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Issue:	**Establishment of new depreciation rate for new enterprise information management system**
Witness:	**Glenn W. Buck**
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Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GO-2012-0363**
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LACLEDE GAS COMPANY

GO-2012-0363

SURREBUTTAL TESTIMONY

OF

GLENN W. BUCK

Laclede Exhibit No. 3
Date 8-16-12 Reporter KF
File No. GO-2012-0363

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SURREBUTTAL TESTIMONY OF GLENN W. BUCK

Q. Please state your name and business address.

A. My name is Glenn W. Buck, and my business address is 720 Olive St., St. Louis, Missouri, 63101.

Q. Are you the same Glenn W. Buck who previously filed Direct Testimony in this case on behalf of Laclede Gas Company ("Laclede" or "Company")?

Yes, I am.

PURPOSE OF TESTIMONY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed on behalf of the Staff of the Missouri Public Service Commission ("Staff") by John A. Robinett and on behalf of the Office of the Public Counsel ("OPC") by Ted Robertson. Specifically, I will address why the Company believes the Staff's recommendations to establish a 7% depreciation rate and 15 year service life for Laclede's Enterprise Information Management System ("EIMS") investment represents a reasonable and acceptable alternative to the Company's proposal to establish to establish a 5% depreciation rate/20 year service life for the same asset. I will then address why the Company disagrees with OPC's proposal to use a 20% depreciation rate/5 year service life for this asset. In doing so, I will explain why OPC's proposal:

- is inconsistent with the very matching principles that OPC states in its testimony should be used to establish reasonable depreciation rates;

- is contrary to the historical experience for how long information systems of this nature last;
- is contrary to the Commission's recent finding of an appropriate depreciation rate for a very similar information management system being implemented by another utility; and
- is contrary to the interests of the Company and its customers.

Q. Are there any other witnesses sponsoring surrebuttal testimony on behalf of the Company?

A. Yes. John J. Spanos, the Senior Vice President of the Valuation and Rate Department of Gannett Fleming, is also submitting surrebuttal testimony on behalf of the Company.

RESPONSE TO STAFF WITNESS ROBINETT

Q. Please state your understanding of the recommendations set forth in the rebuttal testimony of Staff witness Robinett.

A. In his rebuttal testimony, Staff witness Robinett recommends that the Commission establish a new subaccount 391.5 for the EIMS investment and apply a 7% depreciation rate to the investment, based on an expected service life of 15 years and a 5% cost of removal.

Q. Does the Company view this as an acceptable alternative to its own proposal to establish a 5% depreciation rate based on an expected service life of 20 years?

A. Yes. I should note that the Company chose to recommend a 5% depreciation rate primarily because it was consistent with the depreciation rate that had just been approved by the Commission in the Missouri-American Water Company case and because the resulting 20 year service life fell within the range of the service lives experienced by the

Company on other information management systems. That said, Laclede recognizes that a somewhat more conservative depreciation rate could also be justified as an initial starting point and respects the reasoning underlying Staff's decision to employ one here. Accordingly, the Company supports use of the depreciation rate and other accounting authorization recommended by Mr. Robinett in his surrebuttal testimony.

Q. Is the Company's concurrence in the depreciation rate proposed by Staff also responsive to OPC's position?

A. Yes. While agreeing to a 15 year service life does not fully accommodate OPC's position in this case, it certainly qualifies as a significant movement in OPC's direction. Moreover, when combined with the other OPC accommodations that I will discuss later in my testimony, I believe the Company has taken significant strides in constructively addressing OPC's stated concerns.

RESPONSE TO OPC WITNESS ROBERTSON

Q. Do you consider OPC's proposal to use a 20% depreciation rate for the EIMS investment to be a reasonable recommendation as well?

A. No. For many of the same reasons articulated by Mr. Robinett, I find OPC's recommendation, as set forth by Mr. Robertson, to be unrealistic and at odds with the very principles that Mr. Robertson says should govern the establishment of appropriate depreciation rates.

Q. Please explain what you mean about the inconsistency between OPC's proposal and sound depreciation principles.

A. As Mr. Robertson observes at page 5, lines 9-11 of his surrebuttal testimony, depreciation represents " . . . the allocation of an investment's (i.e., plant) cost over the period or life which it is used by the utility to provide service to ratepayers . . ."

Q. Will allocation of the EIMS investment over a five year period as proposed by Mr. Robertson achieve this objective?

A. Absolutely not, and there is simply nothing in Laclede's experience to suggest that it would. As I pointed out in my direct testimony, Laclede has previously implemented other core management information systems. Although none of these systems came close to approaching EIMS in either magnitude or scope, nearly all of them have experienced service lives well in excess of 5 years. In fact, the largest of these systems which controls our customer service transactions was first implemented in 1987 and continues to operate some 25 years later. Two other core systems for tracking and monitoring pipeline services and leaks – SLS and LCS – have been operable since 1992, or for approximately 20 years. The Company's information management system for controlling inventory has been in service for 16 years, while the information system applicable to our accounting activities has been operable for 14 years. Even our payroll system has been in service for nearly 10 years. In short, all but two of these systems have experienced useful service lives in excess of 15 years and the other two would, in all likelihood, have done the same if the Company wasn't implementing an enterprise-wide information system designed to provide an integrated approach to all of its information system needs. Given this real life experience, there is simply no basis – none – for OPC's suggestion that a 5 year service life would reasonably allocate the cost of the EIMS investment over its probably service life.

Q. Has OPC offered anything to dispute the accuracy or applicability of this historical information?

A. No. The closest Mr. Robertson comes to offering any justification at all for his five year service life is his assertion at page 10, lines 6 to 9, of his surrebuttal testimony that most of the Company's information management systems have been placed in service since 2002. In making that claim, however, Mr. Robertson is simply referencing occasional upgrades and "work-arounds" that have been made to the Company's core information management systems and completely ignores the longevity of the core systems themselves. Since the EIMS project consists entirely of these core information management systems, Mr. Robertson's reliance on these relatively modest upgrades is misplaced. He is indeed comparing apples and oranges.

Q. Do you also disagree with Mr. Robertson's effort to explain away the 5%/20 year service life that the Commission recently approved for the very similar information management system being implemented by Missouri-American Water Company?

A. Yes. Mr. Robertson seeks to discount this recent Commission action – presumably because it is far more supportive of the positions taken by Laclede and Staff in this proceeding than it is of OPC's – by noting that these depreciation rates were approved as part of an overall, "Black Box" settlement in which parties may have traded other things of value in order not to oppose the 5% rate.

Q. Does this mean that what the Commission did in the Missouri American case is completely irrelevant to this proceeding?

A. I don't think so. I fully understand Mr. Robertson's point that trade-offs are an inherent part of any settlement. But it is my understanding, on advice of counsel, that regardless

of what agreement the parties may have reached, the Commission still has to determine that the overall terms of any settlement are just and reasonable. In terms of the resolution reached on the depreciation issue in the Missouri-American Water Company case, it is very difficult to believe that any party, or even the Commission itself, could have found it reasonable, even as a matter of settlement, to endorse a depreciation rate for that utility's enterprise information management system that was only one-fourth of what they believed it should have been (i.e. 5% vs. 20%), let alone a service life that was four times longer than what they thought was appropriate (i.e. 20 years vs. 5 years). That is the highly unlikely conclusion, however, that one would have to accept to reconcile the Missouri-American Water Company decision with Mr. Robertson's recommendation in this proceeding. The far more plausible explanation is that the parties simply endorsed an outcome that was within the range of a realistic assessment of the probable service life of this kind of an asset, although possibly at the longer end of that range – a result that can also be achieved here by adopting either Staff's depreciation recommendation of 7% or the Company's recommendation of 5%.

Q. In advising the Commission that it should not even consider the 5% depreciation rate and 20 year service life that it approved for the same kind of investment as part of the settlement in the Missouri-American Water Company case, is Mr. Robertson being consistent with his own version of the meaning of a settlement?

A. No. Mr. Robertson goes on at length about the 20% depreciation rate that was approved by the Commission for computer software as a part of the settlement of Laclede's previous rate case, even to the point of asserting at page 21, lines 16-18 of his surrebuttal testimony that "the Commission found it 'reasonable' to apply" the 20% rate to such

assets. Mr. Robertson can't have it both ways by asserting, on the one hand, that the Commission's recent approval of a 5% depreciation rate for Missouri-American's enterprise-wide information management system is meaningless because it was born out of a settlement, while simultaneously arguing, on the other hand, that the Commission's approval of a 20% depreciation rate for Laclede's computer software is meaningful, even though it also originated from a settlement. In fact, I believe it is appropriate to consider both. And in doing so, I believe the Missouri-American rate approved by the Commission is far more relevant because it deals directly and specifically with the very kind of enterprise-wide information system that is under consideration here, while the Laclede rate applies generically to computer software, without any indication that anyone contemplated that the account was intended to apply to an enterprise-wide information system.

Q. Are there other reasons to question Mr. Robertson's assertion that the EIMS investment will only have a five year service life?

A. Yes, the sheer magnitude of this investment and the time needed to plan and implement it strongly indicate that it will not be repeated in a mere five years. At a cost of over $60 million, the EIMS investment dwarfs the Company's previous investments in software and data processing programs. In addition, the planning and implementation process is estimated to take 2½-3 years. It is simply unrealistic to expect that the Company would make an investment of this magnitude every five years, particularly in view of the pace and frequency of its prior investments in much more modest information management systems.

Q. Mr. Robertson opines that EIMS is not a new type of asset, but merely a replacement and upgrade of software assets that already exist. Does he have a point?

A. I understand his argument, but the fact that it is inaccurate and oversimplified is evidenced by the ridiculous result it produces - that EIMS will have an expected useful life of just five years. If the Company was replacing Microsoft Windows 7 with Windows 8, Mr. Robertson would have a point. But the breadth and scope of EIMS, along with the way its components are integrated render it different from any software Laclede has previously acquired. Somewhat similarly, cars and trucks are both vehicles, but Laclede has separate accounts for them with different lives and depreciation rates. When the truck replaced the horse and cart,[1] would Public Counsel argue that this is just a replacement and upgrade on the existing transportation assets with no reason to create a new transportation account? A more fitting reference may be to Sprint's offices in Kansas City. At one time Sprint leased or owned relatively small or medium sized spaces in dozens of buildings in the Kansas City area. Some leases likely lasted for shorter periods; others longer. In the late 1990s, Sprint built an enormous campus of office buildings covering over three million square feet of space on 200 acres in Overland Park, Kansas, where Sprint consolidated the large majority of its employees. Both cases involve the asset of office space, but I don't think it would be reasonable to expect that Sprint would only use the campus over the same period that it had previously stayed in each of the various office buildings. Likewise, it is not reasonable to lump EIMS in with other small and medium sized standalone software programs. Another good example is Cowboys Stadium in Arlington, Texas. In that stadium, they have many small TVs that

[1] This really happened at Laclede, since the Company predates the automobile.

likely have service lives of several years. However, they also have a TV that stretches more than 50 yards over the middle of the field at a cost of $40 Million. Again, it is not reasonable to believe that the Dallas Cowboys would be replacing a $40 million TV on the same schedule that it replaces the smaller TVs around the concession stands.

Q. Is Mr. Spanos also addressing the appropriate depreciation rate and service life for the EIMS investment?

A. Yes. Mr. Spanos, who has extensive experience in developing depreciation rates for regulated companies and who is also familiar with the kind of enterprise-wide management information system being implemented at Laclede, is providing expert testimony on this issue as well. Given his substantial experience in this area, I believe that Mr. Spanos' recommendations supporting a 7% depreciation rate and 15 year service life for the EIMS investment is further confirmation of the unrealistic nature of Mr. Robertson's recommendations.

Q. At pages 8 and 9 of his surrebuttal testimony, Mr. Robertson discusses a cost comparison calculation that he has attached to his testimony in an effort to show that amortizing the EIMS asset over five years as proposed by OPC will actually save ratepayers money compared to depreciating it over 20 years as originally suggested by Laclede. Do you have any comments regarding this analysis?

A. Yes. I believe this "analysis" is meaningless to a proper determination of the issues in this case. In fact, Mr. Robertson's cost comparison is really nothing more than an illustration of the well known fact that if something is financed over a longer rather than shorter period of time, the financing costs will be greater in absolute terms. Anyone who has ever taken out a home loan or financed a car knows that. In designing depreciation

rates, however, this fundamental attribute of investment financing has never been viewed as a reasonable basis for recovering the cost of an asset over a period of time shorter than its useful life. If it were, one could just as easily argue that the cost of installing a new gas main should be recovered over 5 years (or even expensed in the year of installation) rather than recovered over its expected service life of say 70 years since customers under that scenario as well would end up paying less in absolute dollars for the asset. Such an argument would be no more persuasive in that context, however, than Mr. Robertson's analysis is here.

Q. Does Mr. Robertson acknowledge that the Commission routinely takes actions outside of rate cases that can have a future impact on rates?

A. Yes, beginning on line 1 of page 20 of his surrebuttal testimony, Mr. Robertson acknowledges that the Commission routinely takes such actions in the form of accounting authority orders. He seeks to distinguish these actions from what is being proposed here, however, by asserting that the EIMS investment does not represent the kind of "extraordinary" or "non-recurring" event for which an accounting authority order ("AAO") is designed.

Q. Is this distinction valid?

A. No. Public Counsel is asking the Commission to dismiss our case without a hearing because, it asserts, a depreciation rate cannot be changed outside of a depreciation study in a rate case. My main point was that the Commission has directly authorized the establishment of new depreciation rates – and even changes in depreciation rates – on numerous occasions between rate case proceedings. I discussed accounting authority orders so as to provide another example of analogous Commission actions that have also

been found to be permissible even though they were taken between rate cases and could have a potential impact on future rates.

Q. Do you agree with Mr. Robertson that EIMS is ineligible for an AAO?

A. No. Implementation of the kind of fully-integrated, enterprise-wide management information system represented by EIMS has never even been attempted by the Company in the 150 plus years that it has been in business. So it is hardly the kind of routine, recurring event that takes place on a periodic basis. Moreover, at an overall cost of more than $60 million – an amount that far exceeds the Company's net income for an entire year, the EIMS investment is clearly more material than any number of events that have previously been deemed extraordinary enough by the Commission to warrant AAO treatment. In short, Mr. Robertson is simply wrong in trying to distinguish the factors that make the Commission's use of AAOs permissible from the factors that exist here.

Q. Beginning at line 17, page 12 of his surrebuttal testimony and continuing through line 16 of page 20, Mr. Robertson suggests that the Company's request for a new depreciation rate on its EIMS investment is equivalent to the depreciation rate change that OPC requested but the Commission rejected in the Ameren case. Do you agree?

A. No. I devoted a substantial part of my direct testimony to explaining why the Company's request and the circumstances in this case are different from those prevailing in the Ameren electric case. Rather than reiterate those arguments, however, I have prepared a summary of these differences and attached them as Schedule 1 to my surrebuttal testimony.

Q. Although the circumstances of these two cases are different, is the Company nevertheless willing to agree to other terms that would satisfy what OPC claims is necessary to be consistent with the Commission's Ameren decision?

A. Yes. While I believe the Commission's more recent approval of a new depreciation rate for KCP&L – which also occurred outside a general rate case proceeding – is far more relevant to what the Company is requesting here, Laclede is also willing to agree to additional terms that, if approved by the Commission, would eliminate the two remaining considerations from the Ameren case that OPC claims should preclude the Commission from granting the relief requested by the Company.

Q. What are those considerations?

A. First, OPC points out that the Commission rejected its proposed depreciation rate changes in the Ameren case because an overall depreciation study of all of Ameren's assets had not been done at the time its proposed change would have been reflected in rates. It asserts that Laclede's proposal should likewise be rejected because an overall depreciation study has not been done and may not be done for several years.

Q. Does this factor preclude the Commission from acting?

A. Not in my view and apparently not in the Commission's view given its recent action in the KCPL case. Nevertheless, to address this concern, Laclede is willing to commit to conducting a full depreciation study of all of its assets in its next rate case proceeding so that such information will be available before any depreciation rate change from this proceeding is reflected in rates. This should completely eliminate OPC's concern regarding the absence of an overall study.

Q. What is the second consideration or concern that Mr. Robertson has identified in connection with the Ameren case?

A. In his rebuttal testimony, Mr. Robertson claims that like the Ameren case, approval of the Company's depreciation rate in this proceeding would have an immediate ratemaking impact. Even though Mr. Robertson acknowledges that the rates charged customers would not change as a result of the Commission's decision in this case, he nevertheless claims that approval of a depreciation rate would have an immediate ratemaking impact because it would conclusively and finally determine the rate that would be applied to the stub period between October 1, 2012 and when new rates in Laclede's next rate case go into effect. As a result, Mr. Robertson asserts that the amount of depreciation accumulated by the Company during this period, as well as its effect on the Company's depreciation reserve and any associated reduction to rate base will already be permanent fixed by the time new rates are established.

Although I believe it would be entirely appropriate for the Commission to establish a new depreciation rate now for this new asset and have it govern these cost of service items for the stub period, the Company is not opposed to the Commission clarifying its standard provision that it is not making any ratemaking determination in this proceeding in a way that would address OPC's concern. Specifically, the Company would not object to the Commission clarifying that if a different depreciation rate is approved in the Company's next rate case for this investment, then that rate may be used to determine how much depreciation should have been accumulated for the investment during the stub period, what the associated depreciation reserve should be, and any other cost of service item related to the investment.

Q. In your view, does this completely eliminate any concern that the Commission is engaging in some form of ratemaking, immediate or otherwise, by approving a depreciation rate for this investment in this proceeding.

A. Yes, without question.

Q. At lines 7-11 of page 22 of his surrebuttal testimony, Mr. Robertson asserts that the more recent KCPL decision in which the Commission approved a depreciation rate outside the context of rate case proceeding is inapplicable to this situation. Do you agree?

A. No. In my view, the KCPL decision is far more relevant to this case than the Ameren decision, and I think that's illustrated by the paucity and weakness of the two reasons given by Mr. Robertson in trying to convince the Commission that it's different. Mr. Robertson's first claim, that the KCPL facts are different because someone else other than KCPL owns some of the assets being depreciated in that case, is completely irrelevant. In fact, the software system assets at issue in this case will not actually be owned by Laclede, but rather will be used by Laclede under a license with the vendor. Regardless of ownership, the real issue is whether the asset is similar to or different from assets for which the utility already has a depreciation rate. Mr. Robertson's second claim that the Commission acted appropriately in approving the new depreciation rate for KCPL because the utility has a separate rate case proceeding underway is also a distinction without a difference. The fact remains that KCPL's new depreciation rates were approved without the benefit of a full depreciation study and without any formal tie to its current rate case proceeding. Moreover, such depreciation rates will be in effect for months prior to when any new rates in KCPL's separate rate case proceeding may be approved and implemented. Given these considerations, I don't see how the

Commission's action in the KCPL case can be distinguished from the Commission actions the Company is requesting here.

Q. Does this complete your surrebuttal testimony?

A. Yes.

Schedule 1

Re Ameren – ER-2008-0318	Re Laclede GO-2012-0363
OPC sought to change the depreciation rate of an existing asset, based on an imbalance, or differential, between the book reserve and the theoretical reserve.	Laclede wants to establish a new depreciation rate for a new asset it has purchased.
The asset involved in OPC's request, the Callaway plant, has been in place for decades.	Laclede has never before installed an enterprise-wide computer system.
The parties were aware of the differential in the previous Ameren rate case. Staff advised monitoring it; no party proposed otherwise.	Laclede had not even decided to make this purchase at the time of its last rate case.
OPC justified its request to revisit the issue by claiming that a major change had occurred since the previous rate case. The major change was that Ameren would be filing an application to extend Callaway's license for 20 years. The Commission considered OPC's evidence and determined that there was no change at all, because that extension had been considered and approved in the prior rate case.	Because the EIMS did not exist at the time of the previous Laclede case, the purchase of this unprecedented asset is a complete change of circumstances.
OPC also testified that a change had occurred because the imbalance had grown drastically since the previous rate case. The Commission also considered this evidence, but rejected the allegation that the change was drastic.	Laclede seeks to have the Commission consider its evidence regarding the appropriate depreciation life and rate for its new EIMS asset.
While the Commission found that isolated adjustments to individual rates are analogous to the concept of single-issue ratemaking, the Commission did not dismiss OPC's request solely on that basis. Instead, the Commission considered OPC's evidence and arguments regarding a change of circumstances, but concluded that it would continue to monitor the imbalance. Although OPC had its day in court, and had its arguments considered and rejected on an existing asset, OPC seeks to deny Laclede its day in court on very different facts.	Laclede has, and is, spending considerable sums on an asset the likes of which it has never previously owned. Laclede is entitled to present evidence that this new asset requires a new account with a reasonable estimate of useful life. But even if the asset belonged in an existing account, like OPC, Laclede should be entitled to an opportunity to demonstrate special circumstances justifying a depreciation rate change. For these reasons alone, summary determination should be denied.

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

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager-Financial Services of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony, on behalf of Laclede Gas Company.

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.

Glenn Buck
Glenn W. Buck

Subscribed and sworn to before me this 30th day of July, 2012.

Lisa M. Reed
Notary Public

LISA M. REED
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Nov. 7, 2015
Commission # 11265169