

Exhibit No.: _____

Issue: Depreciation

Witness/: John J. Spanos

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: Laclede Gas Company

Case No.: GO-2012-0363

LACLEDE GAS COMPANY

GO-2012-0363

SURREBUTTAL TESTIMONY

OF

JOHN J. SPANOS

1 **Q. Please state your name and business address.**

2 A. My name is John J. Spanos. My business address is 207 Senate Avenue,
3 Camp Hill, Pennsylvania, 17011.

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

5 A. I am a Senior Vice President in the Valuation and Rate Division of Gannett
6 Fleming, Inc.

7 **Q. What is your educational background?**

8 A. I have two Bachelor of Science degrees, one in Industrial Management and
9 one in Mathematics from Carnegie-Mellon University, and a Master of
10 Business Administration from York College.

11 **Q. Are you a member of any professional societies?**

12 A. Yes. I am a member and current President of the Society of Depreciation
13 Professionals. I am also a member of the American Gas Association/Edison
14 Electric Institute Industry Accounting Committee.

15 **Q. Please outline your experience in the field of depreciation.**

16 A. In June, 1986, I was employed by Gannett Fleming Valuation and Rate
17 Consultants, Inc. as a Depreciation Analyst. During the period from June, 1986
18 through December, 1995, I helped prepare numerous depreciation and original
19 cost studies for utility companies in various industries. I helped perform
20 depreciation studies for the following telephone companies: United Telephone
21 of Pennsylvania, United Telephone of New Jersey and Anchorage Telephone
22 Utility. I helped perform depreciation studies for the following companies in the

1 railroad industry: Union Pacific Railroad, Burlington Northern Railroad and
2 Wisconsin Central Transportation Corporation.

3 I helped perform depreciation studies for the following organizations
4 in the electric industry: Chugach Electric Association, The Cincinnati Gas &
5 Electric Company (now Duke Energy Ohio, Inc. or "Duke Energy-Ohio"),
6 The Union Light, Heat & Power Company (now Duke Energy Kentucky, Inc.
7 or "Duke Energy-Kentucky"), Northwest Territories Power Corporation and
8 the City of Calgary - Electric System.

9 I helped perform depreciation studies for the following pipeline
10 companies: Trans Canada Pipelines Limited, Trans Mountain Pipe Line
11 Company Ltd., Interprovincial Pipe Line Inc., Nova Gas Transmission
12 Limited and Lakehead Pipeline Company.

13 I helped perform depreciation studies for the following gas
14 companies: Columbia Gas of Pennsylvania, Columbia Gas of Maryland,
15 The Peoples Natural Gas Company, T. W. Phillips Gas & Oil Company,
16 Duke Energy-Ohio, Duke Energy-Kentucky, Lawrenceburg Gas Company
17 and Penn Fuel Gas, Inc.

18 I helped perform depreciation studies for the following water
19 companies: Indiana-American Water Company, Consumers Pennsylvania
20 Water Company and The York Water Company; and depreciation and
21 original cost studies for Philadelphia Suburban Water Company and
22 Pennsylvania-American Water Company.

23 In each of the above studies, I assembled and analyzed historical
24 and simulated data, performed field reviews, developed preliminary

1 estimates of service life and net salvage, calculated annual depreciation,
2 and prepared reports for submission to state public utility commissions or
3 federal regulatory agencies. I performed these studies under the general
4 direction of William M. Stout, P.E.

5 In January, 1996, I was assigned to the position of Supervisor of
6 Depreciation Studies. In July, 1999, I was promoted to the position of
7 Manager, Depreciation and Valuation Studies. In December, 2000, I was
8 promoted to the position of Vice-President of Gannett Fleming Valuation
9 and Rate Consultants, Inc., and in April 2012, I was promoted to my present
10 position as Senior Vice President of the Valuation and Rate Division of
11 Gannett Fleming Inc. In my current position I am responsible for conducting
12 all depreciation, valuation and original cost studies, including the
13 preparation of final exhibits and responses to data requests for submission
14 to the appropriate regulatory bodies.

15 Since January 1996, I have conducted depreciation studies similar to
16 those previously listed including assignments for Pennsylvania-American
17 Water Company; Aqua Pennsylvania; Kentucky-American Water Company;
18 Virginia-American Water Company; Indiana-American Water Company;
19 Hampton Water Works Company; Omaha Public Power District; Enbridge
20 Pipe Line Company; Inc.; Columbia Gas of Virginia, Inc.; Virginia Natural
21 Gas Company National Fuel Gas Distribution Corporation - New York and
22 Pennsylvania Divisions; The City of Bethlehem - Bureau of Water; The City
23 of Coatesville Authority; The City of Lancaster - Bureau of Water; Peoples
24 Energy Corporation; The York Water Company; Public Service Company of

1 Colorado; Enbridge Pipelines; Enbridge Gas Distribution, Inc.; Reliant
2 Energy-HLP; Massachusetts-American Water Company; St. Louis County
3 Water Company; Missouri-American Water Company; Chugach Electric
4 Association; Alliant Energy; Oklahoma Gas & Electric Company; Nevada
5 Power Company; Dominion Virginia Power; NUI-Virginia Gas Companies;
6 Pacific Gas & Electric Company; PSI Energy; NUI - Elizabethtown Gas
7 Company; Cinergy Corporation – CG&E; Cinergy Corporation – ULH&P;
8 Columbia Gas of Kentucky; South Carolina Electric & Gas Company; Idaho
9 Power Company; El Paso Electric Company; Central Hudson Gas &
10 Electric; Centennial Pipeline Company; CenterPoint Energy-Arkansas;
11 CenterPoint Energy – Oklahoma; CenterPoint Energy – Entex; CenterPoint
12 Energy - Louisiana; NSTAR – Boston Edison Company; Westar Energy,
13 Inc.; United Water Pennsylvania; PPL Electric Utilities; PPL Gas Utilities;
14 Wisconsin Power & Light Company; TransAlaska Pipeline; Avista
15 Corporation; Northwest Natural Gas; Allegheny Energy Supply, Inc.; Public
16 Service Company of North Carolina; South Jersey Gas Company;
17 Duquesne Light Company; MidAmerican Energy Company; Laclede Gas
18 Company; Duke Energy Company; E.ON U.S. Services Inc.; Elkton Gas
19 Services; Anchorage Water and Wastewater Utility; Kansas City Power and
20 Light; Duke Energy North Carolina; Duke Energy South Carolina; Duke
21 Energy Ohio Gas; Duke Energy Kentucky; Duke Energy Indiana; Northern
22 Indiana Public Service Company; Tennessee-American Water Company;
23 Columbia Gas of Maryland; Bonneville Power Administration; NSTAR
24 Electric and Gas Company; EPCOR Distribution, Inc.; B. C. Gas Utility, Ltd;

1 Entergy Arkansas; Entergy Texas; Entergy Mississippi; Entergy Louisiana,
2 Entergy Gulf States Louisiana, the Borough of Hanover, Madison Gas and
3 Electric, Atlantic City Electric and KCP&L Greater Missouri Operations. My
4 additional duties include determining final life and salvage estimates,
5 conducting field reviews, presenting recommended depreciation rates to
6 management for its consideration and supporting such rates before
7 regulatory bodies.

8 **Q. Have you submitted testimony to any regulatory commissions on the**
9 **subject of utility plant depreciation?**

10 A. Yes. I have submitted testimony to the Pennsylvania Public Utility
11 Commission; the Commonwealth of Kentucky Public Service Commission;
12 the Public Utilities Commission of Ohio; the Nevada Public Utility
13 Commission; the Public Utilities Board of New Jersey; the Missouri Public
14 Service Commission; the Massachusetts Department of
15 Telecommunications and Energy; the Alberta Energy & Utility Board; the
16 Idaho Public Utility Commission; the Louisiana Public Service Commission;
17 the State Corporation Commission of Kansas; the Oklahoma Corporate
18 Commission; the Public Service Commission of South Carolina; the
19 Railroad Commission of Texas – Gas Services Division; the New York
20 Public Service Commission; the Illinois Commerce Commission; the Indiana
21 Utility Regulatory Commission; the California Public Utilities Commission;
22 the Federal Energy Regulatory Commission (“FERC”); the Arkansas Public
23 Service Commission; the Public Utility Commission of Texas; the Maryland
24 Public Service Commission; the Washington Utilities and Transportation

Commission; the Tennessee Regulatory Commission; the District of Columbia Public Service Commission; the Mississippi Public Service Commission; the Regulatory Commission of Alaska; the Delaware Public Service Commission; the Virginia State Corporation Commission; the Colorado Public Utility Commission; the Oregon Public Utility Commission; the Wisconsin Public Service Commission; and the North Carolina Utilities Commission.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to address the most appropriate depreciation rate for the new Enterprise Information Management System (EIMS) being implemented by Laclede Gas Company. My surrebuttal testimony will respond to the testimony of the Office of the Public Counsel witness, Mr. Ted Robertson, and the Missouri Public Service Commission Staff.

Q. Can you briefly explain the depreciation issue?

A. Yes. Laclede Gas Company is in the process of implementing an EIMS which will cost in excess of \$60M. The EIMS is a fully integrated information management system which will provide a multitude of business processes for many groups of personnel at Laclede Gas Company. This system is a completely new package which is incomparable to current asset classes owned by the Company. Laclede witness, Glenn W. Buck, has detailed the capabilities of the EIMS software. The Company has recommended categorizing this software package into a separate asset class due to its uniqueness from other assets, and utilizing a 20-year life or

1 5% depreciation rate. The Missouri Public Service Commission (MPSC)
2 Staff has recommended a 15-year life and net salvage percent of negative
3 5, which results in a 7% depreciation rate. The MPSC Staff understands
4 this asset is unique and should be classified separately from other small
5 software applications. The Office of Public Counsel (OPC) does not agree
6 that the EIMS should be treated any differently from the small desktop
7 software and recommends a 5-year life or 20% depreciation rate.

8 **Q. Can you define the concept of depreciation?**

9 A. Depreciation refers to the loss in service value not restored by current
10 maintenance, incurred in connection with the consumption or prospective
11 retirement of utility plant in the course of service from causes which can be
12 reasonably anticipated or contemplated, against which the Company is not
13 protected by insurance. Among the causes to be given consideration are
14 wear and tear, decay, action of the elements, inadequacy, obsolescence,
15 changes in the art, changes in demand and the requirements of public
16 authorities.

17 **Q. Based on the concept of depreciation, is it appropriate to depreciate**
18 **this type of software application over an unrealistically short life**
19 **span?**

20 A. Absolutely not. It is not systematic and rational to recommend that Laclede
21 Gas would implement a major software application for \$60M which affects
22 so many aspects of their business and attempt to recover those costs in 5
23 years.

24 **Q. Should Laclede classify the EIMS in a separate account?**

1

2 A. Yes. The EIMS is quite different from other software applications that
3 Laclede currently has in plant in service. The assets should be classified
4 with homogeneous assets with similar life characteristics.

5 **Q. What plant accounts have you seen comparable systems being placed**
6 **into service?**

7 A. Large software applications have most commonly been placed into service
8 in one of two accounts. The first classification would be a subaccount of
9 Account 391, Office Furniture and Equipment. The second account would
10 be Account 303, Miscellaneous Intangible Plant. I believe Staff's
11 recommendation to use subaccount 391.5 is appropriate for this purpose.

12 **Q. What is the most commonly utilized life for this type of system?**

13 A. Extensive software applications similar to EIMS have recently been
14 implemented by other utilities across the United States. The most
15 commonly utilized life for these systems has been 12 to 15 years. A few
16 companies have even utilized 20 years. In all cases, the multi-functional
17 information management systems are depreciated in a separate
18 subaccount as no other existing assets are comparable.

19 **Q. What is your recommendation for Laclede Gas Company?**

20 A. Based on the functionality of the EIMS application and the magnitude of the
21 cost of the system, I would recommend a 15-year life. This type of system
22 will be utilized for many years because the system inter-mingles
23 functionality of many business units within the Company.

24 **Q. Why is 15 years the most appropriate period of time?**

1 A. The 15-year period is the most realistic life to match the consumption of the
2 asset with the utilization of the asset. This is the matching principle which is
3 most critical in determining a depreciation rate for assets.

4 **Q. Do you agree with OPC witness Robertson, that the recovery of these**
5 **assets are the same as existing assets and therefore have a 20% rate?**

6 A. No. First of all, this software is not a small application for individual
7 desktops only, which might be expected to have a 5 year life. Second, as
8 discussed in more detail in the surrebuttal testimony of Glenn Buck, multiple
9 software applications which are being replaced by EIMS were in use for
10 substantially longer than 5 years. Third, artificially short lives will create
11 higher than necessary depreciation expense, and when using the whole life
12 technique, will ultimately result in over recovery during the life of the asset.
13 As a result, it is extremely likely that a 5 year life will result in Year 1-5
14 customers subsidizing the cost of this item for customers in Year 6 and
15 beyond.

16 **Q. Can you summarize your testimony?**

17 A. Yes. The Enterprise Information Management System is a new asset which
18 will integrate many business processes. The system should be depreciated
19 separately from other assets because of its unique life characteristics,
20 which requires a separate subaccount. The most common subaccount is in
21 Account 391, Office Furniture and Equipment. The most appropriate
22 life expectation is 15 years because it is most representative of the
23 consumption of the asset and most appropriately matches the business
24 plans of Laclede Gas Company. Many other utilities across the United

1 States have implemented a fully integrated system similar to EIMS and
2 utilized a life that ranges from 12 to 20 years, with an emphasis on 15
3 years. A 5-year life or 20% rate as recommended by OPC will undoubtedly
4 create an over-recovered situation and violate the concept of depreciation
5 of systematic and rational recovery.

6 **Q. Does this conclude your testimony?**

7 A. Yes it does.

In the matter of Laclede Gas Company's)
application to establish depreciation rates for) **Case No. GO-2012- 0363**
Enterprise Computer Software Systems)

COMMONWEALTH OF PENNSYLVANIA)
) SS.
COUNTY OF CUMBERLAND)

1. My name is John J. Spanos. My business address is 207 Senate Avenue, Camp Hill, Pennsylvania, 17011; and I am Senior Vice President of the Valuation and Rate Division of Gannett Fleming, Inc.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

John J. Spanos
John J. Spanos

Subscribed and sworn to before me this 18th day of July, 2012.


Notary Public

