

Exhibit No.:
Issue: Depreciation
Witness: John A. Robinett
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GO-2012-0363
Date Testimony Prepared: July 13, 2012

MISSOURI PUBLIC SERVICE COMMISSION
REGULATORY REVIEW DIVISION
UTILITY SERVICES DEPARTMENT
ENGINEERING & MANAGEMENT SERVICES

REBUTTAL TESTIMONY

OF

JOHN A. ROBINETT

LACLEDE GAS COMPANY

CASE NO. GO-2012-0363

Jefferson City, Missouri
July 2012

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Q. Please state your name and business address.

A. John A. Robinett, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Utility Engineering Specialist in the Engineering and Management Services Unit with the Missouri Public Service Commission ("Commission").

Q. What are your credentials as an expert in this case?

A. A list of my credentials and work history is attached as Schedule JAR(DEP) 1 to this Rebuttal Testimony.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my testimony is to present Staff's recommendation that Laclede Gas Company ("Laclede" or "Company") be permitted to establish a depreciation sub-account (391.5) for its Enterprise Information Management System (EIMS) assets as they are placed into service. Specifically, Staff recommends the Commission establish a depreciation sub-account, 391.5 to record the EMIS assets being placed in service by Laclede, and order the depreciation rate for assets in this account to be seven percent (7%). The establishment of this sub-account and its corresponding depreciation rate in this case will be reviewed in a future general rate proceeding for the Company. In the future general rate proceeding all of the Company's plant accounting and depreciation rates will be studied and examined in their totality.

RECOMMENDATION IN SUPPORT

Q. What is the purpose of Staff's depreciation recommendation in this case?

A. The purpose is to recommend that the Commission adopt the most reasonable depreciation rate for the EIMS assets that can be determined at this time. The purpose of depreciation is to return the shareholders investment made on behalf of ratepayers at a rate equivalent to the asset's service life. The purpose of Staff's Testimony in this case is to present evidence to support Staff's recommended approach to depreciation of the EIMS assets. Staff's approach is reasonable based on the information currently available and is fair to ratepayers and shareholders at this time while recognizing that the EIMS can be further evaluated and its treatment modified in future rate cases.

OVERVIEW OF CASE

Q. Is this a rate case?

A. No. This case will not change customer's current rates.

Q. What is the Company requesting?

A. Laclede is asking for an accounting authority order. This type of request has been called a Depreciation Authority Order (DAO) in other cases. In the past, the Commission issued this type of order with some frequency for telephone companies and water and sewer companies.¹ Recently Kansas City Power & Light Company (KCP&L) filed, and the Commission granted its request for a DAO. In File No. EO-2012-0340, *In the Matter of the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations*

¹ A paper file of past Depreciation Authority Orders is maintained in the Commission's Data Center.

1 *Company for the Issuance of a Depreciation Authority Order Relating to their Electrical*
2 *Operations*, the Company asked for depreciation rates to be set outside of a rate case.

3 Q. What is Laclede asking the Commission to do?

4 A. On May 18, 2012, Laclede filed an application for the Commission to approve
5 two changes to Laclede's depreciation rate schedule because Laclede is in the process of putting
6 a new EIMS in place. First, Laclede requests authority to establish a new Federal Energy
7 Regulatory Commission - Uniform System of Accounts (USOA) depreciation sub-account in
8 which it will record depreciation for its new EIMS. Second, Laclede proposes the Commission
9 order a depreciation rate of five percent (5%), representing a twenty (20) year service life with
10 no net salvage.

11 Q. What is the EIMS?

12 A. The EIMS is a computerized system designed to replace the Company's current
13 computerized billing, asset management and payroll systems with a more integrated system
14 designed to improve both communication between departments and data management. When
15 implementation is complete, EIMS will add approximately \$60.8 million to the Company's
16 rate base.

17 Q. What USOA sub-accounts does Laclede use now for computer equipment?

18 A. Laclede has Accounts 391.1 Data Processing System and 391.3 Data Processing
19 Software at an annual depreciation rate of twenty percent (20%), which has a five (5) year
20 service life. Laclede maintains data related to personal computers which are replaced on a semi-
21 regular schedule typically between five (5) to seven (7) years depending on the size of the
22 company and the advances in operating software.

1 Q. Why is Laclede asking for a sub-account to be established?

2 A. The EIMS assets differ significantly in functionality from the other computer
3 assets currently recorded in accounts 391.1 and 391.3. The EIMS that Laclede is placing into
4 service has a significantly longer life expectancy than a desktop computer based on the functions
5 that it will be required to perform.

6 Q. Does Staff support establishing a new sub-account?

7 A. Yes. In the Staff's opinion, there are compelling reasons to support the
8 Company's position that these assets will and should provide service longer than five (5) years of
9 service life, representing a twenty percent (20%) depreciation rate set for the type of equipment
10 recorded in Laclede's current accounts.

11 Q. What are the compelling reasons?

12 A. In Staff's opinion it is an appropriate practice to establish a separate plant
13 sub-account from those previously allowed for two main reasons. First, a depreciation rate of
14 twenty percent (20%) is not reasonable for this type of computer system because EIMS assets
15 and desktop computers differ significantly. The EIMS that Laclede is placing into service has a
16 significantly longer life expectancy than a desktop computer based on the functions that it
17 will be required to perform.

18 Second, the purpose of setting a new depreciation sub-account is to separate data related
19 to the two different types of systems and to recognize in the immediate time period that the
20 EIMS assets differ enough from traditional technological assets that they warrant a separate
21 depreciation rate and account. Setting up a separate account allows the dollars for the new EIMS
22 to be tracked separately and analyzed as part of a future comprehensive depreciation study to
23 determine if the correct depreciation rate has been set for this type of equipment.

1 Q. Does Staff recommend the five percent (5%) depreciation rate requested by
2 Laclede as an appropriate rate now and in any future rate proceeding?

3 A. No. The rate the Commission sets today may change over time to reflect changes
4 in the expected useful life of the EIMS. At this time, based on the information Staff has
5 reviewed, Staff is recommending a seven percent (7%) depreciation rate be applied to the new
6 account for Laclede's EIMS. The seven percent (7%) rate is based on a fifteen (15) year average
7 service life with an additional five percent (5%) built in to the rate for cost of removal.

8 Q. What is the basis for Staff's recommendation?

9 A. Staff is trying to estimate the expected life of this system and set the time over
10 which customers should pay depreciation on the EIMS. Staff's recommendation is based on the
11 functions associated with the EIMS. There are three primary areas controlled by the EIMS:
12 (1) customer billing and accounting, (2) asset management, and (3) payroll. EIMS goes beyond
13 maintaining basic customer information such as location, contact information, usage and
14 payments as has been part of the data collected since the inception of the utility industry. Newer
15 EIMS systems contain and provide additional analytical and tracking tools such as automated
16 meter reading (AMR).

17 Q. Why is Laclede asking the Commission to act at this time?

18 A. Laclede is currently in the process of implementing a new EIMS system that will
19 result in the addition of approximately \$60.8 million to rate base. Absent Commission authority
20 to establish a separate account, this investment will be entered as part of Accounts 391.1 Data
21 Processing System and 391.3 Data Processing Software at an annual depreciation rate of twenty
22 percent (20%) five (5) year service life. As such the Company would be required under the
23 Commission's currently ordered depreciation rates, to book some \$12.16 million annually to the

1 depreciation reserve. This is an amount that was not built into the revenue requirement of
2 Laclede's last rate case.

3 Q. Why does Staff recommend Laclede be permitted to make changes to its
4 depreciation accounts and rates at this time?

5 A. For purposes of depreciation, it is important to recognize, in the immediate period
6 or to state another way, as the assets are placed into service, that the EIMS assets differ enough
7 from traditional technological assets that they warrant a separate depreciation rate and
8 accounting. In the Staff's opinion, there is compelling reason to support the Company's position
9 that these assets will and should provide service longer than five (5) years (or a twenty percent
10 (20%) depreciation rate). At the same time it is difficult to determine the EIMS system will last
11 for twenty (20) years (or a five percent (5%) depreciation rate). After considering the
12 information currently available Staff recommends the Commission authorize the sub-account and
13 approve a seven percent (7%) depreciation rate be ordered and also order that all retirements,
14 salvage and cost of removal associated with the EIMS be recorded in a timely manner.

15 **RECOMMENDATIONS**

16 Q. What is Staff's recommendation regarding the depreciation authority order as
17 requested by Laclede?

18 A. That the Commission order that the Company may establish a depreciation
19 sub-account, 391.5, Enterprise Management Information System to account for the EIMS
20 assets being placed in service by Laclede Gas Company to serve its Missouri rate payers and
21 order the depreciation rate at seven percent (7%). The establishment of this sub-account and its
22 corresponding depreciation rate in this case will be reviewed in the Company's next general

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1 rate proceeding when all of the Company's plant accounting and depreciation rates will be
2 studied and examined in their totality.

3 Q. Does this conclude your Rebuttal Testimony?

4 A. Yes.


BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF JOHN A. ROBINETT

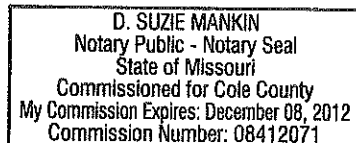
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

John A. Robinett, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



John A. Robinett

Subscribed and sworn to before me this 13th day of July, 2012.





Notary Public