COLUMBIA STATEMENT NO. 105-R

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|---|
| Pennsylvania Public Utility Commission | ) | |
| vs. | ) | Docket No. R-2015-2468056 |
| Columbia Gas of Pennsylvania, Inc. | ) | |

REBUTTAL TESTIMONY OF
JOHN J. SPANOS
ON BEHALF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

July 16, 2015

**Q. Please state your name.**

**A.** John J. Spanos.

**Q. Have you previously submitted testimony in this proceeding?**

**A.** Yes, I have. My direct testimony was Columbia Statement No. 5.

**Q. Please state the purpose of your rebuttal testimony.**

**A.** The purpose of this testimony is to rebut the depreciation expense adjustments and future depreciation requirements for the Company's fully forecasted rate year set forth by Office of Consumer Advocate ("OCA") witness, Lafayette K. Morgan, Jr., and Bureau of Investigation and Enforcement ("I&E") witness, Jeremy B. Hubert.

**Q. Mr. Morgan proposed to decrease the Company's Fully Forecasted Rate Year depreciation and amortization expense claim by $3,913,460. How did he develop this adjustment?**

**A.** According to his Schedule LKM-15, Mr. Morgan simply utilized the 13-month average depreciable balance between December 31, 2015 ($1,733,303,981) and December 31, 2016 ($1,915,748,181) to establish an average of $1,824,092,209. This 13-month average by functional plant is then multiplied by the functional composite percent rate, as shown on Schedule LKM-15. However, the functional composite rates were calculated as of the end of the fully forecasted test year by plant account.

**Q. Do you agree with Mr. Morgan's calculation of depreciation expense utilizing an average balance of the 13 months ended December 31, 2016?**

**A.** No. There are many flaws in Mr. Morgan's oversimplified calculations which do not properly take into consideration the appropriate depreciation components. First, Mr. Morgan utilized an average of the balance for the thirteen months ended December 31, 2015 and December 31, 2016 to derive an average plant balance for the fully forecasted year, but utilized a composite depreciation rate at the end of the period (December 31, 2016) which was developed based on the fully forecasted test year activity. Thus, he applies a rate which incorporates the full year of depreciation expense, but only a half year of capital additions. Additionally, he does not consistently apply the retirements which offset both the plant and reserve monthly balances. This mixing of time periods produces an adjustment to depreciation expense which is unjustified. Second, Mr. Morgan's use of the end of year composite rate improperly ignores all the components of developing the book reserve which is critical for establishing a remaining life depreciation rate by account. Thus, the use of a composite functional rate has a much greater variance on the shorter lived asset classes.

**Q. Can you elaborate on your concerns related to depreciation expense?**

**A.** Yes. In Schedule LKM-5, Mr. Morgan establishes a 13-month average depreciable balance of Plant in Service ($1,824,092,209). His next calculation is to multiply the 13-month average functional balance of Depreciable and Amortizable Plant in Service by the functional Composite Depreciation rates, which are shown on Schedule LKM-15. However, these composite depreciation rates are based on an original cost and book reserve developed as of December 31, 2016, not the 13-month average. Therefore, he applies composite rates that are based on six and a half months of accumulated depreciation and age of plant

without taking into consideration the additional capital additions and retirements. At a minimum, Mr. Morgan should be applying the functional rates developed in the future test calculation as the book reserve is brought forward using that as a basis. The functional composite rates multiplied by Mr. Morgan's 13-month average balance would produce $47,185,998 in depreciation expense. Specifically, the average functional depreciation expense is calculated as follows:

| | Functional | 13-Month Average | |
|---|---|---|---|
| Function | Rate | Plant | Expense |
| Underground Storage | 2.55 | 6,004,522 | 153,115 |
| Distribution | 2.39 | 1,767,258,584 | 42,237,480 |
| General | 4.87 | 25,355,304 | 1,234,803 |
| Amortizable (Intangible) | 15.17 | 23,471,326 | 3,560,600 |
| Total | | | 47,185,998 |

Consequently, the rate year depreciation per OCA witness Morgan, of $46,202,526 as shown in his testimony, is not a reasonable amount to be compared to the Company's December 31, 2016 claim of $50,115,986. I note that Columbia Witness Paloney provides rebuttal testimony in response to Mr. Morgan's 13-month average approach to the fully forecasted future test year.

**Q. Are there other key elements of Mr. Morgan's calculations that produce less depreciable expense artificially?**

**A.** Yes. First, the 13-month average depreciable balance for general plant is understated because it reflects two years of retirements based on the depreciation exhibits which show the highest level of retirements during the month of December for amortization accounting practices. Second, the 13-month average balance is being calculated on an annualized composite rate which does not consistently apply the individual vintage remaining life to the

appropriate vintage balance. This is particularly an issue with the short-lived general plant accounts.

**Q. Is the calculation of depreciation rates and expense for future test years a simple average as Mr. Morgan has proposed?**

**A.** No, it is not. First, the book reserve is brought forward based on many calculations to annualize the depreciation accruals, retirements, amortization of net salvage, cost of removal, gross salvage, acquisitions and adjustments. The annualized depreciation accruals are determined by calculating the average plant balance for the test year by the depreciation rates for each individual account. The amortization of net salvage is determined based on the incurred cost of removal and gross salvage for the five years prior. The projected retirements, cost of removal and gross salvage are determined on a yearly basis in order to properly establish an end of test year book reserve. This is critical in order to properly annualize the book reserve in a consistent manner to the plant balance. This removes the over or under recovery concerns for new vintages within the year. Once the future test year (November 30, 2015) is determined, the same process must occur for the fully forecasted rate year (December 31, 2016). Consequently, each account's depreciation rate and expense needs to be calculated on the vintage plant balance and book reserve as of the same date.

**Q. Is the methodology you describe consistent with the process set forth in the Depreciation Studies?**

**A.** Yes.

**Q. Has this process been consistently approved before this Commission?**

**A.** Yes. The calculations and determinations of all depreciation parameters in the Depreciation Studies are consistent with past practices for Columbia Gas of Pennsylvania and all other Pennsylvania utilities. The reason these calculations and determinations are consistently approved in rate cases is due to the fact that all components are based on the same time period and properly annualized to achieve the proper rates by plant account. Simplification of composite rates was established to be inappropriate many years ago when the remaining life method was implemented and the requirements of maintaining the book reserve by account was set.

**Q. Were there any other adjustments to rate base or depreciation expense?**

**A.** Yes. There were some adjustments to plant in service and the resulting annual amortization for Account 303, Miscellaneous Intangible Plant. The response to I&E-RB-10-D is attached as Exhibit JJS-2R. The response illustrates that the amortizable claim is understated by $32,580 and the rate base claim is understated by $126,310.

**Q. Does that conclude your rebuttal testimony?**

**A.** Yes, it does.

EXHIBIT JJS-2R

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

Bureau of Investigation & Enforcement – Set RB

Question No. I&E-RB-10-D:

Reference the Amortizable Intangible Plant, Account 303 – Miscellaneous Intangible Plant of $25,523,894 on Columbia Exhibit No. 109, Schedule 1, Attachment B, page I-5. Provide the following for each amortization included in the $25,523,894:

A. The name of the amortization;

B. The original amount;

C. The amortization period;

D. The date the amortization began;

E. The annual amortization; and

F. The unamortized balance as of December 31, 2016.

Response:

A - F.

Attachment A to this response is a schedule that sets forth the requested information related to Account 303, Miscellaneous Intangible Plant as of December 31, 2016.

Please note the annual amortization in Exhibit No. 109, Schedule 1, Attachment B, page I-5 does not include the annual amortization in Account 303.00 Intangible Assets of $32,580 shown in the attachment. As a result, the total amortization claimed is understated by $32,580. The $32,580 of annual amortization is related to the $1,320,595 of original cost which is a component of the $25,523,894 amount for the account.

Also, the unamortized amount in the attached schedule is $126,310 greater than the amount presented on Columbia Exhibit No. 109, Schedule 1, Attachment B due to the amortization period and actual installation month for some of the Segment software changing slightly. Accordingly, Columbia's rate base claim should be adjusted upward by $126,310.

COLUMBIA GAS OF PENNSYLVANIA, INC.
FFTY : As of December 31, 2016
I&E RB-10-D

| NAME OF AMORTIZATION | Dec-16 ORIGINAL COST | AMORTIZATION PERIOD (IN YEARS) | DATE AMORTIZATION BEGAN (APPROXIMATE) | Jan-17 to Dec 17 ANNUAL AMORTIZATION | Dec-16 UNAMORTIZED BALANCE |
|---|---|---|---|---|---|
| Corporate Software | 380,500 | 10 | December-16 | 88,764 | 377,329 |
| Corporate Software | 174,849 | 5 | December-15 | 34,970 | 137,731 |
| Segment Software | 8,051,655 | 5 | Various | 1,870,380 | 6,646,218 |
| Construction Work in Process Software | 477,488 | 5 | Various | 95,498 | 298,152 |
| In Service Software | 15,118,807 | Various | Various | 1,767,697 | 7,981,774 |
| Intangible Assets | 1,320,595 | N/A | Various | 32,580 | 765,769 |
| TOTAL | $ 25,523,894 | | | $ 3,889,889 | $ 16,206,973 |