 393.140, RSMo 2000.

B. Section 393.140(4), RSMo 2000 give the Commission power to "prescribe uniform methods of keeping accounts, records and books, to be observed by gas corporations, … It may also, in its discretion, prescribe by order, forms of accounts, records and memoranda to be kept by such persons and corporations."

[20] Robinett Rebuttal, Ex. 4, Page 4, Lines 21-23.
[21] Buck Surrebuttal, Ex. 3, Page 12, Lines 18-22.
[22] Spanos Surrebuttal, Ex. 1, Page 8, Lines 13-23.
[23] Spanos Surrebuttal, Ex. 1, Page 9, Lines 1-3.

C. In giving the Commission authority to establish depreciation rates for gas corporations, Section 393.240.2 states "the commission may, from time to time, ascertain and determine and by order fix the proper and adequate rates of depreciation of the several classes of property of such corporation, person or public utility."

Decision

Public Counsel argues the Commission must rely on the full depreciation study Laclede filed in its last rate case to impose a 5 year service life and 20 percent depreciation rate on Laclede's new EIMS investment. To do otherwise, Public Counsel argues, would be an exercise in single-issue ratemaking. However, Public Counsel's argument is predicated upon a factual finding that the EIMS is simply a replacement for the assets in the currently existing depreciation categories for computer software. Public Counsel's witness conceded that if the Commission found EIMS to be a new type of asset for which a depreciation rate did not exist, the Commission could establish a new depreciation rate for that asset in this proceeding.[24] The Commission has made that finding of fact in this report and order.

Because of that finding of fact, Public Counsel's single-issue ratemaking argument falls aside. As Public Counsel points out, in a recent Ameren Missouri rate case, ER-2008-0318, the Commission refused to modify some existing depreciation rates without examining all depreciation rates in a full depreciation study. To make such an isolated adjustment, the Commission stated, would be closely analogous to single-issue ratemaking. However, in this case, the Commission will authorize Laclede to record EIMS costs as a new type of investment in a new sub-account with a new depreciation rate. It is not modifying an existing depreciation rate as was proposed in the Ameren Missouri rate

[24] Transcript, Pages 134-135, Lines 22-25, 1-5.

case. As a result, this decision is consistent with the Commission's earlier decision and the Commission is doing nothing analogous to single-issue ratemaking. The Commission will grant Laclede's Application.

THE COMMISSION ORDERS THAT:

1. A new subaccount (Account 391.5 Enterprise Information Management System) is established for the EIMS assets being placed in service by Laclede Gas Company to serve its Missouri ratepayers.

2. The depreciation rate for subaccount 391.5 Enterprise Information Management System is set at 7 percent.

3. Subaccount 391.5 Enterprise Information Management System and its depreciation rate shall be reviewed in Laclede Gas Company's next general rate case when all of the company's plant accounting and depreciation rates will be studied and examined in their totality.

4. Laclede Gas Company shall conduct and file a depreciation study in its next general rate case.

5. Subaccount 391.5 Enterprise Information Management System shall accrue depreciation expense for EIMS at a 7 percent depreciation rate until the Commission orders a different depreciation or amortization treatment for those assets.

6. No party shall be bound to recommend a 7 percent depreciation rate for subaccount 391.5 Enterprise Information Management System in any future proceeding.

7. The Commission makes no findings regarding either the prudence of Laclede's investment in EIMS, or the amount of that investment.

8. This report and order shall become effective on October 13, 2012.

BY THE COMMISSION

(S E A L)

Steven C. Reed
Secretary

Gunn, Chm., Jarrett, Kenney, and
Stoll, CC., concur.

Dated at Jefferson City, Missouri,
on this 3rd day of October, 2012.