MONTANA –DAKOTA UTILITIES CO.

Before the North Dakota Public Service Commission
Case No. PU-399-02-183

REBUTTAL TESTIMONY
OF
EARL M. ROBINSON, CDP
PRESIDENT & CEO
AUS CONSULTANTS -
WEBER FICK & WILSON DIVISION

Concerning
Gas Depreciation and Common Plant Studies

REBUTTAL TESTIMONY OF EARL M. ROBINSON

Q. STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Earl M. Robinson. I am President & CEO of the Weber Fick & Wilson Division (WFW) of AUS Consultants - Utility Services. WFW is a public utility consulting firm specializing in the performance of various financial studies including depreciation, valuation, cost of service and other analysis for the utility industry and regulatory agencies. AUS Consultants provides a wide spectrum of consulting services through its various affiliated groups that include Utility Services, Valuation Services, ICR Survey Research, and Marketing Systems. WFW is located at 1000 North Front Street, Suite 200, Wormleysburg, Pennsylvania 1704

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I am a graduate of Harrisburg Area Community College with an Associate of Arts Degree in Accounting and have completed additional courses at University Center of Harrisburg. I have also successfully completed numerous programs related to service life and salvage estimation, forecasting, and evaluation sponsored by Depreciation Programs, Inc., as well as training programs presented by the Society of Depreciation Professionals. In addition, I have completed cost of service seminars sponsored by the American Water Works Association.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS.

A. I have been employed by WFW as a public utility consultant from 1971 to 1975 and 1977 to date. During these periods, my responsibilities have included the supervision of analyses and completion of studies related to depreciation, valuation, original cost, trended original cost, cost of service and bill analysis, as well as analyses of expenses, revenues, accounting adjustments for various municipal and investor-owned utilities. Studies prepared have required the review of company records, inspection of property, the preparation of property inventories and original costs, preparation and review of mortality studies, selection of proper service lives and life characteristics, analysis of salvage and analysis of the capital recovery impact of changing depreciation methods. Other areas of responsibility have included the preparation and selection of indices, development of rate base elements, development of data for cost of service studies and testing of consumption and revenue data in the preparation of bill analyses.

From 1975 to 1977, I was employed by Gannett, Fleming, Cordry & Carpenter, Inc. as a valuation analyst. My responsibilities included the classification, analysis and coordination of data in the development of depreciation rates for various companies including telephone, gas, water and electric utilities. During the years 1966 to 1971, I was a staff member of the Plant Accounting Department of United Telephone Company of

Pennsylvania (now Sprint-Eastern Group Headquarters). My responsibilities included the preparation of various plant accounting ledgers and unitization of property accounts, as well as special studies related to insurance and tax valuations. In summary, I have more than thirty (30) years experience in the public utility field.

As a member of the AGA Depreciation Committee (a predecessor to the current AGA Accounting Services Committee), I am a past Chairman of the Statistics, Bibliography, Court and Regulatory Sub-Committee. During my years of membership of the prior organization, as well as the present committee, I participated in many conferences that have incorporated research, analysis, and discussions of numerous depreciation issues and topics. In addition, as a member of the AGA Depreciation Committee, I co-authored a manual entitled *"An Introduction to Net Salvage of Public Utility Plant"* which is used as reference material in AGA/EEI training seminars.

Q. PLEASE STATE ANY ADDITIONAL DEPRECIATION QUALIFICATIONS.

A. I am a Certified Depreciation Professional. The certification is issued by the Society of Depreciation Professionals and is received upon successful completion of an extensive written examination covering all aspects of depreciation. I completed the examination during October 1996.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES?

A. Yes, I am a member of the American Gas Association, the American Water Works Association, the Pennsylvania Gas Association, an associate member of the American Gas Association (AGA) Accounting Services Committee (past Chairman of the Statistics, Bibliography, Court and Regulatory Sub-Committee), and a member of the American Railway Engineering Association. I am also a founding member of the Society of Depreciation Professionals. As part of that organization, I held numerous positions including President.

Q. MR. ROBINSON, HAVE YOU PREVIOUSLY SPONSORED TESTIMONY BEFORE A REGULATORY BODY?

A. Yes. I have testified in numerous proceedings before numerous regulatory agencies concerning telephone, gas, water and electric utilities. I have presented testimony to the Alberta Utilities Energy and Utilities Board, Arizona Corporation Commission, the Connecticut Department of Public Utility Control, the Delaware Public Service Commission, the Public Service Commission of the District of Columbia, the Federal Energy Regulatory Commission, the Illinois Commerce Commission, the Massachusetts Department of Public Utilities, the New Hampshire Public Utilities Commission, the New Jersey Board of Public Utilities, the New Mexico Public Service Commission, the New York Public Service

Commission, the North Carolina Utilities Commission, the Pennsylvania Public Utility Commission, the State of Rhode Island Public Utilities Commission, the Public Service Commission of South Carolina, the Virgin Islands Public Services Commission, the California State Board of Equalization and several Valuation Boards with the State of Florida. A list of those prior appearances is set forth in Appendix A of this testimony.

Q. HOW DID YOU FAMILIARIZE YOURSELF WITH THE COMPANY'S PROPERTY, WHICH IS THE SUBJECT OF YOUR ANALYSIS?

A. To obtain an overview and knowledge of the Company's facilities, I met with Company representatives to discuss its general scope of operations, which could have a bearing on the service lives of the Company's property. In conjunction with the management meetings, I performed a physical plant inspection of a representative portion of the Company's above-ground facilities. Likewise, the Company's financial management provided detailed information related to each of the Company's plant investment and net salvage databases. Accordingly, my study involved a detailed analysis of the historical accounting data obtained from the Company's continuing property records.

Q. WHAT WAS THE SOURCE OF THE DATA, WHICH YOU UTILIZED AS A BASIS FOR THE DEPRECIATION RATES YOU ARE RECOMMENDING PER YOUR STUDY?

A. All of the Company's historical data utilized in the course of performing the detailed service life and salvage study was obtained from the Company's books and records. The historical vintaged data (additions, retirements, adjustments, and balances) were obtained for each of the Company's depreciable property groups.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I have conducted the depreciation studies of the natural gas and common plant in service of Montana Dakota Utilities Co. (Montana-Dakota, or the "Company") as of December 31, 2001. The depreciation study reports are entitled Montana Dakota Utilities Co. Gas Division Depreciation Study as of December 31, 2001 which is identified as Exhibit No.-___ (EMR-1). The Common Plant study is entitled Montana Dakota Utilities Co. – Common Plant Depreciation Study as of December 31, 2001 and is identified as Exhibit No.-___ (EMR-2). Accordingly, I am providing rebuttal testimony relative to statements made and positions taken by Mr. Charles W. King who filed direct testimony on behalf of the Consumer Advocate Staff of the North Dakota Public Service Commission in this case.

Q. WHAT COMMENTS DO YOU HAVE RELATIVE TO MR. KING'S OPENING SUMMARIZATION OF HIS DEPRECIATION PROPOSAL (PAGE 3 OF HIS TESTIMONY)?

A. On page 3 of his testimony, Mr. King sets forth the impact of his depreciation proposal as it relates to the Company's current level of depreciation and as compared to the recommendations set forth in the Company's Gas Depreciation study. With regard to the Company's gas distribution plant (the primary operating component of the Company's overall investment) Mr. King is proposing approximately a 50% percent reduction in depreciation rates and expense from the current going level and more than a 40% reduction from the depreciation rates set forth in Company's filed Gas depreciation study. While Mr. King's depreciation recommendation relative to the General Plant component is generally similar in level to the present depreciation rates for that function, his proposal does not give recognition to the dramatic changes that have occurred with regard to those property groups. Lastly, Mr. King's depreciation proposal relative to the Company's Common Plant results in a 10% reduction in depreciation from the Company's current depreciation level and a nearly 30% reduction from the depreciation rates set forth in the Company filed Common Plant depreciation study. All of Mr. King's proposed depreciation deductions are unjustified and inappropriate, but his radical proposed reduction to the Company's Gas Distribution function

depreciation rate is particularly disconcerting. The depreciation rates set forth by Mr. King for the Company's distribution plant are clearly not reflective of the capital recovery requirements for this plant. Furthermore, Mr. King's recommendations are dramatically far removed from any normal depreciation level within the gas industry, and equally important, would no doubt result in financial harm to the Company's operations. That is, such a reduction in depreciation expense for the Company property will serve to reduce cash flow and potentially impact the Company's overall capital costs.

The bottom line of Mr. King's proposal is simply one of deferral, and then deferring some more, the true total cost of providing service to the Company's customers. Mr. King's selection of estimated service lives and his proposed use of the SFAS method (a discounted cash flow approach) to define the current period's appropriate share of the future retirement cost (cost of removal) are inappropriate. The method grossly understates the current apportionment of those total life costs. The use of Mr. King's proposed net salvage approach is akin to the sinking fund depreciation method that was used long ago by some regulatory agencies to calculate depreciation rates, but was discarded as not being appropriate to set just and reasonable depreciation rates.

Q. ON PAGE 5 LINES 24 & 25 OF HIS TESTIMONY MR. KING STATES THAT "THE ONLY PARAMETER THAT IS ABOSLUTELY REQUIRED (TO CALCULATE A DEPRECIATION RATE) IS AN ESTIMATE OF THE SERVICE LIFE....". DO YOU HAVE A RESPONDING COMMENT?

A. Yes, while in absolute terms of being able to mathematically calculate a depreciation rate Mr. King may be generally correct, however, he is incorrect in not recognizing the critical importance of net salvage. That is, it is "equally imperative" that the calculation include recognition of the net salvage relative to the plant being recovered. It is not just an after thought of "oh, maybe we should consider net salvage"—it is a key component in the development of the depreciation.

Q. ON PAGE 8 OF HIS TESTIMONY, MR. KING STATES THAT THERE WERE PROBLEMS WITH THE HISTORICAL DATA. DO YOU HAVE AN EXPLANATION RELATIVE TO THIS ISSUE?

A. On page 8, Lines 14 to 19 Mr. King discusses issues he has with the basic historical data. Unfortunately, in the assembling the basic historical data the Company was unable to retrieve historical information relative to additions and retirements prior to January 1, 1948. Notwithstanding, the fact that the account balance of the Company's plant in service as of January 1, 1948 was only approximately 6% of the current balance, the life analysis process uses information relative to additions and retirements

available since the inception of the property groups. While this earlier data does not influence the results to any significant degree, an attempt was made to recreate the information as best as possible through the inclusion of estimates. To estimate the additions and retirement activity for the years 1946 to 1948 the amounts were estimated as being equal to the 1949 amounts. With regard to the War years 1941 through 1945, which Mr. King discussed in his testimony, no amounts were included for either additions or retirements. The decision not to include activity for the war years was based upon experience from reviewing numerous other utility reports during those time periods. Given the limitation of the available (and rationing of) materials during the war years little activity occurred within most utilities. For years prior to the war year's gross additions were generally reduced by 2.5 percent for each prior year's activity to give recognition for plant growth over time. The level of annual retirements was based upon a ratio of each year's gross additions. Again while the level of plant activity is quite modest as compared to current plant and produces only a limited impact on any study results, an attempt was made to estimate values for those years as best as possible.

Q. ON PAGES 12, LINES 24 TO 29 AND PAGES 13 TO 16 OF HIS TESTIMONY, MR. KING DISCUSSES HIS RECOMMENDATIONS OF AVERAGE SERVICE LIFE PARAMETERS FOR A VARIETY OF THE

COMPANY'S PLANT ACCOUNTS. ALSO MR. KING STATES THAT YOUR PREPARED SPR ANALYSIS (RESULTS) DO NOT SUPPORT THE SERVICE LIFE PARAMETER RECOMMENDATIONS SET FORTH IN THE COMPANY'S DEPRECIATION STUDY. WHAT IS YOUR RESPONSE?

A. First. I will respond with regard to Mr. King's criticism that my SPR analysis results do not support the "average service life parameter" recommendations contained in the Company's Gas Depreciation Study Exhibit No.-___ (EMR-1). In response to Mr. King's statement, a discussion of the basic concepts and underlying reasons for historical life analysis is required, and then, secondly, the general assumptions and range of considerations that enter into the estimation of the proposed average service life parameters is also required. The historical data and related life analysis is a basic depreciation study tool which is assembled to enable the depreciation professional to determine (estimate) forward looking service life and salvage parameters used in completing a comprehensive depreciation study. That is, the data base is a source from which to prepare historical analysis, make assessments and judgments concerning the life and salvage factors being achieved. **The historical life analysis procedure and indicated service life parameter results is a tool not an end in and by itself.** In the process of assessing the service life analysis results, one must consider not only the results of the historical analysis, but also must give recognition to the general life characteristics of utility

property when selecting the survival characteristic (i.e., the Iowa Curve that goes along with the average service life.) Simply said, utility property is generally placed into service with the expectation that it will remain in service for some time before it is removed from service. That is, there is not a general expectation that significant levels of property retirements will occur shortly after the property is placed into service. In that regard, in estimating survival characteristics (Iowa Curves) for the various plant categories, a somewhat greater focus is placed on more Right Mode Iowa Curves (R Curves as opposed to O and L Curves); as well as higher subscript Curves, 2.5 and 3 curves as opposed to 1 and 2 Curves). In his life parameter selections, Mr. King has generally focused on the more left mode and lower subscript Curves simply because they met "some of his other criteria and conceivably indicated a better arithmetic fit of the available historical data. The impact of his selection process is to estimate average service lives that are, 1) longer than appropriate and, 2) do not generally represent the characteristic of the property being studied. Standard service life depreciation analysis processes were utilized along with the Company's developed depreciation data base compiled through December 31, 2001 to develop property life indications. Likewise, the net salvage data base was used as a basis to identify historical experience and trends and to determine each property group's recommended net salvage factors. This process is used as a benchmark, together with professional

analysis and consideration, to estimate future lives and salvage factors over which to recover the Company's un-depreciated fixed capital investments. It is not a process of simple arithmetic calculations and accepting whatever is generated from the "Computer Analysis" to estimate the future parameters, but one of clear and deliberate consideration of all factors impacting the Company's property.

I will now respond to various specific account criticisms made by Mr. King.

Account 375 - Distribution Meas. & Reg. Structures and Improvements. This class of property contains investments relative to structures which tend to be placed into service followed by somewhat limited subsequent activity. Mr. King's selection of an S1 curve implies that greater levels of young aged retirements (mortality) than the proposed R2.5 curve contained in the Company's depreciation study Exhibit No.-___ (EMR-1). Even a somewhat limited change to a more right mode or higher subscript curve would have altered his conclusion. For example, even if Mr. King had selected an S2 or S3 curve, which demonstrates fewer early aged retirements (rather than simply the historical arithmetic best fit curve of an Iowa S1 Curve) his resulting average remaining life recommendation would have been shorter (which translates into a higher depreciation rate) than my proposed remaining life using the R2.5 Iowa Curve.

Account 376 – Mains. While Mr. King has selected an "R" mode Iowa curve for this property group, he has again selected a relatively low

subscript curve, an Iowa R1.5 Curve as opposed to an Iowa R3 Curve recommended per the Company's Gas depreciation study Exhibit No.-___ (EMR-1). Conversely, the use of the estimated R3 Curve, within the Company's Depreciation Study, recognizes that a greater frequency of retirements will occur later in life as opposed to earlier in life. These estimated later in average life retirements is generally consistent with that anticipated by operating personnel for gas mains throughout the utility industry. Using the Iowa R3 curve for Account 376-Mains and Mr. King's own analysis per CWK-2 identifies that the indicated average service life of the Company's Main's investment should be 44.7 years (which is consistent with the life proposed by the Company's depreciation study). Also following Mr. King's own general criteria for estimating the applicability of a service parameter within the life analysis process, the Retirement Experience Index for an Iowa 44.7-R3 Curve is at 100 (higher is better) as opposed to the 57.6-R1.5 Curve which has a Retirement Experience Index of 87.5. Furthermore, as a general check on the reasonableness of the estimated Iowa 45-R3 service life parameters estimated per the Company's depreciation study report Exhibit No.-___ (EMR-1), the AGA depreciation survey indicates that nearly one-third of the reporting companies are utilizing a service life in the range of 45-52 years. However, in reviewing such statistics one must recognize that segments of this industry data are being influenced by sizeable investments related to Cast Iron Main dating

back to the 1800's which has routinely experienced a substantially longer average service life due to operating at far lower operating pressures, etc. The Company does not have Cast Iron Mains. Absent that service life information relative to cast iron main property, the overall average of the industry service lives is most likely years shorter.

Finally, Mr. King states that he is recommending the use of a Whole Life based depreciation rate as opposed to a Remaining Life based depreciation rate for this asset categories. This approach of switching to a different depreciation technique for this account and one other account is apparently an effort to offset some of the impact of his inappropriately proposed depreciation parameters and procedures which produce results that even Mr. King recognizes as totally irrational.

Account 378 – Measuring & Regulating Station Equipment. Again, Mr. King has selected an average service life parameter (an SC Curve which is a constant retirement percent dispersion) indicating that from day one after the property group investment is placed in to service the property group will experience continuous and ongoing retirements. Such a service life parameter is not anticipated and/or realistic for this class of property. Conversely, the Company's filed Gas depreciation study Exhibit No.-___ (EMR-1) recommends an Iowa R1 Curve for this property category. While the Iowa R1 curve recognizes that various levels of retirements will occur throughout the property's life, the anticipated retirement levels are not

nearly as accelerated as that indicated under Mr. King's recommendation. Furthermore, in reviewing Mr. King's Exhibit CWK-2 it is further noted that the Company recommended Iowa R1 curve has a superior Retirement Experience Index (Mr. King's selected criteria) of 99.5 versus a Retirement Experience Index of 82.2 for Mr. King's selected SC Curve.

Account 379 – Measuring & Regulating Station Equipment – City Gate. For this account Mr. King states that he picked the best SPR result with a Retirement Experience Index of greater that 75. His statement is incorrect; the Retirement Experience index is only 67.36 as shown by his Exhibit CWK-3. The important factor however is that he again selected an Iowa Curve (an S1) that experiences higher levels of retirements earlier in life than the Iowa R2.5 Curve incorporated into the Company's study for this property group. In general City Gate stations tend to be constructed to service a selected community and/or service territory. They are typical designed for the larger area as compared to a district regulator station and therefore tend to be less prone to changes earlier in life. Conversely, district regulator stations (Account 378) are more influenced by changes of demand within a given neighborhood and therefore would likely experience a somewhat greater level of retirements early in life (and thus would demonstrate a lower subscript curve). Again using Mr. King's own measurement criteria the Iowa 33.2-R2.5 (from Mr. King's Exhibit CWK-3) produces a Retirement Experience Index of 93.96 (higher is better) as

opposed to Mr. King's recommended curve of an Iowa S1 curve which produces a Retirement Experience Index of only 67.4.

Account 380 – Services. Mr. King has recommended a service life for the Company's Services account that is inconsistent with the general range of data he reviewed. As with essentially all previous accounts studied, his primary stated measurement criteria is that the recommended service life parameters historically generated a Retirement Experience of greater than 75. In addition he has referenced that a life in the range of 60 to 80 years might be justified by the study data, even without giving consideration to the survivor life characteristics indicated by those life indications (extremely left modal Curves being mostly O mode curves and a low subscript (R1) curve). Furthermore, Mr. King quotes that the maximum life used by any AGA reporting Company is 63 years and that the average service life reported by the industry for Services is 40 years. All this data referenced by Mr. King better supports the Company's proposed service life of 40 years (per Exhibit No.-___ (EMR-1)) as opposed to the extremely long and irrational life of 55 years recommended by Mr. King. Also, the Iowa R2.5 recommended per the Company's Gas depreciation study produces a Retirement Experience Index (Mr. King's preferred measurement) of 100 versus Mr. King's recommended R1 Curve which produces a Retirement Experience Index of 83.9.

As with Account 376 – Mains Mr. King states that he is recommending the

use of a Whole Life based depreciation rate as opposed to a Remaining Life based depreciation rate. Again, this approach of switching to a different depreciation technique for these accounts is apparently an effort to offset some of the impact of his inappropriately proposed depreciation parameters and procedures which produce results that even Mr. King recognizes as totally irrational.

Account 381 – Meters. Mr. King's schedule on Page 15 of his testimony indicates that he recommended an Iowa R1.5 curve for this property group, however, his text on Page 14 of his testimony and his Ehibit CWK-1 Schedule 2 identifies that an Iowa R2.5 Curve was utilized as the applicable depreciation parameters. The Iowa R2.5 curve is the same as recommended by the Company's Gas depreciation report.

Account 383 – Service Regulators. This property investment is related to house regulators that are installed on the Customer premise to reduce the pressure from the distribution level to the lower pressure that is utilized by the customer's gas appliances, etc. This category of property experiences only minimal levels of early retirements given that the drivers for retirement tend to be generally physical in nature and/or could be the product of a pressure change with district service area. Accordingly, there is absolutely no justification for estimating an Iowa R1 Curve as the applicable service life parameter for this asset category. Reviewing Mr. King's curve fitting analysis (Exhibit CWK-2) for this account identifies that the Iowa R3 Curve

recommended per the Company's Gas depreciation study produces an indicated average service life of 32.4 (which is less that the 35 years recommended per the Company study report). Likewise the R3 Curve produces a Retirement Experience Index of 100 (higher is better) as opposed to Mr. King's recommended R1 Curve which has a Retirement Experience Index of 80 and an average service life of 38.7 years. Mr. King proposed a 40 year life for the account.

Account 385 – Industrial Measuring & Regulating Station Equipment.

Counter to Mr. King's statement that he is not surprised that Service Regulators and Industrial M&R Equipment would have the same life, these two categories of property are dramatically different classes of assets. The service regulator is a very small unit used for providing relatively small volumes of gas to residential and/or commercial customers. Conversely, Industrial Measuring & Regulating Station Equipment is typically a relatively larger regulator set used to provide large volumes of gas to industrial customers. These Industrial M & R facilities are more akin to District Regulator Stations but more susceptible to life limitations do to changing individual business operations. While the Company's Gas depreciation study recommended relatively similar depreciation parameters for Service Regulators and Industrial Measuring & Regulating Station Equipment it is not for the same reason as indicated by Mr. King. Even according to Mr. King's analysis the Iowa R2 Curve recommended by the Company's Gas

depreciation report produces a Retirement Experience Index of 95.8 while Mr. King's recommended R1 Curve produces a Retirement Experience Index of 78.4. Likewise Mr. King's R1 curve indicates greater levels of retirements earlier in life than does the Company's study recommendation of an R2 Curve.

Account 386 – Miscellaneous Equipment. As Mr. King stated, a larger portion of this property group's investment is related to CNG Refueling Station equipment. Due to the lack of historical retirements, the historical data does not produce applicable service life indications. This class of plant is an evolving technology which relies on various levels of cascading equipment that is upgraded over time. Also this is somewhat of an unproven product with regard to whether there is real long term viability for this asset class. Lastly the Investment in the class is relatively modest; accordingly, a 15 year life with an R3 Curve was deemed the most appropriate service life parameters for this asset class.

Account 387.10 – Cathodic Protection. Cathodic Protection is a technology driven asset group that does experience various levels of somewhat gradual and earlier in life retirements than represented by the Iowa L4 Curve proposed by Mr. King. Accordingly, the R1.5 Curve as recommended by the Company Gas depreciation study Exhibit No.-___ (EMR-1) is deemed as a superior life recommendation as opposed to Mr. King's proposed L4 Curve.

Q. MR. KING, ON PAGE 16, OF HIS TESTIMONY DISCUSSES YOUR DISAGGREGATION OF SELECTED ACCOUNTS. WHY DID YOU DISAGGREGATE THE INVESTMENTS IN VARIOUS ACCOUNTS?

A. In completing depreciation studies, it has been my practice, as well as the practice of various other depreciation professionals, to segment various larger plant accounts into more homogenous types of property groups. It is noted that the Company's investment in Account 376 - Mains comprises more than 45 percent of the Company's depreciable plant while Account 380 – Services comprises more than 18 percent of the depreciable plant. The segmentation of these assets and the calculation of individual sub-account depreciation rates provides the opportunity to look at separate types of property individually and then subsequently composite those rates together into a total account depreciation rate. It is not necessary that the Company accrue depreciation on the separate categories only that the depreciation professional consider the possible/probable differences between the facilities when developing depreciation rates. Conversely, relative to Mr. King's reference to Account 387, that property group was not disaggregated in performing the depreciation study. The Company maintains investment information in this manner on it books and records, therefore a depreciation rate was developed for each property category.

Q. ON PAGE 18 LINES 13 TO 19 OF HIS TESTIMONY MR KING DISCUSSES THE DATA THAT HE RECEIVED RELATIVE TO ACCOUNT 391 AS WELL AS HIS ANALYSIS AND RECOMMENDATIONS FOR THIS PROPERTY CATEGORY. WHAT COMMENTS DO YOU HAVE IN THIS REGARD?

A. Mr. King states that he included computers with office furniture into a composite analysis because he did not have the separated data. Mr. King was provided all the detail in electronic form in response to Staff DR1.1. In fact, the combined Account 391 data "was not" provided inasmuch as the Company only maintains the information on an individual sub-account basis. The only way that Mr. King could have obtained the total combined Account data would have been to physically add the sub-account related data together. Counter to Mr. King's rebuttal testimony concerning his statement that "he is not persuaded that the separation results in a more accurate picture", real life facts demonstrate a far different picture. The life of office furniture in no way has any relationship to the life expectancy of computer (PC) equipment. Mr. King's estimated life of 17 years for the overall account which is comprised of nearly 60 percent PC related equipment is totally unrealistic. In fact it is very routine for company's to experience 15 years as an average service life for non-computer related furniture and office equipment. Applying a 17 year life to Account 391.3 - PC Computer related equipment investment is another clear example

where Mr. King is proposing to defer recovery to future customers. With the ongoing radical and dramatic changes to PC and related software (which drives much of the equipment replacement) there is a never ending revolving door of PC equipment. The 15 year amortization period for Office Furniture & Equipment and the Iowa 5-R2 service life parameter recommended by the Company's Gas depreciation study report are justified, reasonable, and extremely well supported by extensive experience through the utility industry.

For example, of the various Companies reporting within the AGA/EEI depreciation statistics the mean average service life relative to Furniture and Equipment for 98 Gas Companies is 14 years while the median service life is 13 years. Similarly for 52 entities with Common Plant the reported mean average service life for Furniture and Equipment is 14 years while the median service life is 11 years, and for 168 electric reporting companies the mean average service life is 14 years while the median service life is 12 years. Within the above referenced reporting groups, for the single largest group, 31 of 98 reporting Gas companies, the average service life fell in the range of 2 to 8 years. By comparison, for 26 of 52 Common Plant reporting, the average service life was in the range of 5 to 10 years. Lastly, for 62 of 168 reporting electric companies, the average service life was in the range of 5 to 10 years. This information recognizes that the useful life of Furniture and Equipment is being significantly influenced by a short life

for Computer Equipment. Given that the AGA statistics report does not specifically separate depreciation lives between office furniture and equipment and PC Computer equipment, specific listings of the average service lives for PC's is not available from this source. Nevertheless there is extensive anecdotal evidence concerning the rapid changes and limited life of PC Equipment, however, the actual empirical evidence is somewhat more limited.

With regard to specific empirical evidence related to the average service of Computer Equipment, based upon the available actuarial data for the Company's Common Plant investments, a historical life analysis produced an average service life indication of 6 years for PC Equipment. Likewise, similar studies performed on Computer Equipment for several other entities including California-American Water, Illinois-American Water, and Northern Indiana Public Service produced life indications for Computer PC and Peripheral Equipment in the range of 5-8 years as shown on the accompanying data and curve plots (Exhibit No.-___ (EMR-3)). A curve plot for Montana-Dakota is also included in the exhibit. This information demonstrates that historically, the life being achieved for this asset class(PC's & Peripheral Equipment), is substantially shorter than that indicated by Mr. King. Furthermore, it is highly likely that sizable portions of the PC equipment remaining on the various Company's books and records is subject to increasing levels of obsolescence and is awaiting replacement

in the near term.

Q. ON PAGE 18 AND 19 OF HIS TESTIMONY MR. KING DISCUSSES VARIOUS LIVES RELATIVE TO AMORTIZATION PERIODS WHICH THE COMPANY HAS REQUESTED FOR SELECTED GENERAL PLANT ACCOUNTS. WHAT COMMENTS DO YOU HAVE IN THIS REGARD?

A. Mr. King states that he has performed life analysis on various of these accounts and/or retained the current life for others, namely 393, 394.1,394.2 394.3, 394.5, 397, and 397. The real issue is simply that the items in these accounts tend to be numerous and minor in nature which makes detailed record keeping administratively burdensome. Accordingly, this is the specific reason for the Company requesting to amortize these limited asset investments over a pre determined useful life. The proposed useful life was the product of the available historical data from Company as well as industry data along with input from Company management concerning the likely useful life of such property classes. To base the estimated amortization periods simply on the existing depreciation period and/or the life indication generated from questionable historical data alone is totally inappropriate. Accordingly, the amortiziation periods set forth on Table 2 (and as contained in the following list) of the Company's Gas depreciation report (Exhibit No.-___(EMR-1)) are the appropriate lives to use.

Acct. No.	Account Description	Amortiz. Period (Yrs)
391.10	Office Furniture & Equipment	15
393	Stores Equipment	35
394.10	Tools, Shop & Garage Eq. (Non-Unit)	18
394.20	Tools, Shop & Garage Eq. (Unitized)	18
394.30	Vehicle Maintenance Equipment	20
394.40	Vehicle Refueling Equipment	15
395	Laboratory Equipment	20
397.10	Radio Comm. Equip (Fixed)	15
397.20	Radio Comm. Equip (Mobile)	15
397.30	General Tel. Comm. Equip.	10
397.50	Supervisory & Telemetering Equip.	10
397.60	SCADA Equipment	8
397.80	Network Equipment	5
398	Miscellaneous Equipment	20

Q WHAT COMMENT DO YOU HAVE REGARDING MR. KING'S ESTIMATED AMORTIZATION PERIOD'S FOR COMMON PLANT ACCOUNTS AS DISCUSSED ON PAGE 19, LINES 29-31 AND PAGE 20 LINES 1-12 AND AS INCLUDED IN HIS EXHIBIT CWK-1 SCHEDULE 4?

A. As with his recommendation concerning the amortization of the Company

Gas Plant General Accounts the real issue for Common Plant is also simply that the items in these accounts tend to be numerous and minor in nature which makes detailed record keeping administratively burdensome. Accordingly, this is the specific reason for the Company requesting to amortize this limited asset investments over a pre determined useful life. The proposed useful life was the product of the available historical data from Company as well as industry data along with input from Company management concerning the likely useful life of such property classes. To base the estimated amortization periods simply on the existing depreciation period and/or the life indication generated from questionable historical data alone is total inappropriate. Accordingly, the amortization periods set forth on Table 2 (and as contained in the following list) of the Company's Common Plant depreciation report (Exhibit No.-___(EMR-2)) are the appropriate lives to use.

Acct. No.	Account Description	Amortiz. Period (Yrs)
391.10	Office Furniture & Equipment	15
393	Stores Equipment	30
394.10	Tools, Shop & Garage Eq. (Non-Unit)	18
394.30	Vehicle Maintenance Equipment	18
394.40	Vehicle Refueling Equipment	15
397.10	Radio Comm. Equip (Fixed)	15
397.20	Radio Comm. Equip (Mobile)	15

397.30	General Tel. Comm. Equip.	10
397.50	Supervisory & Telemetering Equip.	15
397.80	Network Equipment	5
398	Miscellaneous Equipment	20

Q. DO YOU HAVE A COMMENT CONCERING MR. KING'S ESTIMATED AVERAGE SERVICE LIFE FOR THE COMPANY'S COMMON PLANT PC EQUIPMENT?

A. Mr. King is recommending a 15 year average service life relative to the Company's Common Plant Account 391.3 PC Computer Equipment. Similar to Mr. King's position for Gas-General Plant, to even consider applying a 15 year life to PC Computer related equipment investment is totally beyond belief. With the ongoing radical and dramatic changes to PC and related software (which drives much of the equipment replacement) there is a never ending revolving door of PC equipment. The Iowa 5-R3 service life parameter recommended by the Company's Common Plant depreciation study report is justified, reasonable, and extremely well supported by extensive experience through the utility industry as I previously discussed for gas general plant. I would again refer you to Exhibit No.-___(EMR-3).

Q. LIKEWISE, MR. KING IS RECOMMENDING THE USE OF AN IOWA 13-L1 LIFE AND CURVE FOR THE COMPANY'S COMMON PLANT ACOUNT 392.2 –CARS AND TRUCKS INVESTMENT. WHAT COMMENT DO YOU

HAVE CONCERING THIS RECOMMENDATION?

A. Suggesting that, on average, the Company's Cars and Trucks would ever last 13 years is just not realistic. Such a recommendation is just simply wrong. Secondly, Cars and Trucks are routinely placed into service and continue to be utilized for a typical life period. While there may be some limited circumstances where vehicles are involved in accidents, etc and taken out of service early in their service period that is far from the norm. Mr. King's estimate of an L1 curve along with a 13 year average service life suggests not only do the Company vehicles last, on average, an extremely long period of years, but also that relatively sizeable portions of the property is taken out of service over the entire service period from zero age to maximum life. This recommended service life parameter is simply illogical. Mr. King's recommendation is even more irrational due to the fact that the Company has been purchasing increased amounts of (previously owned) "Program Vehicles." These vehicles, while new to the Company, already have been used for a period of time. Conversely, the Iowa 7-R3 Life and Curve recommended via the Company's Common Plant depreciation study for the Company's Account 392.2 – Cars and Trucks is supported, rational, and reasonable.

Q. ON PAGE 21 OF HIS TESTIMONY MR. KING SUMMARIZES AND HIGHLIGHTS THE NEGATIVE SALVAGE FACTORS INCLUDED IN THE COMPANY'S DEPRECIATION STUDIES. WERE THERE POSITIVE NET SALVAGE FACTORS ESTIMATED FOR VARIOUS OTHER ACCOUNTS?

A. Yes, while Mr. King focuses only on the negative net salvage factors there were, likewise, positive net salvage estimated for various accounts. The net salvage summaries, and analysis included within the Company's depreciation studies were handled consistently for all the property groups studied.

Q. WITH REGARD TO THE CURRENT WORK EFFORT AND RELATED COSTS ATTRIBUTABLE TO THE COST INCURRED IN RETRING PLANT, IS IT ANTICIPATED THAT IN FUTURE YEARS, THE REQUIREMENT UPON THE COMPANY WILL BECOME MORE OR LESS STRINGENT?

A. As with all operations and related regulations, it can only be anticipated that with the passage of time such government regulations and other requirements upon the Company will be more stringent thereby increasing effort and resulting cost incurred in conjunction with retirements. That is, not only will future costs likely increase as a result of future labor cost increases, etc but the level of requirements and related costs are also anticipated to increase.

Q. ON PAGES 21-23 OF HIS TESTIMONY MR. KING DISCUSSES THE APPROACH THAT WAS USED TO ANALYZE NET SALVAGE WITHIN THE COMPANY'S DEPRECIAITON STUDY. IS HIS DISCUSSION CORRECT?

A. Mr. King's initial discussion about how the calculations were prepared are

essentially correct, however, once he begins his discussion of how the data analysis results were interpreted and incorporated into the recommended depreciation rates, he is incorrect.

First, as previously noted in this testimony during discussions related to average service life analysis, " **the net salvage data base was used as a basis to identify historical experience and trends and to determine each property group's recommended net salvage factors. This process is used as a benchmark, together with professional analysis and consideration, to estimate future lives and salvage factors over which to recover the Company's depreciated fixed capital investments. It is not a process of simple arithmetic calculations and accepting whatever is generated from the "Computer Analysis" to estimate the future parameters, but one of clear and deliberate consideration of all factors impacting the Company's property."**

For example on Page 23 Lines 1 to 7 and later on Page 24, Mr. King discusses as some length the fact that the linear trend analysis produces negative gross salvage percent. He expounds in great volumes about the absurdity of the calculation of negative gross salvage percents. I agree wholeheartedly that there is absolutely no justification for incorporating the **negative "gross salvage percents"** into the recommended annual depreciation rates. In fact, no such data was incorporated in the annual depreciation rates recommended per the Company's depreciation studies.

However, as previously indicated in the discussion above, the same consistent calculations were utilized for all of the accounts studies. The bottom line is that the linear analysis of the gross salvage trend shows that there is a likelihood that such accounts that trend to "negative gross salvage percents" will experience little or no gross salvage irrespective of the fact that on an overall historical basis those accounts demonstrated (in some circumstances) relatively significant levels of positive salvage. Again the information is calculated consistently for all accounts, and is available for professional analysis and interpretation.

Q. ON PAGE 23, LINES 28-31 AND PAGE 25 LINES 1-13 OF HIS TESTIMONY MR. KING LAMENTS THE INCORPORATION OF THE COST OF REMOVAL ADJUSTMENTS INTO THE COMPANY'S FUTURE COST OF REMOVAL ESTIMATES. WHAT IS YOUR RESPONSE?

A. First, just because Mr. King has not seen such a presentation does not make the process invalid. In fact the very textbook that Mr. King references in his testimony, "The NARUC Public Utility Depreciation Practices", references age sensitivity in salvage and cost of removal in its discussion on net salvage on pages 158-161. Furthermore on page 288 of that same textbook, listed as a bibliography is an AGA/EEI paper by a well recognized expert Mr. John Ferguson on the subject of "Influence of Aged Net Salvage on Depreciation Rates." Furthermore there is a 1989 AGA/EEI treatise

entitled "An Introduction to Net Salvage of Public Utility Plant" which discusses the subject of age sensitivity of gross salvage and cost of removal.

Q. DOES THE INCLUSION OF THE AJUSTMENT TO THE COST OF REMOVAL PERCENT RESULT IN DOUBLE COUNTING INFLATION AS SUGGESTED BY MR. KING ON PAGE 25, LINES 1 TO 17?

A. Absolutely not. The whole process is quite easy to understand. First, one must remember that for each property group an average service life has been estimated. That average service life of say 30 years indicates that the entire current investment within the property account, on average, will be retired at that age to attain an average service life of 30 years. Secondly, historical retirements have occurred to date. Those retirements have been analyzed to both identify the average retirement age to date (lets assume 10 years) at which the retirements have occurred, and in addition what percent of the original costs of retirements was experienced by the Company for Cost of Removal. That is, relative to the cost of removal percent if the Company had historically booked retirements with an original cost of $1,000 and it incurred $500 of cost of removal to retire the asset it is said that the cost of removal percent is 50% ($500/$1,000) (that also being 50% negative net salvage, if there was no corresponding gross salvage in conjunction with the retirement). Lets also estimate that the overall long run

inflation rate is 2.75%.

Next, now that it is known that the retirements that generated the 50% cost of removal occurred at 10 Years, the average service life of the property within the asset group is 30 years, and that the long run inflation rate is 2.75%, one can readily estimate the anticipated future cost of removal percent at the end of the property's average life. That is, it can be readily extrapolated that the average retirement age will need to increase, on average, another 20 years (30 Yrs ASL-10 years average retirement age) before the property is retired, on average, at an age of 30 years.

In simple, non-compounded terms a 2.75% cost increase per year for 20 additional years is 55%. For this example, the original 50% cost of removal plus the additional 55% totals to 105% cost of removal.

As one can easily see, counter to Mr. King's testimony, there is no double counting of inflation. The initially experienced 50% cost of removal is attributable to the actual cost of removal incurred through the 10 year average age, while the additional 55% cost of removal is attributable to the increased cost of removal during the subsequent additional 20 year period (required for the property to be retired, on average, at average service life).

Q. ON PAGE 26 OF HIS TESTIMONY, MR. KING STATES THAT EMPIRICALLY, THERE IS NOT A SHRED OF EVIDENCE THAT OVER TIME POSITIVE GROSS SALVAGE RATIOS DECLINE AND NEGATIVE

REMOVAL COST RATIOS INCREASE. WHAT IS YOUR REACTION TO THIS STATEMENT?

A. There is an unlimited number of examples where the age sensitivity of gross salvage and cost of removal can be illustrated. In its simplest form I doubt that anyone would be willing to pay me as much for a similar model of a 5 year old used computer as a 2 month old used computer. Similarly if I had a 6 year old used van, I wonder if anyone would pay me equally as much for that vehicle as for a 2 month old van of the same type.

The same concept can be identified for cost of removal. As time passes all employees seek and desire to have a higher salary, plus other costs also increase. Hence as time passes the level of cost to complete a similar task will increase. Working from the assumption that we are discussing removing the same item that has the same original cost at different points in time (at age 5 as opposed to age 1) the percent level of cost of removal clearly will increase.

In his discussion on page 26 lines 8 to 13, Mr. King argues that the cost of removal percent, as shown on his Exhibit CWK-6, supports his statement that the cost of removal does not increase with age. Mr. King does not understand. The reason that age sensitivity is not discernable within the summary salvage data provided in Section 8 of the Company's Gas & Common Plant depreciation studies is the fact that the retirements that

generated the net salvage is a mixture of various vintages of property. Furthermore, the average age of retirements, in aggregate, that have been occurring over time have not changed that significantly. If one were to disaggregate such activity into separate vintage data it is clearly obvious that both gross salvage and cost of removal would reflect levels of age sensitivity.

Furthermore, counter to Mr. King's discussion at the bottom of Page 26, Lines 24 to 31 where he argues that Company annual retirements, on average and in aggregate, will not trend towards average life, this is simply a non issue. It is not about whether in any one year, on average and in aggregate, the retirements reach average service life. The bottom line is that those individual retirements will have to occur at old ages if the average service life is to occur. If, for example, Mr. King is arguing that the average age of retirements will, in total, occur at younger ages, then the estimated average service life for each of the property groups is far too long.

Q. AT THE BOTTOM OF PAGE 27 OF HIS TESTIMONY MR KING SUMMARIZES WHAT HE INDICATES ARE HIS ESTIMATED NEGATIVE NET SALVAGE RATES BASED UPON HIS ANALYSIS AND WHAT HE REFERS TO AS THE "CONVENTIONAL PROCEDURE". WHAT ARE YOUR COMMENTS?

A. In developing his negative net salvage on what he calls a conventional

procedure for 3 of the 4 accounts listed he simply bases his estimate on the average of 33 years historical experience irrespective of the fact that many of the earlier years experience significantly lower levels of negative net salvage while more recent years experience higher levels of negative net salvage.

One must recognize that with regard to estimating future net salvage for the average remaining life depreciation rate, it is not about what has occurred in the past, but what will occur in future years. That is, the development of the average remaining life depreciation rate is based upon recovering the un-recovered original cost adjusted for the estimated future positive or negative net salvage over the average remaining life.

Q. ON PAGES 28 AND 29 OF HIS TESTIMONY, MR. KING ESSENTIALLY DISCUSSES ANALYZING COST OF REMOVAL ON A CONSTANT DOLLAR BASIS, THAT IS, ELIMINATING ANY INCREASES IN COST OVER TIME CAUSED BY INFLATIONARY PRESSURES. IS HIS CALCULATION CONCEPT RATIONAL, AND/OR IN ANY WAY ACCEPTED OR SUPPORTED BY DEPRCIATION PROFESSIONALS, ACADEMIA, OR REGULATORS?

A. Absolutely not. We do not live in a constant dollar world and it is extremely unlikely that we ever will. It will essentially always cost more to remove facilities from service 30 or 40 years hence than it would today because,

among other reasons, labor rates increase inasmuch as all employees seek to obtain a higher level of pay with the passage of time. Also, by the very nature of the property, retirement cost (cost of removal) must occur at the end of life. Therefore the cost of removal, which is an end of life cost, must be added to the initial installed cost to define the true total life cost of property which must be recovered ratably over the life of the asset from the customers receiving service from the property's use. The combination of the initial cost and end of life cost is no different than having constructed an initial facility (say a structure) during 1950; then adding to that structure during 1960, 1970, and 1980 and finally retiring the facility in 1990. The sum of all those costs along with any cost of removal must be recovered ratably over the life of the property.

The method utilized in the development of the Company current estimates of negative net salvage and resulting depreciation rates is consistent with standard practices and procedures within the depreciation profession, their development is consistent with basic accounting matching principles and follow the long time and well founded practices of ratemaking principles. Conversely, Mr. King is advancing a new theory of cost recovery that clearly results in inappropriate deferral of cost recovery.

Q. ON PAGE 30, LINES 11 TO 21, MR. KING ASSERTS THAT IT IS CHEAPER TO THE CUSTOMERS TO DEFER THE RECOVERY OF THE RETIREMENT COST. IS HE CORRECT?

A. No. Anytime recovery of plant related costs are deferred, the net embedded costs remain at a higher level than otherwise would be the case. Accordingly, as a result of such a practice, additional carrying costs to finance the investments as well as return is required while those costs are retained on the Company's books and records for longer periods of time. The bottom line is that the deferral of cost recovery costs the ratepayer additional amounts in customer rates.

Q. ON THE BOTTOM OF PAGE 30 TO 33 OF HIS TESTIMONY, MR. KING DISCUSSES THE USE OF THE SFAS 143 APPROACH TO RECOVER RETIREMENT COSTS (COST OF REMOVAL). DO YOU HAVE A RESPONSE TO THIS PROPOSAL?

A. Mr. King goes on for several pages to espouse the supposed virtues of the SFAS 143 procedure (which is generally equivalent to a sinking fund approach). There are numerous fallacies with Mr. King's proposed adoption of the SFAS procedure. First, in developing the applicable recovery of the retirement cost one is not seeking to define the current value of the future expenditure, but instead the task is to define the allocable portion of that cost of removal that should be charged to the current rate payer.

Secondly, if one were to use the SFAS procedure, the methodology produces an added level of complexity into the calculation. Under such a scenario not only does the amount of end of life costs need to be estimated but also the applicable discount rate must be determined.

Next, given changing financial conditions, it is extreme likely that the discount rate would vary widely during the property's life adding significantly to the level of recovery variation throughout the life of the property.

Furthermore, there is an added fallacy with using a discounting approach for capital recovery. For example, the SFAS procedure states that the calculation should be prepared with the Company's risk free rate. This type of calculation has little or nothing to do with the possible discount rate attributable to the many diverse customers that the Company serves. Also, it seems rather odd that a higher risk company (or an individual, if an individual discount rate were utilized) with a higher return rate would allocate less to recover future retirement costs than a lower risk Company. There is simply no valid basis for giving Mr. King's proposed SFAS approach any consideration for capital recovery purposes.

Q. ON PAGE 34, LINES 13 TO 31 AND PAGE 35, LINES1 TO 12 OF HIS TESTIMONY, MR. KING DISCUSSES ADDING THE COST OF REMOVAL TO THE NEW CONSTURCTION COST OF THE REPLACMENT PLANT. HE ALSO DISCUSSES CURRENT EXPENSING OF COST OF REMOVAL

FOR PLANT NOT REPLACED. DO EITHER OF THESE TWO PROPOSALS HAVE ANY MERIT?

A. Absolutely not. First, the proposal to charge the cost of removal to the cost of the new construction has no rational basis, is counter to any and all accounting matching principles, and is not in compliance with the Uniform System of Accounts. As can be seen in my Exhibit No.-___(EMR-4), which is a page from the FERC Gas Uniform System of Accounts, it states equivocally on Page 529 that "cost of removal" shall be charged to the depreciation (reserve) account.

Mr. King's proposal to add the retirement cost (cost of removal) attributable to the current plant in service to the next generation of replacement plant fails any test of reasonableness. The retirement cost (cost of removal) relative to the current plant in service has absolutely no connection or nothing to do with the next generation of plant in service. In this regard, Mr. King's proposal fails the most basic of accounting tests (the matching principle). He is proposing to add the cost from one generation of asset and push its recovery off onto the customers who use the next generation's assets. This is simply an effort to defer cost recovery. The cost recovery system (depreciation) should capture, and appropriately and fairly apportion the total capital cost ratably over the useful life of the asset to the customers benefiting from the service provided by those assets.

Likewise, the proposal to currently expense cost of removal at the end of life for assets not replaced is simply another attempt to defer the appropriate recovery of the estimated cost of removal rather than recover the cost on a time basis from the appropriate customers who benefit from the use of the property.

Q. WHAT STATEMENT DO YOU HAVE REGARDING MR. KINGS POSITION ON PAGE 35, LINES17 to 31 OF HIS TESTIMONY IN WHICH HE STATES THE EXISTENCE OF CURRENT FERC RULES SUPPORTING HIS PROPOSAL TO INCLUDE RETIREMENT COSTS (COST OF REMOVAL) WITH THE NEW REPLACMENT PLANT?

A. Mr. King's testimony in this regard is in error. Within his testimony, Mr. King states that FERC has instituted an accounting change to incorporate retirement cost (cost of removal) into the cost of the new replacement facilities. Furthermore, in his testimony he quotes a definition from the FERC Uniform System of Accounts (USOA), Paragraph 32 of the GAS USOA: **"Replacing or replacement, when not otherwise indicated in the context, means the construction or installation of gas plant in place of property retired, together with the removal of the property retired."**

Exhibit No.-___(EMR-4) is all the selected pages that could be found within the USOA that make any reference to the terms "Replacing or Replacement". I have highlighted the area in each of the included USOA pages where the applicable reference occurs. It is rather obvious from

even a quick review of the applicable pages that Mr. King's assertion and interpretation is incorrect.

Mr. King goes on to infer, and actually states "**if the definition of replacement provided above applies, the addition of a replacement unit should include the cost of removing the property retired.**" Mr. King's statement is totally incorrect. A search of the USOA to view the context in which the words 'Replacing" and "Replacement" are used in the USOA clearly reveals that in no way does FERC state that "retirement cost (cost of removal)" should be charged to the costs of the new plant that is replacing the retired plant. In fact "Paragraph 10 of Page 529 of the USOA specifically states "When a retirement unit is retired from gas plant, with or without replacement, the book cost thereof shall be credited to the gas plant account in which it is included.....If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to gas plant shall be charged to the accumulated provision for depreciation applicable to such property. "**The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.**"

It could not be spelled out any clearer; the cost of removal is to be charged to the depreciation reserve, not to the replacement property's original cost as indicated by Mr. King.

Q. DO YOU HAVE ADDITIONAL COMMENTS REGARDIGN MR. KING'S POSITION AND STATEMENT CONCERNING FERC'S ALLEGED

SUPPORT OF HIS PROPOSAL TO CHARGE PLANT RETIREMENT COSTS (COST OF REMOVAL) TO THE COST OF THE NEW REPLACEMENT PLANT?

A. Yes. In the recently released FERC Final Rule in Docket No. RM02-7-000, Order No. 61 (Issued April 9, 2003) concerning changes enacted to the FERC (Gas) Uniform System of Accounts, FERC specifically indicated in Paragraph 36 that removal cost that are not asset retirement obligations are included as a component of depreciation expense and recorded in accumulated depreciation. Furthermore FERC noted in Paragraph 36 that one (1) commenter, the National Association of State Utility Consumer Advocates (NASUCA) recommended that "the Commission exclude costs of removal that does not qualify as a legal retirement obligation from the depreciation accrual and instead capitalize any removal cost related to the asset replaced as part of the costs replacing the utility plant and if no plant replacement occurs, the cost of removal for non-legal retirement obligations should be expensed in the income statement."

FERC rejected that request in saying that the Commission did not propose any changes to its existing accounting requirements for cost of removal for non-legal retirement obligations. FERC went on to say that "the purpose of this rule is to establish uniform accounting requirements for the **recognition of liabilities for legal obligations** associated with the retirement of long lived assets."

This FERC rule is simply a mechanism for defining the liabilities associated with future legal retirement obligations and in no way supports Mr. King's

proposal. In fact, as noted above, a mirror image of his proposal was specifically rejected.

Q. WHAT STATEMENT DO YOU HAVE REGARDING MR. KING'S POSITION (PAGE 36) THAT THE COMMISION SHOULD CHANGE ITS PRACTICE TO ADOPT HIS RECOMMENDATION?

A. Mr. King's SFAS 143 (cost of removal recovery) proposal is unsupported by basic accounting and ratemaking concepts and procedures. Furthermore, Mr. King's proposal to charge removal cost to new construction is in direct conflict with and is specifically inconsistent with the Uniform System of Accounts as just previously discussed.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.