

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility)	
Commission)	
)	
)	
vs.)	Docket No. R-2018-2647577
)	
)	
Columbia Gas of Pennsylvania, Inc.)	
)	
)	

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

July 3, 2018

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

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

4 **Q. Are you the same John J. Spanos who submitted Direct Testimony in**
5 **this proceeding?**

6 A. Yes.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of this testimony is to address and rebut the depreciation expense
9 adjustments set forth by Office of Consumer Advocate (“OCA”) witness Dante
10 Mugrace and the Bureau of Investigation and Enforcement (“I&E”) witness Ethan
11 H. Cline. These adjustments include plant in service amounts, accumulated
12 depreciation balances and depreciation expense for the fully projected future test
13 year. First, I will rebut both witness’ position on the fully projected future test
14 year balances and depreciation expense. Both Mr. Cline and Mr. Mugrace utilize
15 average plant balances to the fully projected future test year, however, their
16 application of depreciation rates and book reserve are different. Second, I will
17 address both witness’ utilization of the 13-month average for the fully projected
18 future test year. Finally, I will comment on witness Mugrace’s position on other
19 jurisdictions’ use of a future test year.

20 **Q. Has witness Cline or Mugrace recommended adjustments to the plant**
21 **in service as of November 30, 2018 and December 31, 2019?**

22

1 A. No. Neither witness challenges the additions, retirements or test year-end plant
2 balances.

3

4 **Q. Has either witness recommended adjustments to the accumulated**
5 **depreciation balances as of November 30, 2018 and December 31,**
6 **2019?**

7 A. No. Each witness agrees with the development of the test year-end accumulated
8 depreciation balances as based on their exhibits.

9 **Q. Are the methods and procedures for developing the plant balance and**
10 **accumulated depreciation balance in the Depreciation Studies**
11 **consistent with Pennsylvania practices?**

12 A. Yes. The development of the plant in service and accumulated depreciation levels
13 are based on standard practices within Pennsylvania.

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

16 A. Yes.

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

18 A. Yes. The calculations and determinations of all depreciation parameters in the
19 Depreciation Studies are consistent with past practices for Columbia Gas of
20 Pennsylvania, Inc. ("Columbia") and all other Pennsylvania utilities.

21 **Q. Can you detail witness Cline's adjustment to rate base, plant in**
22 **service, accumulated depreciation and depreciation expense for the**
23 **fully projected future test year?**

24 A. Yes. Witness Cline has oversimplified the entire development of the depreciation
25 components. He has taken an average plant in service, depreciation expense,

1 amortization of net salvage, and accumulated depreciation for the 13-month
2 period between November 30, 2018 and December 31, 2019. A simple average of
3 a 13-month period of each of these components inappropriately compares annual
4 depreciation rates and how the development of accumulated depreciation is
5 established through depreciation theory.

6 **Q. Can you detail witness Mugrace's adjustments to rate base, plant in**
7 **service, accumulated depreciation and depreciation expense for the**
8 **fully projected future test year?**

9 A. Yes. Witness Mugrace takes on a different approach than I&E Witness Cline, as it
10 relates to the fully projected future test year. The primary difference is how his
11 fully projected future test year schedules reflect a 13-month average plant balance
12 for the fully projected future test year; a restatement of accumulated depreciation
13 by utilizing end of test year accrual rates applied to averages and no change to the
14 amortization of net salvage. Therefore, he establishes a reduction in plant in
15 service of \$153,136,976 (\$2,741,791,737 - \$2,588,654,761) based on a 13-month
16 average, then establishes a reduction in accumulated depreciation of \$20,172,000
17 (\$499,229,725 - \$479,057,725) based on December 31, 2019 depreciation accrual
18 rates and amortization of net salvage as of December 31, 2019. All of these
19 amounts create a reduction in annual depreciation expense of \$4,053,624
20 (\$77,301,907 - \$73,248,283).

21 **Q. Witness Mugrace proposed to decrease Columbia's fully projected**
22 **future test rate year claim by \$4,053,624 due to the use of average**
23 **balances. How did he develop this adjustment?**

24 A. According to his testimony and Schedules DM-29 and DM-33, Mr. Mugrace
25 simply utilized the 13-month averages then attempted to adjust to the 12 months
26 ending December 31, 2019 level based on rates developed at December 31, 2019.

1 However, his Schedules DM-29 and DM-33 inconsistently calculate amounts
2 from various time periods.

3 **Q. Do you agree with these adjustments?**

4 A. No. Witness Mugrace utilized multiple sources to create his amounts in Schedules
5 DM-29 and DM-33, which are based on different time periods. Some are
6 calculated amounts or percentages as of December 31, 2019 and others are
7 averages during the 13 months ended December 31, 2019. This mixing and
8 matching of time periods produces an adjustment to depreciation expense which
9 is unjustified as well as a complete misrepresentation of the process of projecting
10 rate base.

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

12 A. Yes. In Schedule DM-33, Mr. Mugrace establishes an average balance of Plant in
13 Service (\$2,588,654,761) for the 13 months ended December 31, 2019. His next
14 calculation is to develop a 13-month average annual accrual amount based on the
15 depreciation expense determined as of December 31, 2019. However, the 13-
16 month depreciation expense is annualized and based on an original cost and book
17 reserve developed at December 31, 2019, not the simple 13-month average.
18 Therefore, the total Rate Year Accumulated Depreciation per OCA of \$73,248,283
19 is not a reasonable amount to be compared to Columbia's December 31, 2019
20 claim.

21 **Q. Is the calculation of depreciation rates and expense for future test
22 years a simple average as Mr. Mugrace and Mr. Cline have proposed?**

23 A. No, it is not. First, the book reserve is brought forward based on many
24 calculations to annualize the depreciation accruals, retirements, amortization of
25 net salvage, cost of removal, gross salvage, acquisitions and adjustments. The
26 annualized depreciation accruals are determined by calculating the average plant

1 balance for the test year by the depreciation rates for each individual account.
2 The amortization of net salvage is determined based on the incurred cost of
3 removal and gross salvage for the five years prior. The projected retirements,
4 cost of removal and gross salvage are determined on a yearly basis in order to
5 properly establish an end of test year book reserve. This is critical in order to
6 properly annualize the book reserve in a consistent manner to the plant balance.
7 This removes the over or under recovery concerns for new vintages within the
8 year. Once the future test year (November 30, 2018) is determined, the same
9 process must occur for the fully projected future test year (December 31, 2019).
10 Consequently, each account's depreciation rate and expense needs to be
11 calculated on the vintage plant balance and book reserve as of the same date.

12 **Q. Can you explain how to calculate an average fully projected future test**
13 **year approach?**

14 A. Yes. First, I must state that this calculation in no way replaces my exhibits or
15 position on a fully projected future test year, but it does set forth the proper
16 depreciation methodology and practices for calculating averages. Second, it is
17 appropriate to annualize depreciation rates by taking averages over a twelve-
18 month period, therefore, an average plant balance of December 31, 2018 and
19 December 31, 2019. Third, the accumulated depreciation should be based on
20 activity for the twelve months which includes the development of the annual
21 depreciation provision on a twelve-month basis.

22 **Q. What would be the average plant balance, rate base, accumulated**
23 **depreciation and depreciation expense for twelve months had Mr.**
24 **Cline and Mr. Mugrace properly performed their calculations?**

25 A. The average plant balance would be \$2,612,533,896, which reflects the December
26 31, 2018 amount of \$2,483,276,054 and December 31, 2019 amount of

1 \$2,741,791,737. The average accumulated depreciation would be \$479,939,787
2 which reflects the developed December 31, 2018 amount of \$460,649,848 and
3 December 31, 2019 amount of \$499,229,725. Then the average rate base would
4 be \$2,132,594,109. Finally, the average depreciation expense would be
5 \$73,511,274, which includes the amortization of net salvage of \$4,744,712.

6 **Q. Can you summarize the adjustments made by witness Mugerace and**
7 **Cline?**

8 A. Yes. Both witnesses attempt to reduce rate base by establishing an average fully
9 projected future test year balance which is an over simplification of the developed
10 plant in service and accumulated depreciation balances. Their methodology
11 ignores the approved standard practices for developing future test year rate base
12 as well as inappropriately develops accumulated depreciation components by
13 mixing factors of different time periods to achieve their desired amounts. Neither
14 witness' inappropriate calculations should be used in developing rate base for the
15 fully projected future test year.

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

17 A. Yes. Columbia Exhibit Nos. 9, and 109, Attachment A and 109 Attachment B set
18 forth the appropriate levels of plant in service, accumulated depreciation and
19 depreciation expense for Columbia for each test year. The exhibits reflect the
20 proper development of accumulated depreciation based on the standard practices
21 in Pennsylvania for future test year.

22 **Q. Does this complete your Prepared Rebuttal Testimony?**

23 A. Yes, it does.