NP CA 49

Q. Please confirm that the final Railroad Commission of Texas order relating to the interim proceeding in which the testimony excerpt attached as Appendix B to Mr. Pous's evidence was filed (GUD Docket No. 8664, Lone Star Gas Company) provided that the ELG depreciation method used by Lone Star was reasonable and should be retained.

A. Deny. The Administrative Law Judges in the Proposal for Decision ("PFD") denied the ELG procedure. Based on "overwhelming evidence" the PFD recommended retention of the ALG procedure (See Attachment NP-CA-49 1 and 2). The commissioner's actually took a "final" vote and adopted the PFD position (deny ELG and retain ALG). The commissioner's returned the next day and reversed their vote of the preceding day for the two largest revenue requirement adjustments, one of which was depreciation. ELG was adopted, but not retained with one of the three commissioners still objecting.

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Attachment 1

CHARLES R. MATTHEWS, *CHAIRMAN*
BARRY WILLIAMSON, *COMMISSIONER*
CAROLE KEETON RYLANDER, *COMMISSIONER*

LINDIL C. FOWLER, JR., *GENERAL COUNSEL*
GAS SERVICES SECTION

RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL

April 14, 1997

TO ALL PARTIES OF RECORD:

Gas Utilities Docket No. 8664
Statement of Intent Filed by Lone Star Gas Company and Lone Star Pipeline Company, Divisions of Enserch Corporation, and ENSAT Pipeline Company to Increase the Intracompany City Gate Rate Established in GUD 3543.

Attached is a proposal for decision submitted by the examiners in this docket. This is only a proposal and should not be interpreted as a final decision unless a final order is signed and issued by the Commission.

Pursuant to 16 TEX. ADMIN. CODE §§ 1.141(a) and 1.142(a), you may file written exceptions to the proposal for decision or present briefs to the Commission. You may also file replies to any exceptions filed by other parties. You must file your exceptions by no later than 5:00 p.m., Monday, April 21, 1997. You must file your briefs and/or replies to exceptions by no later than 5:00 p.m., Friday, April 25, 1997. You must file your exceptions, briefs, and replies with the Docket Services Section of the Office of General Counsel (Room 12-112).

In addition to written exceptions, you may file with the Commission a one page summary of the case. The summary shall be filed with the Commission at the time exceptions are due. The summary shall be no more than one page and shall contain only information of record or argument based on the record. The summary shall not be submitted in reduced print. The summary shall contain the name of the party, the status of the party, the name and docket number of the case, the issue(s), the key facts, the legal principles involved (including proposed conclusions of law), and the action requested (see attached form).

Pleadings are considered filed only upon actual receipt by the Docket Services Section. Exceptions, replies, briefs, and/or summaries may not be filed by FAX. You must file an original and nine copies of your exceptions, replies, and/or briefs.

Any revisions or modifications made by the examiners in response to the exceptions, replies, briefs, and/or summaries will be served on all parties. If you desire service of revisions and modifications by FAX, please provide a written request for FAX service (include your FAX number).

The attached proposal for decision and any revisions or modifications made by the examiners in response to the exceptions, briefs, replies, and/or summaries may be considered by the Commission at any Tuesday open conference convened after the expiration of the time for filing exceptions, replies, briefs, and/or summaries or after the exceptions, replies, briefs, and/or summaries are filed (if filed before the filing deadline) but no sooner than ten days from the date of this letter. It is expected that the

And, along that same line, there is Lone Star's argument that its failure to properly record retirements of office furniture and computer equipment justifies its request for more favorable service lives for these accounts than its own books support. This strange twist on the notion of credible evidence ("approve higher expenses because the Company's has incorrectly accounted for those expenses") is untenable.

These few examples from the Company's depreciation case provide a telling introduction to this section of the Proposal for Decision, in which the examiners, by and large, recommend rejection of the Company's requests and recommend approval of Aligned Cities' recommendations. In the next sections, the examiners will discuss the calculation methodology, service lives, and salvage value for LSP-Excluding Storage and LSP-Storage.

Summary. The overall result of the examiners' depreciation recommendations for results in an adjustment to the Company's requested depreciation expense for LSP-Excluding Storage, before allocation to the city gate of ($10,080,717), and an adjustment to depreciation expense for LSP-Storage of ($500,931). The calculation of this figure is shown in Schedule IV.B.5. and the inclusion of this recommendation in the revenue requirement for LSP-Excluding Storage is shown in Schedule 1-A and 1-B.

a. Lone Star Pipeline.

1) Calculation Procedure. The Company proposed to change from the average life group (ALG) procedure to the equal life group (ELG) procedure for calculating the depreciation rates on which the depreciation expense is based; the Aligned Cities proposed retaining the ALG procedure. On rebuttal, the Company did not alter its proposed calculation of depreciation rates.

Based on the overwhelming evidence in this record, the examiners recommend that the ALG procedure be used to calculate the depreciation rates. The specific reasons for this recommendation are as follows:

1. Both ELG and ALG procedures calculate depreciation rates for mass property accounts based on estimates and analysis of expected service lives and retirements. ELG divides mass property accounts into groups of concurrent retirements; ALG calculates an average retirement age for the entire group. Both procedures are a rational means to determine services lives of mass property accounts.

2. Both ELG and ALG procedures are valid, but ELG procedure increases revenue requirement for the Company by $1.7 million.

3. The Company's own depreciation witness, Roff, acknowledged that ALG is a valid calculation procedure.

4. The overwhelming majority of energy companies use the ALG calculation. The Company acknowledged that ELG has attained only limited acceptance in the energy industry (LS Ex. 100, p. 34 AC Ex. 184).

5. The Company has never used the ELG calculation procedure. Specifically, it has used ALG since its last rate case.

6. The Company does not propose to use ELG procedures to calculate both depreciation rates and net salvage values. The Company acknowledged this is desirable, but maintains it is not required (LS Ex. 100, p. 36).

7. Although the ELG procedure is not an accelerated depreciation method, it does recover more expense in the early years than the ALG procedure. The Company has not demonstrated why such rapid recovery is desirable or required for the gas industry in general or for Lone Star in particular.

8. The Company posits that ELG is appropriated because the FCC mandates its use for telecommunications companies (LS Post-Hearing Reply Brief, p. 56). As the quote from the Company's brief reflects, the basis for this is the pace of technological change in the telecommunications industry. The ELG procedure may be appropriate where the rapid technological change renders investments obsolete within a few years. The gas industry has no experienced such speedy technological change.

9. ELG "relies on a one-to-one correlation between estimated future occurrences and actual occurrences. This is perhaps ELG's major flaw, because the likelihood of future retirements exactly matching the estimates is extremely unlikely. If real world conditions do not exactly mirror the projections, ELG magnifies the error"

10. The Company claims that ELG results in lower revenue requirements, but that is a consequence of the reduced monetary return caused by the early years' reduction in plant balances from the extra-rapid depreciation caused by the ELG procedure. The Company's analysis fails to offset this reduction with the higher depreciation expense that is locked into rates in the rate year and the rapid decline in depreciation expense in subsequent years.

11. The ELG procedure requires complex software to compute, making calculations much more difficult to verify (AC Ex. 200).

12. The ELG procedures requires very accurate predictions of the precise level of retirements that will occur within each mass property category each year for the remaining life of the investment. Without this high degree of precision, ELG is

no more theoretically accurate than ALG, eliminating the best argument for using ELG" (Proposal for Decision, State Office of Administrative Hearings Docket No. 473-95-1563/Public Utility Commission Docket No. 14965, *Application of Central Power and Light Company for Authority to Change Rates*, p. 210; AC Ex. 200).

13. At least for the computer equipment accounts, the Company does not maintain sufficient data required to make those precise calculations (26 Tr. 238-240).

14. The Railroad Commission has rejected ELG in prior dockets (AC Ex. 163, p. 25).

2) Service Lives. Both the Company and the Aligned Cities' proposed that the average service lives and dispersion patterns contained in the testimony of their respective depreciation witness be adopted. On rebuttal, the Company did not alter its proposed average service lives.

Attachment 2

RAILROAD COMMISSION OF TEXAS
LEGAL DIVISION

GAS UTILITIES DOCKET NO. 8664

STATEMENT OF INTENT OF LONE STAR GAS COMPANY AND LONE STAR PIPELINE COMPANY, DIVISIONS OF ENSERCH CORPORATION, AND ENSAT PIPELINE COMPANY TO INCREASE THE INTRACOMPANY CITY GATE RATE

ORDER

Notice of Open Meeting to consider this order was duly posted with the Secretary of State within the time period provided by law pursuant to TEX. GOV'T CODE ANN. §551 *et seq.*

All specific amounts for investments, revenues, and expenses are detailed in the schedules attached to this order, which are incorporated herein for all purposes.

FINDINGS OF FACT

1. On October 25, 1996, Lone Star Gas Company and Lone Star Pipeline Company, Divisions of Enserch Corporation, and ENSAT Pipeline Company (Lone Star or the Company) filed with the Railroad Commission of Texas (Commission) a statement of intent to increase the intracompany city gate rate. Lone Star's original effective date was November 29, 1996.

2. Lone Star Gas Company and Lone Star Pipeline Company, gas utilities, sell gas at a city gate to Lone Star Gas Distribution Company, which provides local distribution service to various cities in Texas.

3. On November 12, 1996, the Commission suspended the rates for 150 days from the date on which the rates would otherwise go into effect.

4. On January 22, 1997, Lone Star extended its effective date for one week, from November 29, 1996, to December 6, 1996. During the hearing, Lone Star extended its effective date to December 21, 1996; consequently, the last day for the Commission to act is May 20, 1997.

5. Two unincorporated divisions of Enserch are involved in this rate case; (1) Lone Star Pipeline (comprising LSP-Excluding Storage and LSP-Storage); and (2) Lone Star Gas-Transmission (LSG-T).

6. One incorporated subsidiary of Enserch, ENSAT Pipeline, was a party to the

exclude the Company requested inflation adjustment.

86. An adjustment to Company requested O&M expenses of ($91,804), before allocation to the city gate and ($79,428) after allocation is reasonable for LSG-T to exclude the Company requested inflation adjustment.

87. It is reasonable include a special labor adjustment of only the amount actually awarded as salaries during the test year to specific employees. A generally-stated increase to labor expenses, without evidence indicating which employees' salaries will be increase by what amounts, is not a reasonable adjustment to labor expenses.

88. A ($530,467) adjustment before allocation and ($309,156) allocated to the city gate to the Company's requested increase in labor expenses for LSP-Excluding Storage is reasonable.

89. Total depreciation expense for LSP-Excluding Storage is $@@@@@; total depreciation expense for LSP-Storage is $@@@.

90. An adjustment of ($10,080,717), before allocation to the city gate, to the Company's requested depreciation expenses for LSP-Excluding Storage is reasonable.

91. An adjustment of ($500,931), before allocation to the city gate, to the Company's requested depreciation expenses LSP-Storage is reasonable.

92. The Average Life Group (ALG) procedure currently being used by the Company to calculate the depreciation rates and rejecting the Company's proposed Equal Life Group (ELG) procedure is reasonable for the following reasons:

> a. both ALG and ELG are reasonable methods for calculating depreciation expense, but ELG increases the revenue requirement for the Company by $1.7 million;
>
> b. although the FCC mandates the use of ELG for telecommunications utilities, the overwhelming majority of energy utilities use the ALG calculation procedure. The pace of technological change in the gas industry is much slower than that for telecommunications;
>
> c. the Company has never used ALG; it has used ELG since the last rate case.
>
> d. ELG requires elaborate and expensive computer software to compute. Therefore, the expense calculations it produces are much harder to verify than those for ALG.