STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of) CONSUMERS ENERGY COMPANY) for Accounting and Ratemaking Approval of) Depreciation Rates for Gas Utility Plant.)	Case No. U-12999

EXHIBITS

OF

THOMAS L. SIMONSEN

December 8, 2003

gas-cps.doc

Case No.	U-12999
Exhibit	A-___(TLS-1)
	5 Pages
Witness	T L Simonsen
Date	December 8, 2003

CONSUMERS ENERGY COMPANY

Depreciation Rates Calculated Using ELG and a
Five-Year Average of Net Salvage
by Function

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Comparison of Depreciation Rates Using ELG
Net Salvage Calculated Using a Five Year Average by Function
Based on December 31, 2002 Plant Balances

Acct No.	Description	12/31/2002 Balance	Existing Depr. Rates		5 Yr Average		Difference 5 Yr Average vs Existing
			Rates	Annual Accrual	Rates	Annual Accrual	
U.G. Storage Plant:							
350.2	Rights of Way	1,321,117	1.72%	22,723	1.33%	17,571	(5,152)
351.2	Compressor Station Structures	7,676,757	2.34%	179,636	2.65%	203,434	23,798
351.2	M & R Station Structures	4,607	1.73%	80	3.12%	144	64
351.4	Other Structures	3,337,803	2.87%	95,795	2.89%	96,463	668
352.1	Leaseholds & Rights	5,336,673	1.72%	91,791	1.31%	69,910	(21,881)
352.3	Well Construction	32,974,906	1.74%	573,763	3.78%	1,246,451	672,688
352.4	Well Equipment	16,388,907	4.08%	668,667	3.90%	639,167	(29,500)
353.0	Lines	22,020,894	2.88%	634,202	4.21%	927,080	292,878
354.0	Compressor Station Equipment	78,065,202	2.65%	2,068,728	3.27%	2,552,732	484,004
355.0	M & R Station Equipment	2,083,799	2.84%	59,180	3.07%	63,973	4,793
356.0	Purification Equipment	13,376,874	3.04%	406,657	3.98%	532,400	125,743
357.0	Other Equipment	3,153,829	4.05%	127,730	4.15%	130,884	3,154
	Subtotal U.G. Storage Plant	185,741,368	2.65%	4,928,952	3.49%	6,480,209	1,551,257
Transmission Plant:							
365.2	Rights of Way	15,624,024	1.22%	190,613	1.17%	182,801	(7,812)
366.0	Structures & Improvements	10,063,270	1.93%	194,221	1.37%	137,867	(56,354)
367.0	Mains	183,611,384	1.56%	2,864,338	1.62%	2,974,504	110,166
368.0	Compressor Station Equipment	35,038,304	2.01%	704,270	1.15%	402,940	(301,330)
369.0	Measuring & Regulating Equipment	23,684,196	1.99%	471,316	1.90%	450,000	(21,316)
370.0	Communication	7,579,322	6.01%	455,517	4.07%	308,478	(147,039)
371.0	Other Equipment	3,445,240	3.62%	124,718	2.79%	96,122	(28,596)
	Subtotal Transmission Plant	279,045,740	1.79%	5,004,993	1.63%	4,552,712	(452,281)
Distribution Plant:							
374.2	Rights of Way	6,960,315	1.54%	107,189	0.95%	66,123	(41,066)
375.0	Structures & Improvements	4,242,886	1.98%	84,009	0.85%	36,065	(47,944)
376.1	Mains - bare steel	4,327,468	3.46%	149,730	2.69%	116,409	(33,321)
376.2	Mains - coated & wrapped steel	350,910,853	3.16%	11,088,783	2.92%	10,246,597	(842,186)
376.3	Mains - cast iron	9,358,954	3.90%	364,999	3.16%	295,743	(69,256)
376.4	Mains - copper	16,968	3.05%	518	3.62%	614	96
376.5	Mains - plastic	541,424,815	3.72%	20,141,003	3.84%	20,790,713	649,710
378.0	Measuring & Regulating Equipment	32,498,407	2.75%	893,706	2.22%	721,465	(172,241)
380.1	Services - bare steel	224,035	10.29%	23,053	6.81%	15,257	(7,796)
380.2	Services - coated & wrapped steel	72,006,386	6.49%	4,673,214	5.79%	4,169,170	(504,044)
380.4	Services - copper	27,245,781	9.29%	2,531,133	6.07%	1,653,819	(877,314)
380.5	Services - plastic	392,981,530	9.61%	37,765,525	8.63%	33,914,306	(3,851,219)
380.5	Services - Risers (Formerly in C&W)	109,424,669	6.49%	7,101,661	8.63%	9,443,349	2,341,688
381.0	Meters	174,926,601	2.82%	4,932,930	0.84%	1,469,383	(3,463,547)
382.0	Meter Installations	151,913,431	3.68%	5,590,414	3.60%	5,468,884	(121,530)
383.0	House Regulators	18,415,248	2.38%	438,283	1.10%	202,568	(235,715)
	Subtotal Distribution Plant	1,896,878,347	5.05%	95,886,150	4.67%	88,610,465	(7,275,685)
General Plant:							
389.2	Rights of Way	1,516	0.00%	0	2.86%	43	43
390.0	Structures & Improvements	23,627,456	2.97%	701,735	1.39%	328,422	(373,313)
391.0	Office Furniture & Equipment	1,717,346	7.61%	130,690	16.62%	285,423	154,733
391.2	Computer Equipment	7,356,574	9.37%	689,311	4.06%	298,677	(390,634)
393.0	Stores Equipment	53,713	30.18%	16,211	10.60%	5,694	(10,517)
394.0	Tools, Shop & Garage Equipment	4,900,533	4.49%	220,034	8.52%	417,525	197,491
395.0	Laboratory Equipment	1,006,056	2.26%	22,737	16.91%	170,124	147,387
396.0	Power Operated Equipment	119,819	8.72%	10,448	22.32%	26,744	16,296
397.0	Communication Equipment	8,194,971	4.51%	369,593	11.34%	929,310	559,717
398.0	Miscellaneous Equipment	260,787	5.77%	15,047	17.17%	44,777	29,730
	Subtotal General Plant	47,238,771	4.61%	2,175,806	5.31%	2,506,739	330,933
	Total Gas Utility Plant	2,408,904,226	4.48%	107,995,901	4.24%	102,150,125	(5,845,776)

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Net Salvage Calculated Using a Five Year Average by Function
Comparison of Depreciation Rates Using ELG

Acct No.	Description	12/31/2002 Balance	ASL	Curve	Remaining Life	Net Salvage	Theoretical Reserve W/O NS	Theoretical Rsv w/NS	Allocated Book Res.	Amount to Recover	Annual Amount	Rate
		$	yrs		Yrs	%	$	$	$	$	$	%
U.G. Storage Plant:												
350.2	Rights of Way	1,321,117	65.0	S2	31.59	0%	649,023	649,023	764,175	556,942	17,630	1.33%
351.2	Compressor Station Structures	7,676,757	45.0	R3	22.93	-6%	3,753,574	3,978,788	3,466,028	4,671,334	203,722	2.65%
351.2	M & R Station Structures	4,607	45.0	R3	10.14	-6%	3,710	3,933	3,426	1,458	144	3.12%
351.4	Other Structures	3,337,803	50.0	R4	25.03	-28%	1,668,215	2,135,315	1,860,130	2,412,258	96,375	2.89%
352.1	Leaseholds & Rights	5,336,673	65.0	S2	32.81	0%	2,590,462	2,590,462	3,050,072	2,286,601	69,692	1.31%
352.3	Well Construction	32,974,906	50.0	R4	30.92	-73%	12,287,562	21,257,482	18,517,956	38,528,631	1,246,075	3.78%
352.4	Well Equipment	16,388,907	50.0	R2.5	25.04	-73%	8,181,053	14,153,222	12,329,246	16,023,563	639,919	3.90%
353.0	Lines	22,020,894	65.0	S2	42.72	-140%	6,327,359	15,185,662	13,228,632	39,621,514	927,470	4.21%
354.0	Compressor Station Equipment	78,065,202	40.0	R3	21.75	-17%	35,107,148	41,075,363	35,781,837	55,554,449	2,554,228	3.27%
355.0	M & R Station Equipment	2,083,799	45.0	R2.5	19.24	-22%	1,234,318	1,505,868	1,311,801	1,230,433	63,952	3.07%
356.0	Purification Equipment	13,376,874	35.0	R5	22.02	-28%	4,844,563	6,201,041	5,401,891	11,720,508	532,266	3.98%
357.0	Other Equipment	3,153,829	30.0	R3	17.92	-11%	1,193,933	1,325,266	1,154,474	2,346,276	130,931	4.15%
	Subtotal U.G. Storage Plant	185,741,368					77,840,920	110,061,424	96,869,668	174,953,968	6,482,402	3.49%
Transmission Plant:												
365.2	Rights of Way	15,624,024	75.0	R3	48.97	0%	4,616,075	4,616,075	6,687,801	8,936,223	182,484	1.17%
366.0	Structures & Improvements	10,063,270	60.0	R3	36.36	-2%	3,626,862	3,627,587	5,255,673	5,008,862	137,757	1.37%
367.0	Mains	183,611,384	75.0	R3	44.74	-26%	67,771,058	67,947,263	98,442,452	132,907,892	2,970,673	1.62%
368.0	Compressor Station Equipment	35,038,304	40.0	R4	18.71	-1%	19,226,067	19,227,990	27,857,641	7,531,046	402,514	1.15%
369.0	Measuring & Regulating Equipment	23,684,196	55.0	R2	34.24	-6%	6,690,359	6,694,373	9,698,853	15,406,395	449,953	1.90%
370.0	Communication	7,579,322	15.0	R4	7.80	-1%	3,623,119	3,623,481	5,249,724	2,405,391	308,383	4.07%
371.0	Other Equipment	3,445,240	30.0	L2	16.83	-1%	1,284,077	1,284,205	1,860,565	1,619,127	96,205	2.79%
	Subtotal Transmission Plant	279,045,740					106,837,617	107,020,975	155,052,709	173,814,937	4,547,970	1.63%
Distribution Plant:												
374.2	Rights of Way	6,960,315	75.0	R3	50.67	0%	1,833,377	1,833,377	3,610,792	3,349,523	66,105	0.95%
375.0	Structures & Improvements	4,242,886	50.0	S1	25.60	-17%	2,049,717	2,053,202	4,043,731	920,446	35,955	0.85%
376.1	Mains - bare steel	4,327,468	70.0	R2	24.52	-105%	3,023,122	3,054,865	6,016,482	2,854,827	116,429	2.69%
376.2	Mains - coated & wrapped steel	350,910,853	75.0	R3	41.99	-105%	145,413,376	146,940,216	289,395,207	429,972,042	10,239,868	2.92%
376.3	Mains - cast iron	9,358,954	65.0	S3	16.05	-105%	7,256,164	7,332,354	14,440,894	4,744,962	295,636	3.16%
376.4	Mains - copper	16,968	60.0	R5	24.28	-105%	9,987	10,092	19,876	14,909	614	3.62%
376.5	Mains - plastic	541,424,815	60.0	R3	44.47	-105%	93,450,859	94,432,093	185,981,726	923,939,145	20,776,684	3.84%
378.0	Measuring & Regulating Equipment	32,498,407	50.0	L0.5	27.10	-25%	10,685,142	10,711,855	21,096,739	19,526,269	720,527	2.22%
380.1	Services - bare steel	224,035	42.0	L0	18.05	-168%	162,332	165,059	325,080	275,334	15,254	6.81%
380.2	Services - coated & wrapped steel	72,006,386	56.0	R0.5	25.26	-168%	43,758,176	44,493,313	87,628,506	105,348,609	4,170,570	5.79%
380.4	Services - copper	27,245,781	53.0	R1	24.26	-168%	16,413,740	16,689,491	32,869,549	40,149,144	1,654,952	6.07%
380.5	Services - plastic	502,406,199	40.0	R1.5	24.15	-168%	149,307,285	151,815,647	298,997,250	1,047,451,363	43,372,727	8.63%
381.0	Meters	174,926,601	42.0	S2	23.54	0%	71,285,392	71,285,392	140,394,857	34,531,744	1,466,939	0.84%
382.0	Meter Installations	151,913,431	52.0	R2.5	33.81	-76%	41,441,229	41,756,182	82,237,792	185,129,846	5,475,594	3.60%
383.0	House Regulators	18,415,248	55.0	R1	29.79	-4%	6,667,979	6,670,646	13,137,677	6,014,181	201,886	1.10%
	Subtotal Distribution Plant	1,896,878,347					592,757,877	599,243,784	1,180,196,157	2,804,222,344	88,609,740	4.67%

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Net Salvage Calculated Using a Five Year Average by Function
Comparison of Depreciation Rates Using ELG

Acct No.	Description	12/31/2002 Balance	ASL	Curve	Remaining Life	Net Salvage	Theoretical Reserve W/O NS	Theoretical Rsv w/NS	Allocated Book Res.	Amount to Recover	Annual Amount	Rate
		$	yrs		Yrs	%	$	$	$	$	$	%
General Plant:												
389.2	Rights of Way	1,516	50.0	R3	36.49	0%	287	287	-68	1,584	43	2.86%
390.0	Structures & Improvements	23,627,456	50.0	R3	27.45	-10%	10,320,120	10,330,440	14,640,678	9,010,405	328,248	1.39%
391.0	Office Furniture & Equipment	1,717,346	15.0	SQ	6.55	0%	1,016,608	1,016,608	(151,827)	1,869,173	285,370	16.62%
391.2	Computer Equipment	7,356,574	7.0	SQ	3.96	0%	3,834,516	3,834,516	6,173,947	1,182,627	298,643	4.06%
393.0	Stores Equipment	53,713	20.0	SQ	10.55	0%	26,903	26,903	(6,329)	60,042	5,691	10.60%
394.0	Tools, Shop & Garage Equipment	4,900,533	20.0	SQ	12.78	0%	1,848,080	1,848,080	(434,746)	5,335,279	417,471	8.52%
395.0	Laboratory Equipment	1,006,056	15.0	SQ	6.70	0%	569,397	569,397	(133,946)	1,140,002	170,150	16.91%
396.0	Power Operated Equipment	119,819	10.0	L1	5.20	0%	81,901	81,901	(19,267)	139,086	26,747	22.32%
397.0	Communication Equipment	8,194,971	15.0	SQ	9.59	0%	3,033,808	3,033,808	(713,679)	8,908,650	928,952	11.34%
398.0	Miscellaneous Equipment	260,787	15.0	SQ	6.61	0%	149,464	149,464	(35,160)	295,947	44,773	17.17%
	Subtotal General Plant	47,238,771					20,881,084	20,891,404	19,319,603	27,942,796	2,506,088	5.31%
	Total Gas Utility Plant	2,408,904,226					798,317,498	837,217,587	1,451,438,136	3,180,934,045	102,146,200	4.24%

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Net Salvage Calculated Using a Five Year Average by Function
Calculation of Depreciation Rates

Acct No.	Description	12/31/2002 Balance	Net Salvage	Total Net Salvage	Net Salvage at Function Rate	New Net Salvage
		$	%	$	$	%
Underground Storage Plant:					-46.17%	
350.2	Rights of Way	1,321,117	0%	-	-	0%
351.2	Compressor Station Structures	7,676,757	-5%	(383,838)	(429,625)	-6%
351.2	M & R Station Structures	4,607	-5%	(230)	(257)	-6%
351.4	Other Structures	3,337,803	-25%	(834,451)	(933,991)	-28%
352.1	Leaseholds & Rights	5,336,673	0%	-	-	0%
352.3	Well Construction	32,974,906	-65%	(21,433,689)	(23,990,474)	-73%
352.4	Well Equipment	16,388,907	-65%	(10,652,790)	(11,923,542)	-73%
353.0	Lines	22,020,894	-125%	(27,526,118)	(30,809,658)	-140%
354.0	Compressor Station Equipment	78,065,202	-15%	(11,709,780)	(13,106,618)	-17%
355.0	M & R Station Equipment	2,083,799	-20%	(416,760)	(466,475)	-22%
356.0	Purification Equipment	13,376,874	-25%	(3,344,219)	(3,743,145)	-28%
357.0	Other Equipment	3,153,829	-10%	(315,383)	(353,004)	-11%
	Subtotal	185,741,368		(76,617,258)	(85,756,789)	
Transmission Plant:					-17.80%	
365.2	Rights of Way	15,624,024	0%	-	-	0%
366.0	Structures & Improvements	10,063,270	-10%	(1,006,327)	(208,330)	-2%
367.0	Mains	183,611,384	-125%	(229,514,230)	(47,514,083)	-26%
368.0	Compressor Station Equipment	35,038,304	-5%	(1,751,915)	(362,682)	-1%
369.0	Measuring & Regulating Equipment	23,684,196	-30%	(7,105,259)	(1,470,932)	-6%
370.0	Communication	7,579,322	-5%	(378,966)	(78,454)	-1%
371.0	Other Equipment	3,445,240	-5%	(172,262)	(35,662)	-1%
	Subtotal	279,045,740		(239,928,959)	(49,670,143)	
Distribution Plant:					-110.16%	
374.2	Rights of Way	6,960,315	0%	-	-	0%
375.0	Structures & Improvements	4,242,886	-20%	(848,577)	(713,684)	-17%
376.1	Mains - bare steel	4,327,468	-125%	(5,409,335)	(4,549,448)	-105%
376.2	Mains - coated & wrapped steel	350,910,853	-125%	(438,638,566)	(368,911,063)	-105%
376.3	Mains - cast iron	9,358,954	-125%	(11,698,693)	(9,839,028)	-105%
376.4	Mains - copper	16,968	-125%	(21,210)	(17,838)	-105%
376.5	Mains - plastic	541,424,815	-125%	(676,781,019)	(569,197,568)	-105%
378.0	Measuring & Regulating Equipment	32,498,407	-30%	(9,749,522)	(8,199,704)	-25%
380.1	Services - bare steel	224,035	-200%	(448,070)	(376,843)	-168%
380.2	Services - coated & wrapped steel	72,006,386	-200%	(144,012,772)	(121,120,004)	-168%
380.4	Services - copper	27,245,781	-200%	(54,491,562)	(45,829,395)	-168%
380.5	Services - plastic	502,406,199	-200%	(1,004,812,398)	(845,083,944)	-168%
381.0	Meters	174,926,601	0%	-	-	0%
382.0	Meter Installations	151,913,431	-90%	(136,722,088)	(114,988,272)	-76%
383.0	House Regulators	18,415,248	-5%	(920,762)	(774,394)	-4%
	Subtotal	1,896,878,347		(2,484,554,574)	(2,089,601,185)	
Transmission Plant:					-10.13%	
389.2	Rights of Way	1,516	0%	-	-	0%
390.0	Structures & Improvements	23,627,456	-30%	(7,088,237)	(2,393,461)	-10%
391.0	Office Furniture & Equipment	1,717,346	0%	-	-	0%
391.2	Computer Equipment	7,356,574	0%	-	-	0%
393.0	Stores Equipment	53,713	0%	-	-	0%
394.0	Tools, Shop & Garage Equipment	4,900,533	0%	-	-	0%
395.0	Laboratory Equipment	1,006,056	0%	-	-	0%
396.0	Power Operated Equipment	119,819	0%	-	-	0%
397.0	Communication Equipment	8,194,971	0%	-	-	0%
398.0	Miscellaneous Equipment	260,787	0%	-	-	0%
	Subtotal	47,238,771		(7,088,237)	(2,393,461)	
	Total Gas Utility Plant	2,408,904,226		(2,808,189,028)	(2,227,421,578)	

Calculation of new net salvage by multiplying functional composite net salvage factor by functional subtotals of plant (2,227,421,580)

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Historical Net Salvage, Per Page 219 of the MPSC Form P-522

									Five Year Rolling Average		
Year	Plant Retired	Removal Cost	Gross Salvage	Net Salvage	Net Charges	Removal Cost	Gross Salvage	Net Salvage	Plant Retired	Net Salvage	Net Salvage
Yr.	$	$	$	$	$	%	%	%	$	$	%
Underground Storage Plant:											
1998	1,200,306	408,705	34,366	(374,338)	1,574,644	34.05%	2.86%	-31.19%	240,061	(74,868)	-31.19%
1999	1,411,817	464,772	-	(464,772)	1,876,590	32.92%	0.00%	-32.92%	522,425	(167,822)	-32.12%
2000	762,833	255,925	19,071	(236,855)	999,688	33.55%	2.50%	-31.05%	674,991	(215,193)	-31.88%
2001	8,000	236,979	-	(236,979)	244,979	2962.24%	0.00%	-2962.24%	676,591	(262,589)	-38.81%
2002	81,315	283,506	(2,948)	(286,455)	367,769	348.65%	-3.63%	-352.28%	692,854	(319,880)	$\boxed{-46.17\%}$
Transmission Plant:											
1998	104,082	306,208	141,198	(165,010)	269,092	294.20%	135.66%	-158.54%	20,816	(33,002)	-158.54%
1999	3,229,241	96,448	11,474	(84,974)	3,314,214	2.99%	0.36%	-2.63%	666,664	(49,997)	-7.50%
2000	2,309,063	435,195	7,673	(427,522)	2,736,585	18.85%	0.33%	-18.51%	1,128,477	(135,501)	-12.01%
2001	237,292	324,098	3,950	(320,148)	557,441	136.58%	1.66%	-134.92%	1,175,936	(199,531)	-16.97%
2002	772,135	192,552	6,197	(186,355)	958,490	24.94%	0.80%	-24.14%	1,330,363	(236,802)	$\boxed{-17.80\%}$
Distribution Plant:											
1998	3,143,570	8,225,168	11,497	(8,213,671)	11,357,241	261.65%	0.37%	-261.28%	628,714	(1,642,734)	-261.28%
1999	3,646,109	8,775,542	10,843	(8,764,699)	12,410,808	240.68%	0.30%	-240.38%	1,357,936	(3,395,674)	-250.06%
2000	16,192,942	7,684,326	1,100	(7,683,226)	23,876,169	47.45%	0.01%	-47.45%	4,596,524	(4,932,319)	-107.31%
2001	5,757,047	6,793,204	624	(6,792,580)	12,549,626	118.00%	0.01%	-117.99%	5,747,934	(6,290,835)	-109.45%
2002	5,356,298	6,238,477	131,322	(6,107,155)	11,463,454	116.47%	2.45%	-114.02%	6,819,193	(7,512,266)	$\boxed{-110.16\%}$
General Structures:											
1998	154,945	444,243	19,702	(424,541)	579,487	286.71%	12.72%	-273.99%	30,989	(84,908)	-273.99%
1999	667,633	67,385	68,487	1,103	666,530	10.09%	10.26%	0.17%	164,516	(84,688)	-51.48%
2000	2,860,286	30,524	76,974	46,450	2,813,836	1.07%	2.69%	1.62%	736,573	(75,398)	-10.24%
2001	801,022	20,103	-	(20,103)	821,124	2.51%	0.00%	-2.51%	896,777	(79,418)	-8.86%
2002	-	57,026	-	(57,026)	57,026	0.00%	0.00%	0.00%	896,777	(90,823)	$\boxed{-10.13\%}$
NG Production UOP, Transmission UOP and General Plant Amortization [Not used in study]:											
1998	2,445,451	60,883	50,000								
1999	29,234	26,669	-								
2000	-	145,796	4,110								
2001	6,265,060	12,938	157,770								
2002	1,438,794	19,200	24,621								
Total by Year:											
1998	7,048,354	9,445,207	256,763								
1999	8,984,035	9,430,816	90,805								
2000	22,125,125	8,551,766	108,927								
2001	13,068,421	7,387,322	162,344								
2002	7,648,542	6,790,762	159,192								

Case No.	U-12999
Exhibit	A-___(TLS-2)
	3 Pages
Witness	T L Simonsen
Date	December 8, 2003

CONSUMERS ENERGY COMPANY

Depreciation Rates Calculated Using ALG and a
Five-Year Average of Net Salvage
by Function

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Comparison of Depreciation Rates Using ALG
Net Salvage Calculated Using a Five Year Average by Function
Based on December 31, 2002 Plant Balances

Acct No.	Description	12/31/2002 Balance	Existing Depr. Rates		5 Yr Average		Difference 5 Yr Average vs Existing
			Rates	Annual Accrual	Rates	Annual Accrual	
U.G. Storage Plant:							
350.2	Rights of Way	1,321,117	1.72%	22,723	1.16%	15,325	(7,398)
351.2	Compressor Station Structures	7,676,757	2.34%	179,636	2.47%	189,616	9,980
351.2	M & R Station Structures	4,607	1.73%	80	2.78%	128	48
351.4	Other Structures	3,337,803	2.87%	95,795	2.69%	89,787	(6,008)
352.1	Leaseholds & Rights	5,336,673	1.72%	91,791	1.16%	61,905	(29,886)
352.3	Well Construction	32,974,906	1.74%	573,763	3.57%	1,177,204	603,441
352.4	Well Equipment	16,388,907	4.08%	668,667	3.62%	593,278	(75,389)
353.0	Lines	22,020,894	2.88%	634,202	3.76%	827,986	193,784
354.0	Compressor Station Equipment	78,065,202	2.65%	2,068,728	3.04%	2,373,182	304,454
355.0	M & R Station Equipment	2,083,799	2.84%	59,180	2.89%	60,222	1,042
356.0	Purification Equipment	13,376,874	3.04%	406,657	3.77%	504,308	97,651
357.0	Other Equipment	3,153,829	4.05%	127,730	3.81%	120,161	(7,569)
	Subtotal U.G. Storage Plant	185,741,368	2.65%	4,928,952	3.24%	6,013,102	1,084,150
Transmission Plant:							
365.2	Rights of Way	15,624,024	1.22%	190,613	1.05%	164,052	(26,561)
366.0	Structures & Improvements	10,063,270	1.93%	194,221	1.23%	123,778	(70,443)
367.0	Mains	183,611,384	1.56%	2,864,338	1.45%	2,662,365	(201,973)
368.0	Compressor Station Equipment	35,038,304	2.01%	704,270	0.88%	308,337	(395,933)
369.0	Measuring & Regulating Equipment	23,684,196	1.99%	471,316	1.64%	388,421	(82,895)
370.0	Communication	7,579,322	6.01%	455,517	3.48%	263,760	(191,757)
371.0	Other Equipment	3,445,240	3.62%	124,718	2.53%	87,165	(37,553)
	Subtotal Transmission Plant	279,045,740	1.79%	5,004,993	1.43%	3,997,878	(1,007,115)
Distribution Plant:							
374.2	Rights of Way	6,960,315	1.54%	107,189	0.77%	53,594	(53,595)
375.0	Structures & Improvements	4,242,886	1.98%	84,009	0.67%	28,427	(55,582)
376.1	Mains - bare steel	4,327,468	3.46%	149,730	2.08%	90,011	(59,719)
376.2	Mains - coated & wrapped steel	350,910,853	3.16%	11,088,783	2.45%	8,597,316	(2,491,467)
376.3	Mains - cast iron	9,358,954	3.90%	364,999	1.67%	156,295	(208,704)
376.4	Mains - copper	16,968	3.05%	518	2.61%	443	(75)
376.5	Mains - plastic	541,424,815	3.72%	20,141,003	3.31%	17,921,161	(2,219,842)
378.0	Measuring & Regulating Equipment	32,498,407	2.75%	893,706	1.93%	627,219	(266,487)
380.1	Services - bare steel	224,035	10.29%	23,053	6.99%	15,660	(7,393)
380.2	Services - coated & wrapped steel	72,006,386	6.49%	4,673,214	5.12%	3,686,727	(986,487)
380.4	Services - copper	27,245,781	9.29%	2,531,133	5.49%	1,495,793	(1,035,340)
380.5	Services - plastic	392,981,530	9.61%	37,765,525	6.89%	27,076,427	(10,689,098)
380.5	Services - Risers (Formerly in C&W)	109,424,669	6.49%	7,101,661	6.89%	7,539,360	437,699
381.0	Meters	174,926,601	2.82%	4,932,930	0.50%	874,633	(4,058,297)
382.0	Meter Installations	151,913,431	3.68%	5,590,414	3.01%	4,572,594	(1,017,820)
383.0	House Regulators	18,415,248	2.38%	438,283	0.99%	182,311	(255,972)
	Subtotal Distribution Plant	1,896,878,347	5.05%	95,886,150	3.84%	72,917,971	(22,968,179)
General Plant:							
389.2	Rights of Way	1,516	0.00%	0	2.50%	38	38
390.0	Structures & Improvements	23,627,456	2.97%	701,735	1.27%	300,069	(401,666)
391.0	Office Furniture & Equipment	1,717,346	7.61%	130,690	17.78%	305,344	174,654
391.2	Computer Equipment	7,356,574	9.37%	689,311	4.80%	353,116	(336,195)
393.0	Stores Equipment	53,713	30.18%	16,211	11.20%	6,016	(10,195)
394.0	Tools, Shop & Garage Equipment	4,900,533	4.49%	220,034	8.74%	428,307	208,273
395.0	Laboratory Equipment	1,006,056	2.26%	22,737	17.41%	175,154	152,417
396.0	Power Operated Equipment	119,819	8.72%	10,448	28.38%	34,005	23,557
397.0	Communication Equipment	8,194,971	4.51%	369,593	11.50%	942,422	572,829
398.0	Miscellaneous Equipment	260,787	5.77%	15,047	17.73%	46,238	31,191
	Subtotal General Plant	47,238,771	4.61%	2,175,806	5.48%	2,590,709	414,903
	Total Gas Utility Plant	2,408,904,226	4.48%	107,995,901	3.55%	85,519,660	(22,476,241)

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Net Salvage Calculated Using a Five Year Average by Function
Calculation of Depreciation Rates Using ALG

Acct No.	Description	12/31/2002 Balance	ASL	Curve	Remaining Life	Net Salvage	Theoretical Reserve W/O NS	Theoretical Rsv w/NS	Allocated Book Res.	Amount to Recover	Annual Amount	Rate
		$	yrs		Yrs	%	$	$	$	$	$	%
U.G. Storage Plant:												
350.2	Rights of Way	1,321,117	65.0	S2	36.58	0%	577,541	577,541	760,498	560,619	15,326	1.16%
351.2	Compressor Station Structures	7,676,757	45.0	R3	24.74	-6%	3,455,558	3,662,891	3,454,887	4,682,476	189,267	2.47%
351.2	M & R Station Structures	4,607	45.0	R3	10.86	-6%	3,495	3,705	3,494	1,389	128	2.78%
351.4	Other Structures	3,337,803	50.0	R4	26.08	-28%	1,596,506	2,043,528	1,927,482	2,344,906	89,912	2.69%
352.1	Leaseholds & Rights	5,336,673	65.0	S2	36.75	0%	2,319,091	2,319,091	3,053,749	2,282,924	62,120	1.16%
352.3	Well Construction	32,974,906	50.0	R4	32.16	-73%	11,768,555	20,359,600	19,203,438	37,843,149	1,176,715	3.57%
352.4	Well Equipment	16,388,907	50.0	R2.5	27.77	-73%	7,286,050	12,604,867	11,889,073	16,463,736	592,861	3.62%
353.0	Lines	22,020,894	65.0	S2	48.35	-140%	5,640,836	13,538,006	12,769,223	40,080,923	828,975	3.76%
354.0	Compressor Station Equipment	78,065,202	40.0	R3	23.44	-17%	32,314,230	37,807,649	35,660,663	55,675,623	2,375,240	3.04%
355.0	M & R Station Equipment	2,083,799	45.0	R2.5	21.04	-22%	1,109,620	1,353,736	1,276,862	1,265,373	60,141	2.89%
356.0	Purification Equipment	13,376,874	35.0	R5	22.57	-28%	4,751,134	6,081,452	5,736,104	11,386,295	504,488	3.77%
357.0	Other Equipment	3,153,829	30.0	R3	19.70	-11%	1,083,317	1,202,482	1,134,196	2,366,554	120,130	3.81%
	Subtotal U.G. Storage Plant	185,741,368					71,905,933	101,554,548	96,869,668	174,953,968	6,015,302	3.24%
Transmission Plant:												
365.2	Rights of Way	15,624,024	75.0	R3	55.10	0%	4,146,425	4,146,425	6,612,196	9,011,828	163,554	1.05%
366.0	Structures & Improvements	10,063,270	60.0	R3	40.36	-2%	3,293,824	3,294,483	5,253,626	5,010,910	124,155	1.23%
367.0	Mains	183,611,384	75.0	R3	50.03	-26%	61,136,768	61,295,724	97,746,693	133,603,651	2,670,471	1.45%
368.0	Compressor Station Equipment	35,038,304	40.0	R4	18.82	-1%	18,549,451	18,551,306	29,583,284	5,805,403	308,470	0.88%
369.0	Measuring & Regulating Equipment	23,684,196	55.0	R2	42.34	-6%	5,452,273	5,455,544	8,699,814	16,405,433	387,469	1.64%
370.0	Communication	7,579,322	15.0	R4	8.17	-1%	3,450,366	3,450,711	5,502,759	2,152,356	263,446	3.48%
371.0	Other Equipment	3,445,240	30.0	L2	20.97	-1%	1,037,310	1,037,414	1,654,337	1,825,356	87,046	2.53%
	Subtotal Transmission Plant	279,045,740					97,066,417	97,231,606	155,052,709	173,814,937	4,004,611	1.44%
Distribution Plant:												
374.2	Rights of Way	6,960,315	75.0	R3	57.31	0%	1,641,459	1,641,459	3,905,218	3,055,097	53,308	0.77%
375.0	Structures & Improvements	4,242,886	50.0	S1	29.65	-17%	1,726,849	1,729,785	4,115,355	848,822	28,628	0.67%
376.1	Mains - bare steel	4,327,468	70.0	R2	26.15	-105%	2,711,130	2,739,597	6,517,813	2,353,497	90,000	2.08%
376.2	Mains - coated & wrapped steel	350,910,853	75.0	R3	46.93	-105%	131,319,993	132,698,853	315,705,675	403,661,573	8,601,355	2.45%
376.3	Mains - cast iron	9,358,954	65.0	S3	17.45	-105%	6,846,521	6,918,409	16,459,684	2,726,172	156,228	1.67%
376.4	Mains - copper	16,968	60.0	R5	25.40	-105%	9,787	9,890	23,529	11,256	443	2.61%
376.5	Mains - plastic	541,424,815	60.0	R3	50.89	-105%	82,250,318	83,113,946	197,737,539	912,183,332	17,924,609	3.31%
378.0	Measuring & Regulating Equipment	32,498,407	50.0	L0.5	40.00	-25%	6,496,801	6,513,043	15,495,271	25,127,738	628,193	1.93%
380.1	Services - bare steel	224,035	42.0	L0	21.21	-168%	110,886	112,749	268,242	332,171	15,661	6.99%
380.2	Services - coated & wrapped steel	72,006,386	56.0	R0.5	32.50	-168%	30,210,624	30,718,162	73,082,005	119,895,110	3,689,080	5.12%
380.4	Services - copper	27,245,781	53.0	R1	28.28	-168%	12,706,177	12,919,641	30,737,296	42,281,397	1,495,099	5.49%
380.5	Services - plastic	502,406,199	40.0	R1.5	31.17	-168%	110,861,227	112,723,696	268,182,502	1,078,266,111	34,593,074	6.89%
381.0	Meters	174,926,601	42.0	S2	26.73	0%	63,614,836	63,614,836	151,346,936	23,579,665	882,142	0.50%
382.0	Meter Installations	151,913,431	52.0	R2.5	39.89	-76%	35,367,785	35,636,580	84,783,480	182,584,158	4,577,191	3.01%
383.0	House Regulators	18,415,248	55.0	R1	40.15	-4%	4,972,810	4,974,799	11,835,613	7,316,244	182,223	0.99%
	Subtotal Distribution Plant	1,896,878,347					490,847,203	496,065,445	1,180,196,157	2,804,222,344	72,917,234	3.84%

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Net Salvage Calculated Using a Five Year Average by Function
Calculation of Depreciation Rates Using ALG

Acct No.	Description	12/31/2002 Balance	ASL	Curve	Remaining Life	Net Salvage	Theoretical Reserve W/O NS	Theoretical Rsv w/NS	Allocated Book Res.	Amount to Recover	Annual Amount	Rate
		$	yrs		Yrs	%	$	$	$	$	$	%
General Plant:												
389.2	Rights of Way	1,516	50.0	R3	41.72	0%	251	251	-68	1,584	38	2.50%
390.0	Structures & Improvements	23,627,456	50.0	R3	29.99	-10%	9,453,912	9,463,366	14,640,678	9,010,405	300,447	1.27%
391.0	Office Furniture & Equipment	1,717,346	15.0	SQ	6.12	0%	1,016,607	1,016,607	(151,827)	1,869,173	305,420	17.78%
391.2	Computer Equipment	7,356,574	7.0	SQ	3.35	0%	3,834,516	3,834,516	6,173,947	1,182,627	353,023	4.80%
393.0	Stores Equipment	53,713	20.0	SQ	9.98	0%	26,903	26,903	(6,329)	60,042	6,016	11.20%
394.0	Tools, Shop & Garage Equipment	4,900,533	20.0	SQ	12.46	0%	1,848,080	1,848,080	(434,746)	5,335,279	428,193	8.74%
395.0	Laboratory Equipment	1,006,056	15.0	SQ	6.51	0%	569,397	569,397	(133,946)	1,140,002	175,116	17.41%
396.0	Power Operated Equipment	119,819	10.0	L1	4.09	0%	70,873	70,873	(19,267)	139,086	34,006	28.38%
397.0	Communication Equipment	8,194,971	15.0	SQ	9.45	0%	3,033,808	3,033,808	(713,679)	8,908,650	942,714	11.50%
398.0	Miscellaneous Equipment	260,787	15.0	SQ	6.40	0%	149,464	149,464	(35,160)	295,947	46,242	17.73%
	Subtotal General Plant	47,238,771					20,003,811	20,013,265	19,319,603	27,942,796	2,591,215	5.49%
	Total Gas Utility Plant	2,408,904,226					679,823,364	714,864,864	1,451,438,136	3,180,934,045	85,528,363	3.55%

Case No.	U-12999
Exhibit	A-___(TLS-3)
	2 Pages
Witness	T L Simonsen
Date	December 8, 2003

CONSUMERS ENERGY COMPANY

Five History of Net Salvage
Reported in Form P-522 for
Years 1998 through 2002

gas-cps.doc

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Historical Net Salvage, Per Page 219 of the MPSC Form P-522

2002 MPSC Form P-522, Page 219:

Net Charges for Plant Retired:	
Book Cost of Plant Retired	7,648,543.00
Cost of Removal	6,790,762.00
Salvage (credit)	(159,193.00)
Total Net Charges for Plt Ret.	14,280,112.00

2002 Net Salvage by Function:		Credit to Plant	Cost of Removal	Salvage	Total Function
108.022	Ntl. Gas Prod.	0.00	0.00	0.00	0.00
108.023	Underground Stg	81,314.52	283,506.42	2,948.10	367,769.04
108.029	Transm. Unit of Prod.	0.00	0.00	0.00	0.00
108.026	Distribution	5,356,298.24	6,238,477.24	(131,321.77)	11,463,453.71
108.027	General Structures	0.00	57,025.80	0.00	57,025.80
108.037	General Other Eq.	1,438,794.21	19,200.00	(24,620.99)	1,433,373.22
108.025	Transmission St. Line	772,134.56	192,552.14	(6,196.47)	958,490.23
	2002 Total	7,648,541.53	6,790,761.60	(159,191.13)	14,280,112.00

2001 MPSC Form P-522, Page 219:

Net Charges for Plant Retired:	
Book Cost of Plant Retired	13,068,421.00
Cost of Removal	7,387,322.00
Salvage (credit)	(162,344.00)
Total Net Charges for Plt Ret.	20,293,399.00

2001 Net Salvage by Function:		Credit to Plant	Cost of Removal	Salvage	Total Function
108.022	Ntl. Gas Prod.	0.00	0.00	0.00	0.00
108.023	Underground Stg	8,000.00	236,979.27	0.00	244,979.27
108.029	Transm. Unit of Prod.	0.00	0.00	0.00	0.00
108.026	Distribution	5,757,046.73	6,793,203.66	(623.93)	12,549,626.46
108.027	General Structures	801,021.50	20,102.76	0.00	821,124.26
108.037	General Other Eq.	6,265,060.41	12,938.00	(157,770.11)	6,120,228.30
108.025	Transmission St. Line	237,292.36	324,098.31	(3,950.00)	557,440.67
	2001 Total	13,068,421.00	7,387,322.00	(162,344.04)	20,293,398.96

2000 MPSC Form P-522, Page 219:

Net Charges for Plant Retired:	
Book Cost of Plant Retired	22,125,125.00
Cost of Removal	8,551,766.00
Salvage (credit)	(108,927.00)
Total Net Charges for Plt Ret.	30,567,964.00

2000 Net Salvage by Function:		Credit to Plant	Cost of Removal	Salvage	Total Function
108.022	Ntl. Gas Prod.	0.00	0.00	0.00	0.00
108.023	Underground Stg	762,833.48	255,925.22	(19,070.53)	999,688.17
108.029	Transm. Unit of Prod.	0.00	145,795.78	(4,109.78)	141,686.00
108.026	Distribution	16,192,942.31	7,684,326.36	(1,100.00)	23,876,168.67
108.027	General Structures	2,860,285.90	30,524.23	(76,974.46)	2,813,835.67
108.037	General Other Eq.	0.00	0.00	0.00	0.00
108.025	Transmission St. Line	2,309,063.28	435,194.71	(7,672.50)	2,736,585.49
	2000 Total	22,125,124.97	8,551,766.30	(108,927.27)	30,567,964.00

1999 MPSC Form P-522, Page 219:

Net Charges for Plant Retired:	
Book Cost of Plant Retired	8,984,035.00
Cost of Removal	9,430,816.00
Salvage (credit)	(90,805.00)
Total Net Charges for Plt Ret.	18,324,046.00

1999 Net Salvage by Function:		Credit to Plant	Cost of Removal	Salvage	Total Function
108.022	Ntl. Gas Prod.	0.00	0.00	0.00	0.00
108.023	Underground Stg	1,411,817.42	464,772.10	0.00	1,876,589.52
108.029	Transm. Unit of Prod.	29,234.20	26,669.12	0.00	55,903.32
108.026	Distribution	3,646,109.39	8,775,542.15	(10,843.24)	12,410,808.30
108.027	General Structures	667,633.11	67,384.61	(68,487.35)	666,530.37
108.037	General Other Eq.	0.00	0.00	0.00	0.00
108.025	Transmission St. Line	3,229,240.97	96,447.77	(11,474.25)	3,314,214.49
	1999 Total	8,984,035.09	9,430,815.75	(90,804.84)	18,324,046.00

1988 MPSC Form P-522, Page 219:

Net Charges for Plant Retired:	
Book Cost of Plant Retired	7,048,354.00
Cost of Removal	9,445,208.00
Salvage (credit)	(256,763.00)
Total Net Charges for Plt Ret.	16,236,799.00

1998 Net Salvage by Function:		Credit to Plant	Cost of Removal	Salvage	Total Function
108.022	Ntl. Gas Prod.	43,091.48	0.00	0.00	43,091.48
108.023	Underground Stg	1,200,305.92	408,704.96	(34,366.49)	1,574,644.39
108.029	Transm. Unit of Prod.	2,402,360.20	60,883.32	(50,000.00)	2,413,243.52
108.026	Distribution	3,143,570.20	8,225,168.04	(11,496.80)	11,357,241.44
108.027	General Structures	154,945.14	444,243.36	(19,701.94)	579,486.56
108.037	General Other Eq.	0.00	0.00	0.00	0.00
108.025	Transmission St. Line	104,081.63	306,207.75	(141,197.77)	269,091.61
	1998 Total	7,048,354.57	9,445,207.43	(256,763.00)	16,236,799.00

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of CONSUMERS ENERGY COMPANY for Accounting and Ratemaking Approval of Depreciation Rates for Gas Utility Plant	)))))	Case No. U-12999

PROOF OF SERVICE

STATE OF MICHIGAN)
) SS
COUNTY OF JACKSON)

Margaret Hillman, being first duly sworn, deposes and says that she is employed in the Legal Department of Consumers Energy Company; that on December 8, 2003 she served an electronic copy of the testimony and exhibits of Donald S. Roff and Thomas L. Simonsen upon the persons listed in Attachment 1 hereto, at the e-mail addresses listed therein. She further states that she also served a hard copy of the same documents to the addresses listed in Attachment 1 by depositing the same with United Parcel Service in the City of Jackson, Michigan with postage thereon fully paid, except for Administrative Law Judge Hon. Daniel E. Nickerson, Jr., whose copy was sent by United States first-class mail.

Validity unknown

Margaret Hillman

Digitally signed by Margaret Hillman Date: 2003.12.08 11:53:47 -05'00'

Margaret Hillman

Validity unknown

Sammie B Dalton

Digitally signed by Sammie B. Dalton Date: 2003.12.08 11:54:20 -05'00'

Sammie B. Dalton
Notary Public, Jackson County, Michigan
My Commission Expires: 01/04/04

ATTACHMENT 1 -- TO CASE NO. U-12999

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REBUTTAL TESTIMONY
OF DONALD S. ROFF
ATMOS ENERGY
DOCKET NO. 03-ATMG-1036-RTS

INTRODUCTION

Q. PLEASE STATE YOUR NAME, TITLE, BUSINESS AFFILIATION AND ADDRESS.

A. My name is Donald S. Roff. I am a Director with the public accounting firm of Deloitte & Touche LLP and my business address is 2200 Ross Avenue, Suite 1600, Dallas, Texas 75201.

Q. ARE YOU THE SAME DONALD S. ROFF WHO PRESENTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT WAS THE CONTENT OF THAT TESTIMONY?

A. That testimony presented the results of a depreciation study that I had conducted for Atmos Energy Corporation ("Atmos" or "the Company") and also summarized certain recommendations I had made regarding depreciation rates and depreciation practices. The depreciation study resulted in a modest increase in annual depreciation expense (approximately 7%) utilizing September 30, 2002, depreciable plant balances, compared with the level of depreciation expense produced by application of the existing approved depreciation rates to the same depreciable balances.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony has been prepared to address positions taken by Mr. Michael J. Majoros, Jr. on behalf of the Kansas Corporation Commission ("the Commission") and the Citizens' Utility Ratepayer Board ("Citizens" or "the Board") on the topics of depreciation rates and depreciation accounting. My rebuttal testimony will address the magnitude of the depreciation expense reduction proposed by Mr. Majoros and its detrimental effect on Atmos. I will also address the accounting and ratemaking aspects of depreciation and related net salvage allowances. I will address the Equal Life Group ("ELG") depreciation procedure and how, contrary to Mr. Majoros' claims, I have not implemented this procedure in a retroactive manner. Finally, I will address the Simulated Plant Record ("SPR") life analysis methodology and certain misleading statements made by Mr. Majoros.

Q. WHAT DID YOU DO TO DEVELOP THIS REBUTTAL TESTIMONY?

A. I read Mr. Majoros' testimony and reviewed his schedules and exhibits. I reviewed the work papers developed in my depreciation study. I reviewed and analyzed the Information Requests filed by the Company and Mr. Majoros. I attempted to verify the various figures and calculations contained in Mr. Majoros' testimony and exhibits. I also re-examined Order No. 631 of the Federal Energy Regulatory Commission ("FERC") and the provisions and requirements of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*. Lastly, I have reviewed one recent case and related testimonies heard before this Commission, that being Docket No. 03-KGSG-602-RTS. I encourage the Commission to re-read the excellent rebuttal testimonies of Mr. Earl Robinson and Dr. Ronald White specifically addressing some of the same arguments put forth by Mr. Majoros in this proceeding.

Q. HAVE YOU PREPARED ANY EXHIBITS TO ILLUSTRATE YOUR FINDINGS?

A. Yes. Rebuttal Exhibit DSR-1 recasts certain of the figures contained in Table 3 of Mr. Majoros' testimony and adds another column.[1] My calculations correctly isolate the net salvage and ELG procedure components of the depreciation expense change proposed by Mr.

Majoros. I have also quantified the reserve difference portion of the annual depreciation expense. Other Rebuttal Exhibits related to individual topics will be introduced later.

Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR SUPERVISION AND DIRECTION?

A. Yes.

Q. WHAT DOES REBUTTAL EXHIBIT DSR-1 REVEAL?

A. Rebuttal Exhibit DSR-1 reveals that the change in annual depreciation expense proposed by Mr. Majoros compared with the level of depreciation expense that I have recommended is actually comprised of three, roughly equivalent causal elements. The first, treatment of net salvage, the second, the use of the Equal Life Group ("ELG") procedure, and the third, inter-relationships between these two elements. A fourth, relatively minor element is the amortization of reserve differences.

Q. REBUTTAL EXHIBIT DSR-1 INCLUDES A COLUMN ENTITLED "INTER-RELATIONS". CAN YOU PROVIDE AN EXAMPLE THAT EXPLAINS THIS COLUMN?

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[1] Testimony of Michael J. Majoros, Jr., page 5, line 8.

A. Yes, I can. Assume that we have an asset category with a balance of $1,000. Assume that my recommendation is an average service life of 20 years and the average service life proposal of the Staff is 25 years. Further assume that I recommend a positive 10% net salvage factor and the Staff proposes a positive 20% net salvage factor. The difference in annual depreciation due to the increase in average service life is ($1,000/25) minus ($1,000/20), for a decrease of $10. The difference due to the change in net salvage would be calculated as ((100%-20%)/20) minus ((100%-10%)/20), times the $1,000 balance, or a decrease of $5. The Staff proposed depreciation rate would be ((100%-20%)/25), or 3.20%. My recommended depreciation rate would be ((100%-10%)/20), or 4.50%. The total change in depreciation expense is a decrease of $13. Therefore, the components of the depreciation change are: a decrease of $10, for an increase average service life; a decrease of $5 for a more positive net salvage; a total decrease of $13; and an inter-relationship effect of positive $2, representing the combination of change in life and change in net salvage. The inter-relationships magnify as the number of changing elements increases, such as the depreciation procedure.

Q. HOW DID YOU QUANTIFY THE EFFECT OF NET SALVAGE ON ANNUAL DEPREPCIATION EXPENSE?

A. I used the same process as described by Mr. Majoros in his testimony at Table 4.[2] The details of this calculation are shown on Rebuttal Exhibit DSR-2, in columns [5] and [8]. The difference between these two columns ($731,852) quantifies the effect of net salvage on annual depreciation expense and is shown at the bottom of Column [8].

Q. HOW DID YOU QUANTIFY THE EFFECT ON ANNUAL DEPRECIATION OF THE USE OF THE ELG PROCEDURE?

A. Rebuttal Exhibit DSR-3 has been prepared to summarize these calculations. Column [4] contains the whole life depreciation rate on an Average Life Group ("ALG") basis. Column [6] contains the whole life depreciation rate on an ELG basis. The difference between Column [5] and Column [7] ($715,580) is the effect on annual depreciation of the use of the ELG procedure, and is shown at the bottom of Column [7].

Q. HOW DID YOU QUANTIFY THE EFFECT OF RESERVE POSITION ON THE ANNUAL DEPRECIATION EXPENSE?

A. Rebuttal Exhibit DSR-4 has been prepared to summarize these calculations. Column [4] contains the theoretical reserve developed in my study. Column [5] contains the actual book reserve. Column [6] contains the average remaining life for each asset category. Column [7] contains

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[2] Ibid, page 9, line 10.

the annual amortization of the difference between the theoretical reserve and the book reserve. Under the remaining life technique, this difference is allocated to annual accounting periods over the remaining life of each individual asset category. We can see that the reserve difference (Shown at the bottom of Column [7]) has an impact on annual depreciation expense of less than $100,000.

Q. THERE IS A COLUMN ON REBUTTAL EXHIBIT DSR-1 LABELED "INTER-RELATIONS". WOULD YOU PLEASE EXPLAIN WHAT THIS COLUMN MEANS?

A. Certainly. There are three components of a remaining life depreciation rate. The first is related to the service life; the second is related to the net salvage allowance; and the third is related to the status of the accumulated provision for depreciation. Mr. Majoros provides a fundamental discussion of these concepts at pages 9 through 11 of his testimony. Implicit in each of these components is the depreciation procedure. From a technical standpoint, a depreciation procedure refers to the asset groupings or the form of the depreciable base. My study utilized the *equal life group* procedure and is thoroughly described in the Appendix to Exhibit 3 of my direct testimony. Mr. Majoros utilizes the *average life group* procedure, sometimes referred to as the broad group procedure. The singular effect on depreciation expense of these two procedures in this proceeding is quantified above. Since service life is not at issue in this proceeding,[3] the inter-relationship shown in Column [13] of Rebuttal Exhibit DSR-1 represents the **combined effect** on annual depreciation expense of changes in net salvage **coupled with** a change in depreciation procedure, as well as the impact of the reserve position shown in Column [12].

Q. WHAT ARE THE DIFFERENCES BETWEEN YOUR RECOMMENDED DEPRECIATION RATES AND THE RECOMMENDATIONS OF MR. MAJOROS?

A. There are only two primary differences. First, Mr. Majoros has proposed the use of what I would call a "cash basis" for net salvage, contrasted with my use of an "accrual basis" for net salvage. Second, Mr. Majoros opposes what he calls a "retroactive" application of the ELG procedure. It is very interesting to note that Mr. Majoros does not fundamentally object to the use of the ELG procedure. Mr. Majoros also asserts that the Company's depreciation rates are excessive. I will address this issue later in my rebuttal testimony.

<u>MAGNITUDE OF DEPRECIATION EXPENSE ADJUSTMENT</u>

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[3] Ibid, page 4, line 20.

Q. DO YOU HAVE ANY EVIDENCE TO DEMONSTRATE THE MAGNITUDE OF THE REDUCTION IN DEPRECIATION EXPENSE PROPOSED BY MR. MAJOROS AND ITS DETRIMENTAL IMPACT ON ATMOS?

A. Yes. Let us begin with the absolute magnitude of the reduction in depreciation expense proposed by Mr. Majoros. As shown on Rebuttal Exhibit DSR-1, the level of depreciation expense proposed by Mr. Majoros is a decrease of nearly 30% from my study recommendations and nearly 32% below the level of depreciation expense produced by application of the existing depreciation rates to September 30, 2002 depreciable balances. In terms of depreciation expense, the reduction is over $1.85 million. This amount is equivalent to roughly 5% of annual revenues (exclusive of gas cost)! I urge this Commission to consider the reasonableness of such a significant depreciation expense reduction. While depreciation is a *non-cash* item as aptly described by Mr. Majoros, it does have significant *cash flow* impacts. Depreciation expense is a form of internal financing, thus reducing the need for external financing by Atmos. Rebuttal Exhibit DSR-5 has been prepared to show the level of capital activity over the past five years for the six largest asset categories. Clearly depreciation expense alone has not been adequate to finance these additions. While the purpose of depreciation accounting is cost allocation, one purpose of capital recovery in the ratemaking process is to insure financial integrity. Two facts are shown on this Exhibit. First, significant capital activity is occurring, which will result in the recording of increasing depreciation expense going forward. More importantly, if Mr. Majoros' proposal is approved, Atmos will have to externally finance a minimum of $1,800,000 additionally annually. This has to be detrimental to the Company and more costly to the customer than use of my recommended level of depreciation expense. Moreover, under Mr. Majoros' proposal, rate base will be dramatically higher each year causing increased costs to customers today and into the future. While current revenue requirements are reduced, the total lifetime cost to customers is higher under Mr. Majoros' proposal. For these reasons, Mr. Majoros' proposal should be rejected.

Q. CAN YOU CITE ANY AUTHORITATIVE LITERATURE THAT ADDRESSES THIS TOPIC?

A. Yes. The following statement from the NARUC *Public Utility Depreciation Practices* text addresses this issue:

> "The regulatory body prescribing depreciation rates is thus confronted with a decision which affects both the short-run and the long-run interest of the customer who pays rates for utility service. If the commission consistently prescribes (depreciation) rates below the lower limit of the zone of reasonableness, this results immediately in lower revenue requirements. But in the long run the requirements for income taxes and return more than offset the apparent savings in depreciation expense, so that rates for service

must be higher than if the depreciation rates had been more adequate. If the depreciation rates are set so low as to fail to repay the capital invested in a group of property by the end of its service life, confiscation takes place or the unpaid cost remains in the rate base permanently. If, on the other hand, the regulatory body takes a liberal view of the probable service life of the property and establishes depreciation rates toward the middle or high side of the zone of reasonableness, rates for service will be higher in the short run, but in the long run may be lower. However, depreciation rates are not intended for the purpose of achieving objectives other than the recovery of capital invested in a manner properly related to the useful life of the plant."[4]

Q. HAVE YOU MADE ANY COMPARISONS OF DEPRECIATION RATES FROM WITHIN THE INDUSTRY?

A. In general, I prefer not to make industry comparisons. Over the course of my thirty-year career, I have found that asset information and related depreciation parameters are impacted by a wide variety of factors and forces, making comparisons precariously specious. These factors and forces include, but are not limited to, capitalization policy, growth, location, construction standards, retirement reporting, pricing conventions, market circumstances, regulatory actions, field conditions, cause of retirement and accounting practices. As such, direct comparisons of individual utilities or select account parameters are misleading at best. Having said all that, the composite depreciation rate of 2.53% proposed by Mr. Majoros would be among the lowest in the industry based upon my experience.

[4] *Public Utility Depreciation Practices*, NARUC, 1968, page 33.

NET SALVAGE ALLOWANCE AND ACCOUNTING

Q. PLEASE DESCRIBE THE PROPOSAL THAT YOU REFER TO AS CASH ACCOUNTING.

A. Mr. Majoros' proposal develops a level of depreciation expense for net salvage equal to the actual cash outlays for salvage and cost of removal. In practice this is accomplished by developing an annual average of recent experience.

Q. HAS CASH ACCOUNTING FOR NET SALVAGE BEEN UTILIZED BY THE COMPANY IN THE PAST?

A. No. Atmos has utilized and it is my understanding that this Commission has authorized what I would refer to as traditional depreciation accrual accounting for net salvage. Based upon a review of prior depreciation studies and approved depreciation rates, it would appear that such a practice has been in place for several years.

Q. IS ATMOS REQUIRED TO PRACTICE ACCRUAL ACCOUNTING?

A. Yes, in accordance with the Uniform System of Accounts followed by

Atmos.[5]

Q. IS ACCRUAL ACCOUNTING SIGNIFICANT TO DEPRECIATION ACCOUNTING?

A. Yes. Accrual accounting reflects the fundamental accounting principle of matching. The matching principle requires the proper determination of costs in each accounting period. This includes the accrual for investment costs as well as the accrual for net salvage costs[6].

Q. ARE THERE REGULATORY REQUIREMENTS RELATED TO NET SALVAGE?

A. Yes. The following excerpt from the 1996 NARUC publication *Public Utility Depreciation Practices* addresses this concept:

> "Under presently accepted concepts, the amount of depreciation to be accrued over the life of an asset is its original cost less net salvage. Net salvage is the difference between the gross salvage that will be realized when the asset is disposed of and the cost of removing it. Positive net salvage occurs when gross salvage exceeds cost of removal, and negative net salvage occurs when cost of retirement exceeds gross salvage. Net salvage is expressed as a percentage of plant retired by dividing the dollars of net salvage by the dollars of original cost of plant retired. The goal of accounting for net salvage is to allocate the net cost of an asset

[5] 18 CFR Part 201, General Instruction 11. "Accounting to be on an accrual basis. Paragraph A. The utility is required to keep its accounts on the accrual basis."

[6] Net salvage means gross salvage less cost of removal. When cost of removal exceeds salvage, negative net salvage occurs.

> to annual accounting periods, making due allowance for the net salvage, positive or negative, that will be obtained when the asset is retired. This concept carries with it the premise that property ownership includes the responsibility for the property's ultimate abandonment or removal. Hence, if current users benefit from its use, they should pay their pro rata share of the costs involved in the abandonment or removal of the property and also receive their pro rata share of the benefits of the proceeds realized."
>
> "This treatment of salvage is in harmony with generally accepted accounting practices and tends to remove from the income statement any fluctuations caused by erratic, although necessary, abandonment and uneconomical removal operations. It also has the advantage that current consumers pay or receive a fair share of costs associated with the property devoted to their service, even though the costs may be estimated."[7]

Thus under regulatory accounting, it is evident that depreciation is intended to include a component for net salvage. It is important to note that no reference is made in this passage to present value or discounted amounts. In fact, the passage describes how to calculate a net salvage allowance.

Q. HAVE PAST DEPRECIATION STUDIES INCLUDED AN ALLOWANCE FOR NET SALVAGE IN THE DEPRECIATION RATE CALCULATION?

A. Yes. The existing approved depreciation rates include net salvage allowances and reflect net salvage in depreciation rates using the same calculation methodology that I have utilized in the most current depreciation study and as described above.

Q. WHAT IS THE FUNDAMENTAL DIFFERENCE BETWEEN CASH ACCOUNTING AND ACCRUAL ACCOUNTING?

A. Cash accounting results in the recording of a provision for net salvage equal to the actual cash outlays for net salvage in an accounting period. In the few jurisdictions where such a practice is utilized, the typical calculation uses the most recent five-year average net salvage amount. Accrual accounting, which is practiced or utilized by a majority of companies, recognizes the cause and effect relationship between retirements and net salvage and results in the recording of a net salvage component of the depreciation expense accrual for all retirements.

Q. DO YOU AGREE WITH THE RECOMMENDATION OF MR. MAJOROS?

A. No. First, cash accounting does not comply with the accrual accounting requirement of the USOA. Second, cash accounting is inconsistent with traditional depreciation accounting and past practices approved by this Commission for Atmos. Third, cash accounting is unfair to customers as only the last generation of customers associated with an asset pays for related net disposal costs. In fact, in the approach presented by Mr. Majoros, costs are charged to customers after the assets which provided benefit are retired.

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[7] *Public Utility Depreciation Practices*, NARUC, 1996, page 18.

Q. ARE YOU AWARE AS TO WHETHER THE CASH ACCOUNTING APPROACH PROPOSED BY MR. MAJOROS HAS BEEN REJECTED?

A. Yes. Based upon the testimonies provided by Mr. Majoros in other proceedings, it appears that Mr. Majoros' cash accounting approach was rejected in at least four of those cases. In the Midwest Energy proceeding before this Commission, the Kansas Commission adopted the Company's position stating: "Accrual accounting has been accepted for many years and provides a reasonable and methodical manner of recovering costs over time."[8] In the Elizabethtown Gas Company proceeding before thf New Jersey Board of Public Utilities ("BPU"), the Board decided not to change the existing depreciation rates. Those depreciation rates included a provision for net salvage similar to the methodology requested by Atmos in this proceeding. In the Public Service Electric and Gas Company ("PSE&G") case, the Board (also in New Jersey) ordered the continued use of the approved rate which contained a negative 5% net salvage allowance.[9] The reason I know this is that I was involved with assisting PSE&G in that proceeding. In the Jersey Central Power & Light Company proceeding (also before the New Jersey BPU), the Board ruled in favor of the Ratepayer Advocate.[10] In the Rockland Electric Company case (also in New Jersey), the Board adopted the Ratepayer Advocate's level of

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[8] Case No. 02-MDWG-922-RTS Order, page 18, paragraph 50.
[9] Docket No. ER02050303 Order, page 5, paragraph 4.
[10] Docket No. ER02080506, page 6, paragraph d.

excess reserve, which reflected a different net salvage level.[11] In the Sierra Pacific Power Company ("SPPC") case, the Nevada Public Service Commission made two rulings on the subject of net salvage. "While no party to this part of the proceeding disagreed that cost of removal should be recovered over the life of the production plant, the BCP ("Bureau of Consumer Protection") raised a concern over the appropriate amount to be recovered. SPPC did not provide sufficient support for the application of a 3 percent escalation rate to the cost of removal. Due to the lack of justification for the proposed escalation rate, the Commission finds that SPPC will not apply an escalation factor in the development of production plant cost of removal."[12] Further, with respect to Transmission and Distribution Plant accounts, "Therefore, the Commission finds that, except for Account No. 364, SPPC's proposed net salvage ratios shall be used. The Commission finds that a 10 percent net negative salvage ratio shall be used for Account No. 364."[13]

Q. WHAT IS YOUR INTERPRETATION OF THESE FINDINGS?

A. At best, it would seem that the use of cash accounting for net salvage has received a mixed and limited level of acceptance. The conflicting results in New Jersey should not be taken as an endorsement of cash accounting. The logic provided for support of accrual accounting in the

[11] Docket No. ER02080614, page 3, paragraph 3.
[12] Docket No. 01-11031 Order, paragraph 382.

spirit of intergenerational equity carries a great deal of merit. Moreover, it is evident that Mr. Majoros has not been consistent with respect to net salvage advocacy over time. That is, in some cases he proposes cash accounting; in other cases he proposes traditional net salvage depreciation accrual accounting.

Q. CAN YOU DEMONSTRATE THE EFFECT OF CASH ACCOUNTING?

A. Yes. In fact, I will use some of Mr. Majoros' own testimony to illustrate the unfairness of the cash accounting process. At page 23, line 5, Mr. Majoros argues that the original cost price level adjusted cost of removal is only $436 (for the 1949 vintage year). Use of this $436 figure produces an allowance for cost of removal of 11%. The life of this $4,000 asset is 50 years. I have prepared Rebuttal Exhibit DSR-6 to show the pattern of depreciation expense and the effect of cash accounting treatment.

Q. WHAT DOES REBUTTAL EXHIBIT DSR-6 REVEAL?

A. Rebuttal Exhibit DSR-6 actually reveals a number of facts. First, full recovery of the investment occurs as shown in Column [3].[14] Second, the life of this asset is 50 years. Third, there is an accrual for cost of removal. Fourth, the cost of removal allowance is 11%. Fifth, the actual "cash" cost

[13] Ibid, paragraph 393.

of removal is $5,000. Sixth, there is a shortfall of capital recovery related to cost of removal. And seventh, the last generation of customer (1999) pays the full cost of removal. Thus cash accounting for net salvage is patently unfair to customers and should be rejected by this Commission.

EXCESSIVE DEPRECIATION

Q. AT VARIOUS PLACES THROUGHOUT HIS TESTIMONY, MR. MAJOROS MAKES NUMEROUS REFERENCES TO THE CONCEPT OF "EXCESSIVE DEPRECIATION" AND EVEN PROVIDES EXCERPTS FROM UNITED STATES' SUPREME COURT CASE LAW. DO YOU HAVE ANY COMMENTS?

A. Yes. This is a recurrent theme in his testimonies where depreciation is the subject. Apparently, Mr. Majoros never met a Company-requested depreciation rate that he did not believe was excessive. It would seem that as long as there is disagreement between depreciation rates recommendations, Mr. Majoros' lower depreciation rates must be correct and all other depreciation rates are excessive. In the Supreme Court case cited, Mr. Majoros confuses the concept of "excessive" depreciation due to past accumulations of depreciation expense with the use of estimated service lives and net salvage allowances used to make prospective

[14] This assumes that the revenue stream associated with this asset includes this level of depreciation expense and is allowed in customer rates.

revisions to depreciation rates. My understanding of the Lindheimer case is that the Supreme Court was addressing a claim of confiscation by the company and that, with "confiscation being the issue", the company had the burden of showing that its past accumulation of depreciation had not been excessive. In Atmos' case, the past accumulation of depreciation could not have been excessive because it was predicated on the application of Commission authorized depreciation rates. Atmos has recorded (accounting) and the customer has paid (ratemaking) precisely what has been allowed through the regulatory process. As the Court indicated, depreciation rates are based on estimates of the future and those estimates must unquestionably be reviewed from time to time, with mid-stream adjustments applied prospectively to reflect the controlling test of experience. A more careful review of the Lindheimer case and decision would reveal that the Supreme Court was reviewing a rate order based on a "fair value" rate base. This means that at least some significant portion of the rate base would reflect the reconstruction cost new ("RCN") value of plant. With such an approach to valuation, the determination of the appropriate depreciation reserve and whether a booked reserve that reflects original cost can be deemed to be "excessive" or "confiscatory" is particularly problematic in Atmos' case. In my view, Mr. Majoros' reliance on the Lindheimer decision is severely misplaced.

Q. WHY DO YOU SAY THAT EXCESSIVE DEPRECIATION IS A

RECURRENT THEME IN MR. MAJOROS' TESTIMONIES?

A. In response to an information request in another proceeding, Mr. Majoros has provided several prior testimonies. These included three testimonies in New Jersey, one in Oklahoma (not really testimony, but more of a position paper and a stipulation agreement), one in Kentucky, two in Kansas, one in Vermont and one in Nevada. The following statements were made in these testimonies:

> "Yes. In my opinion, the Company's depreciation proposal is unreasonable. It will produce excessive depreciation in this rate case and unnecessarily increase the revenue requirement."[15]
> "Yes. In my opinion, the Company's depreciation proposal is unreasonable. It will produce excessive depreciation expense in this rate case and unnecessarily increase the revenue requirement."[16]
> "The Company's proposal produces excessive depreciation because it includes an unsupportable and unreasonable request for negative net salvage in its depreciation rate calculations."[17]
> "The Company filed a depreciation study conducted by Mr. Spanos indicating that the existing depreciation rates are excessive. Mr. Spanos proposed a depreciation rate reduction." .... Yes, I agree that the Company's depreciation rates are excessive."[18]
> "The proposals are unreasonable because they produce excessive depreciation and thereby unnecessarily increase the revenue requirement."[19]

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[15] Direct Testimony of Michael J. Majoros, Jr. BPU Docket No. ER02100724, Rockland Electric Company, page 3, line 4.
[16] Direct Testimony of Michael J. Majoros, Jr. BPU Docket No. ER02080506, Jersey Central Power & Light Company, page 2, line 18.
[17] Direct Testimony of Michael J. Majoros, Jr. BPU Docket No. GR02040245, Elizabethtown Gas Company, page 5, line 28.
[18] Direct Testimony of Michael J. Majoros, Jr. Kentucky Public Service Commission Docket No. 2002-00145, Columbia Gas of Kentucky, page 7, lines 16 and 19.
[19] Direct Testimony of Michael J. Majoros, Jr. Kansas Corporation Commission Docket No. 02-MDWG-922-RTS, Midwest Energy, Inc., page 2, line 13.

> "Yes. In my opinion, the Company's depreciation proposal is unreasonable. It will produce excessive depreciation in this rate case and unnecessarily increase the revenue requirement."[20] "The Company's depreciation proposal is unreasonable because the proposal produces excessive depreciation expense which will, in turn, be charged to ratepayers in this rate case."[21]

It should be apparent that the only non-excessive depreciation rate is one proposed by Citizens. I implore the Commission to view Mr. Majoros' testimony on the subject of excessive depreciation with suspicion.

Q. DID THE REGULATORY BODIES ASSOCIATED WITH THE ABOVE CASES AGREE WITH MR. MAJOROS?

A. I could find no Order that supported the contention by Mr. Majoros that the respective company's depreciation rates were excessive.

SIMULATED PLANT RECORD ("SPR") ANALYSIS

Q. MR. MAJOROS HAS TESTIFIED THAT HE HAS DETERMINED A "GLITCH" IN YOUR ANALYSIS FOR THOSE ACCOUNTS USING THE SPR METHODOLOGY. HE REFERS TO IT AS AN "UNEXPLAINED DISCREPANCY". CAN YOU EXPLAIN?

[20] Direct Testimony of Michael J. Majoros, Jr. State of Nevada Public Utilities Commission Docket No. 01-11031, Sierra Pacific Power Company, page 3, line 11.
[21] Direct Testimony of Michael J. Majoros, Jr. Kansas Corporation Commission Docket No. 02-0391, Kansas Gas Service, page 2, line 22 and page 3, line 1.

A. Yes. Let me first say that these comments intrigue me as they suggest a lack of understanding regarding unaged data, life analysis of unaged data and depreciation rate calculations using unaged data. Mr. Majoros acknowledges that the SPR method can be utilized in the case where the age of retirements is not known.[22] He further acknowledges that the SPR method can be used to develop the age distribution of surviving assets, which in turn can be used to calculate the estimated remaining life of the simulated (aged) balances.[23] He asserts that I have used a different Iowa curve and average service life to simulate age, contrasted with the Iowa curve and average service life that was used for developing the remaining life and subsequent depreciation rate. He is only partially correct, as I have used the same Iowa curve for each calculation, but I have used different average service lives and this was done for a reason.

Q. PLEASE EXPLAIN.

A. The methodology of the SPR method depends on the application of survivor ratios (in the case of the SPR Balances method) to the sequence of historical additions, producing simulated balances. These simulated balances are compared to actual balances for various periods of history. By varying the average service life for each dispersion pattern, and using a minimum sum of squared differences criterion (between the actual

[22] Majoros Direct Testimony, page 41, line 8.
[23] Ibid, page 41, lines 21-23.

balance and the simulated balance), the best match to history can be determined. Using different analysis periods can help to identify trends. Blending these historical indications with future expectations as well as giving due recognition to the type of asset being added and retired results in the Iowa curve and average service life selections of my depreciation study, which have not been contested by Mr. Majoros in this proceeding. I then take the information contained in these analyses one step further, and this is the "unexplained discrepancy" that Mr. Majoros claims to have identified.

Q. WHAT IS THIS ADDITIONAL STEP?

A. The appropriate Iowa curve has been selected for each asset category. The next step is to use the information contained in our analysis to develop a set of aged surviving balances for use in the depreciation rate calculation. By using a one-year band analysis, I can determine the precise average service life for each Iowa curve that results in a simulated balance equal to the actual balance at September 30, 2002. That is why Mr. Majoros asserts that I have used different average lives. In fact, I have only used a different average service life for a specific purpose, and that purpose is the development of the very best estimate of the age distribution of surviving balances. My review of literature related to the SPR method of life analysis could find no requirement that the same curve and average service life as developed from an historical analysis be used to simulate the ageing of past additions. My use of a different average service life for ageing results in a more accurate distribution of aged surviving balances.

RETROACTIVE APPLICATION OF THE ELG PROCEDURE

Q. WHAT IS MR. MAJOROS' POSITION WITH RESPECT TO THE USE OF THE ELG PROCEDURE?

A. Mr. Majoros claims that "retroactive application of ELG leads to a large initial increase in depreciation due to the prior use of the BG/ALG procedure."[24] His conclusion is that such a change should be made on a going-forward basis.

Q. IS THIS A VIABLE ARGUMENT?

A. I think not. My understanding of the word "retroactive" refers to "extending in scope or effect to a prior time" or "made effective as of a date prior to enactment, promulgation or imposition".[25] Under this definition, I am having trouble discerning how my application of the ELG procedure could be considered retroactive, as I have changed **no prior** recording or

[24] Majoros testimony, page 17, line 2.
[25] Webster's New Collegiate Dictionary

accumulation of depreciation expense. Ignoring, for the moment, net salvage, I have used the same undepreciated amounts ("future accruals") as Mr. Majoros and have asked for ***prospective*** use of my recommended depreciation rates.

Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING MR. MAJOROS' TESTIMONY IN THE ELG PROCEDURE?

A. Yes. Let me begin with his statement at page 18, line 4: "From a theoretical standpoint ELG has the benefit of providing a more precise allocation cost assuming perfect foresight". Mr. Majoros neglects to admit that the ALG procedure suffers the same infirmity if the curve/average life selection is wrong. In either instance, the first part of the statement is true. ELG does provide **a more precise allocation of cost**. Mr. Majoros goes on to state that the ELG procedure requires annual rate changes. This is just not so. As additions and retirements are made to each asset category, the ELG depreciation rate changes very little from period to period. Next, Mr. Majoros asserts that ELG is not necessary. It appears that his only argument is that ELG will produce a depreciation expense increase.[26] It is abundantly evident that Mr. Majoros is "depreciation expense increase averse". That, in and of itself, is insufficient reason to reject a better cost allocation process. Mr. Majoros goes on to argue my application of ELG to all prior vintages produces a composite remaining life for those vintages which is inconsistent with actual past depreciation practices. His proposal does the same, as it is predicated on a new set of parameters (Iowa curve and average service life). Finally, he asserts that my implementation proposal creates a significant depreciation reserve deficiency. A review of Rebuttal Exhibit DSR-4 demonstrates that there is no "significant depreciation reserve deficiency". In fact, there is a modest surplus, as the book reserve (Column [5]) exceeds the theoretical reserve (Column [4]). These arguments lack any substantive merit.

ASSET RETIREMENT OBLIGATIONS

Q. WHAT ARE THE PROVISIONS OF ORDER NO. 631?

A. As described in the Order's title, Order No. 631 provides guidance and direction with respect to the accounting, financial reporting and rate filing requirements of Asset Retirement Obligations ("AROs") defined for financial reporting purposes in SFAS No. 143. In short, Order No. 631 amended the various USOA's promulgated by the FERC, added certain new accounts to record ARO's, asset retirement costs ("ARCs")[27] and accretion expense. Contrary to Mr. Majoros' interpretation, Order No. 631 did not address the accounting for non-legal obligations, as clearly demonstrated by the following two statements:

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[26] Majoros Testimony, page 18, line 13.
[27] ARCs are the offsetting assets to AROs'.

> "The Commission did not propose any changes to its existing accounting requirements for cost of removal for non-legal retirement obligations."[28]
>
> "The accounting for removal costs that do not qualify as legal retirement obligations falls outside the scope of this rule. The Commission is aware that there is an ongoing discussion in the accounting community as to whether the cost of removal should be considered as a component of depreciation. However, this issue is beyond the scope of this rule and we are not convinced that there is a need to fundamentally change accounting concepts at this time"[29] (Emphasis added)

This calls into question the underlying premise of Mr. Majoros' testimony concerning Order No.631 and Statement of Financial Accounting Standards ("SFAS") No. 143. I do not reach the same conclusion that SFAS No. 143 "unbundles" net salvage from depreciation rates. Nothing could be further from the truth.

Q. IN YOUR OPINION HAS ATMOS RECOGNIZED ITS GAAP OBLIGATION TO RECORD THE REGULATORY LIABILITY TO ITS CUSTOMERS FOR NON-ARO ASSETS?

A. While that is probably a better question for Atmos' auditors, there is no GAAP requirement detailing where regulatory assets and liabilities are to be recorded or recognized. As I read SFAS No. 143, it is evident that the FASB understood this issue and allowed some flexibility regarding the accounting. Mr. Majoros is just not correct in his interpretation.

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[28] Order No. 631, Paragraph 36.
[29] Ibid, Paragraph 37.

Q. IS MR MAJOROS ALSO INCORRECT REGARDING FERC ORDER NO. 631?

A. I believe Mr. Majoros has also reached an incorrect conclusion regarding Order No. 631. Order No 631 merely established some new accounts in which to record activities and transactions relative to qualifying asset retirement obligations. There is no requirement to unbundled net salvage from the depreciation rates. FERC merely iterated its long standing position that depreciation rates under its jurisdiction require adequate support and documentation. Separate underlying records are required for net salvage components, but separate accounting and accounts are **NOT** required. Also, there is no need for the elaborately worded "going-forward allowance", which is nothing more that another attempt to have cash accounting approved by this Commission. I urge the Commission to remain steadfast in supporting accrual based depreciation accounting.

SUMMARY

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. My rebuttal testimony demonstrates the severity of Mr. Majoros' depreciation proposal. I further demonstrate that cash accounting is inconsistent with accounting principles and regulatory equity. I have demonstrated in both my direct and rebuttal testimony the benefits of the ELG procedure. I have shown where Mr. Majoros has been misleading or attempted to create an issue that does not exist. The Atmos request regarding depreciation in this proceeding is fair and reasonable to all parties and should be endorsed by the Commission.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes. The fact that I have not addressed specific comments or portions of Mr. Majoros' testimony does not signify my agreement.

VERIFICATION

STATE OF TEXAS)

COUNTY OF DALLAS) ss.

DONALD S. ROFF, being duly sworn upon his oath, deposes and states that he is a Director with the public accounting firm of Deloitte & Touche LLP; that he has read and is familiar with the foregoing Rebuttal Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information and belief.

Donald S. Roff

Subscribed and sworn before me this 12th day of November 2003.

NOTARY PUBLIC

My Commission Expires:
4/15/04

LISA NEELEY
NOTARY PUBLIC
STATE OF TEXAS
EXPIRES
04-15-2004

Atmos Energy Corporation - Kansas Properties
Comparison of Annual Depreciation Amounts By Cause

REBUTTAL EXHIBIT DSR-1

[1] Function	[2] 9/30/2002 Balance $	[3] Existing Rate %	[4] Annual Amount $	[5] Study Rate %	[6] Annual Amount $	[7] Majoros Rate %	[8] Annual Amount $	[9] Difference $	[10] Net Salv. $	[11] ELG $	[12] Reserve	[13] Inter-Relations $
Gathering Plant	4,119,591	5.24	215,661	8.12	334,417	3.67	151,184	(183,233)	45,969	(68,673)	99,680	(106,257)
Transmission Plant	7,031,874	3.25	228,536	1.60	112,526	0.97	67,931	(44,595)	18,165	14,590	(83,696)	(95,536)
Distribution Plant	146,055,044	3.17	4,627,058	3.49	5,090,193	2.12	3,100,900	(1,989,293)	644,024	800,131	(2,590)	(547,728)
General Plant	8,395,101	9.48	795,921	8.60	722,162	10.40	873,051	150,889	(26,736)	(27,467)	77,694	174,380
Total Gas Plant	165,601,610	3.54	5,867,176	3.78	6,259,298	2.53	4,193,066	(2,066,232)	681,422	718,581	91,088	(575,141)
							211,886	211,886				
					392,122		4,404,952	(1,854,346)				

ATMOS ENERGY CORPORATION - KANSAS (DIV. 80 & 81) **REBUTTAL EXHIBIT DSR-2**

Book Depreciation Study as of September 30, 2002

Effect of Net Salvage on Annual Amounts

[1] Account Number	[2] Description	[3] 9/30/2002 Balance $	[4] ASL Yrs	[5] Annual Amount $	[6] ASL Weight	[7] Net Salv %	[8] Annual Amount $
	GATHERING PLANT						
325.4	Rights of Way	499	37.0	13	18,463	-	13
328.0	Field M&R Station Structures	17,677	16.0	1,105	282,832	-	1,105
332.0	Field Lines	3,125,909	17.0	183,877	53,140,453	(25.0)	229,846
333.0	Field Compressor Station Equipment	256,809	12.0	21,401	3,081,708	-	21,401
334.0	Field M&R Station Equipment	718,697	14.0	51,336	10,061,758	-	51,336
	Total Gathering Plant	4,119,591	16.2	257,732	66,585,214		303,701
	TRANSMISSION PLANT						
366.0	Structures and Improvements	179,283	45.0	3,984	8,067,735	-	3,984
367.0	Mains	3,633,077	50.0	72,662	181,653,850	(25.0)	90,827
368.0	Compressor Station Equipment	2,568,429	40.0	64,211	102,737,160	-	64,211
369.0	M&R Station Equipment	486,843	30.0	16,228	14,605,290	-	16,228
371.0	Other Equipment	164,242	25.0	6,570	4,106,050	-	6,570
	Total Transmission Plant	7,031,874	44.3	163,654	311,170,085		181,819
	DISTRIBUTION PLANT						
375.0	Structures and Improvements	101,010	35.0	2,886	3,535,350	(5.0)	3,030
376.0	Mains	81,046,107	50.0	1,620,922	4,052,305,350	(25.0)	2,026,153
378.0	M&R Station Equipment	2,611,086	30.0	87,036	78,332,580	-	87,036
379.0	City Gate Equipment	1,802,021	30.0	60,067	54,060,630	-	60,067
380.0	Services	38,543,765	40.0	963,594	1,541,750,600	(30.0)	1,252,672
381.0	Meters	4,632,251	25.0	185,290	115,806,275	-	185,290
382.0	Meter Installations	12,896,251	25.0	515,850	322,406,275	-	515,850
383.0	House Regulators	1,977,734	30.0	65,924	59,332,020	-	65,924
385.0	Industrial M&R Station Equipment	1,436,234	30.0	47,874	43,087,020	-	47,874
387.0	Other Equipment	1,008,585	20.0	50,429	20,171,700	-	50,429
	Total Distribution Plant	146,055,044	43.1	3,599,874	6,290,787,800		4,294,327
	GENERAL PLANT						
390.0	Structures and Improvements	2,016,210	35.0	57,606	70,567,350	-	57,606
391.0	Office Furniture and Equipment	554,006	20.0	27,700	11,080,120	-	27,700
392.0	Transportation Equipment	1,373,864	6.0	228,977	8,243,184	10.0	206,080
393.0	Stores Equipment	24,229	20.0	1,211	484,580	-	1,211
394.0	Tools, Shop and Garage Equipment	808,250	20.0	40,413	16,165,000	-	40,413
395.0	Laboratory Equipment	96,856	35.0	2,767	3,389,960	-	2,767
396.0	Power Operated Equipment	921,040	12.0	76,753	11,052,480	5.0	72,916
397.0	Communication Equipment	401,573	15.0	26,772	6,023,595	-	26,772
398.0	Miscellaneous Equipment	517,803	20.0	25,890	10,356,060	-	25,890
399.0	Other Tangible Property	1,681,270	8.0	210,159	13,450,160	-	210,159
	Total General Plant	8,395,101	18.0	698,249	150,812,489		671,513
	Total Depreciable Plant	165,601,610	41.2	4,719,508	6,819,355,588		5,451,361
							731,852

ATMOS ENERGY CORPORATION - KANSAS (DIV. 80 & 81) **REBUTTAL EXHIBIT DSR-3**

Book Depreciation Study as of September 30, 2002

Effect of Procedure on Annual Amounts

[1] Account Number	[2] Description	[3] 9/30/2002 Balance $	[4] ALG - WL Rates %	[5] Annual Amount $	[6] ELG - WL Rates %	[7] Annual Amount $
	GATHERING PLANT					
325.4	Rights of Way	499	2.70	13	2.53	13
328.0	Field M&R Station Structures	17,677	6.25	1,105	3.91	691
332.0	Field Lines	3,125,909	7.35	229,754	5.79	180,990
333.0	Field Compressor Station Equipment	256,809	8.33	21,392	6.56	16,847
334.0	Field M&R Station Equipment	718,697	7.14	51,315	5.06	36,366
	Total Gathering Plant	4,119,591	7.37	303,580	5.70	234,907
	TRANSMISSION PLANT					
366.0	Structures and Improvements	179,283	2.22	3,980	2.27	4,070
367.0	Mains	3,633,077	2.50	90,827	2.78	101,000
368.0	Compressor Station Equipment	2,568,429	2.50	64,211	2.74	70,375
369.0	M&R Station Equipment	486,843	3.33	16,212	3.28	15,968
371.0	Other Equipment	164,242	4.00	6,570	3.03	4,977
	Total Transmission Plant	7,031,874	2.59	181,799	2.79	196,389
	DISTRIBUTION PLANT					
375.0	Structures and Improvements	101,010	3.00	3,030	2.97	3,000
376.0	Mains	81,046,107	2.50	2,026,153	2.77	2,244,977
378.0	M&R Station Equipment	2,611,086	3.33	86,949	3.55	92,694
379.0	City Gate Equipment	1,802,021	3.33	60,007	3.48	62,710
380.0	Services	38,543,765	3.25	1,252,672	4.24	1,634,256
381.0	Meters	4,632,251	4.00	185,290	3.97	183,900
382.0	Meter Installations	12,896,251	4.00	515,850	5.47	705,425
383.0	House Regulators	1,977,734	3.33	65,859	3.45	68,232
385.0	Industrial M&R Station Equipment	1,436,234	3.33	47,827	4.00	57,449
387.0	Other Equipment	1,008,585	5.00	50,429	4.12	41,554
	Total Distribution Plant	146,055,044	2.94	4,294,066	3.49	5,094,197
	GENERAL PLANT					
390.0	Structures and Improvements	2,016,210	2.86	57,664	3.17	63,914
391.0	Office Furniture and Equipment	554,006	5.00	27,700	5.26	29,141
392.0	Transportation Equipment	1,373,864	15.00	206,080	10.98	150,850
393.0	Stores Equipment	24,229	5.00	1,211	5.43	1,316
394.0	Tools, Shop and Garage Equipment	808,250	5.00	40,413	5.52	44,615
395.0	Laboratory Equipment	96,856	2.86	2,770	3.05	2,954
396.0	Power Operated Equipment	921,040	7.92	72,946	7.95	73,223
397.0	Communication Equipment	401,573	6.67	26,785	6.71	26,946
398.0	Miscellaneous Equipment	517,803	5.00	25,890	7.47	38,680
399.0	Other Tangible Property	1,681,270	12.50	210,159	12.64	212,513
	Total General Plant	8,395,101	8.00	671,618	7.67	644,151
	Total Depreciable Plant	165,601,610	3.29	5,451,063	3.73	6,169,643
						718,580

ATMOS ENERGY CORPORATION - KANSAS (DIV. 80 & 81) **REBUTTAL EXHIBIT DSR-4**

Book Depreciation Study as of September 30, 2002

Effect of Reserve Position on Annual Amounts

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Account Number	Description	9/30/2002 Balance	Theoretical Reserve	Book Reserve	Remaining Life	Reserve Amort.	Annual Rate
		$	$	$	Yrs		
	GATHERING PLANT						
325.4	Rights of Way	499	428	266	5.56	29	5.84
328.0	Field M&R Station Structures	17,677	14,313	14,481	4.86	(35)	(0.20)
332.0	Field Lines	3,125,909	3,026,565	2,562,475	4.86	95,492	3.05
333.0	Field Compressor Station Equipment	256,809	178,797	168,432	4.63	2,239	0.87
334.0	Field M&R Station Equipment	718,697	540,275	530,676	4.91	1,955	0.27
	Total Gathering Plant	4,119,591	3,760,378	3,276,330		99,680	2.42
	TRANSMISSION PLANT						
366.0	Structures and Improvements	179,283	30,491	177,933	36.59	(4,030)	(2.25)
367.0	Mains	3,633,077	1,401,983	2,732,032	31.10	(42,767)	(1.18)
368.0	Compressor Station Equipment	2,568,429	915,700	1,670,414	23.52	(32,088)	(1.25)
369.0	M&R Station Equipment	486,843	229,770	414,387	16.12	(11,453)	(2.35)
371.0	Other Equipment	164,242	123,131	68,208	8.27	6,641	4.04
	Total Transmission Plant	7,031,874	2,701,075	5,062,974		(83,696)	(1.19)
	DISTRIBUTION PLANT						
375.0	Structures and Improvements	101,010	55,231	42,662	16.94	742	0.73
376.0	Mains	81,046,107	27,094,358	29,351,712	33.10	(68,198)	(0.08)
378.0	M&R Station Equipment	2,611,086	1,026,052	1,219,658	17.10	(11,322)	(0.43)
379.0	City Gate Equipment	1,802,021	715,100	841,698	17.32	(7,309)	(0.41)
380.0	Services	38,543,765	11,981,700	12,123,137	23.32	(6,065)	(0.02)
381.0	Meters	4,632,251	2,074,626	2,181,186	13.90	(7,666)	(0.17)
382.0	Meter Installations	12,896,251	1,962,393	1,576,886	15.49	24,887	0.19
383.0	House Regulators	1,977,734	802,225	1,042,531	17.24	(13,939)	(0.70)
385.0	Industrial M&R Station Equipment	1,436,234	383,115	76,115	18.35	16,730	1.16
387.0	Other Equipment	1,008,585	636,217	12,355	8.97	69,550	6.90
	Total Distribution Plant	146,055,044	46,731,017	48,467,940		(2,590)	(0.00)
	GENERAL PLANT						
390.0	Structures and Improvements	2,016,210	401,178	570,449	25.26	(6,701)	(0.33)
391.0	Office Furniture and Equipment	554,006	264,477	175,729	9.93	8,937	1.61
392.0	Transportation Equipment	1,373,864	966,283	1,049,128	1.79	(46,282)	(3.37)
393.0	Stores Equipment	24,229	9,655	12,243	11.08	(234)	(0.96)
394.0	Tools, Shop and Garage Equipment	808,250	323,437	267,008	10.87	5,191	0.64
395.0	Laboratory Equipment	96,856	40,871	90,026	18.95	(2,594)	(2.68)
396.0	Power Operated Equipment	921,040	476,929	476,271	5.43	121	0.01
397.0	Communication Equipment	401,573	182,228	123,651	8.14	7,196	1.79
398.0	Miscellaneous Equipment	517,803	58,713	50,084	11.87	727	0.14
399.0	Other Tangible Property	1,681,270	861,613	431,873	3.86	111,332	6.62
	Total General Plant	8,395,101	3,585,384	3,246,462		77,694	0.93
	Total Depreciable Plant	165,601,610	56,777,854	60,053,706		91,088	0.06

ATMOS ENERGY CORPORATION - KANSAS

REBUTTAL EXHIBIT DSR-5

Analysis of Annual Addition Activity

[1] Account Number	[2] Description	[3] 2002 Additions	[4] 2001 Additions	[5] 2000 Additions	[6] 1999 Additions	[7] 1998 Additions	[8] Totals
332.0	Gathering - Lines	2,273	-	-	-	-	2,273
367.0	Transmission - Mains	-	33,711	-	-	-	33,711
376.0	Distribution - Mains	3,409,388	3,671,304	2,434,621	4,136,066	1,931,630	15,583,009
380.0	Distribution - Services	2,786,790	3,846,162	2,591,397	2,926,644	2,436,503	14,587,496
381.0	Distribution - Meters	14,156	-	90,702	-	50,648	155,506
382.0	Distribution - Meter Install.	2,174,659	4,568,227	2,159,798	1,344,294	700,490	10,947,468
	Totals	8,387,266	12,119,404	7,276,518	8,407,004	5,119,271	41,309,463
					Five Year Average =		8,261,893
					D&T Depreciation Expense		6,259,298
					Majoros Deprec. Expense		4,404,953
					DECREASE		1,854,345

Analysis Base Includes 6 Largest Accounts
Comprising Nearly 87% of Depreciable Base

REBUTTAL EXHIBIT DSR-6

SHORTFALL DUE TO CASH ACCOUNTING

[1] Year	[2] Deprec. Base $	[3] Investment Accrual $	[4] COR Accrual $	[5] Actual COR $
1949	4,000.0	40.0	4.4	
1950	4,000.0	80.0	8.7	
1951	4,000.0	80.0	8.7	
1952	4,000.0	80.0	8.7	
1953	4,000.0	80.0	8.7	
1954	4,000.0	80.0	8.7	
1955	4,000.0	80.0	8.7	
1956	4,000.0	80.0	8.7	
1957	4,000.0	80.0	8.7	
1958	4,000.0	80.0	8.7	
1959	4,000.0	80.0	8.7	
1960	4,000.0	80.0	8.7	
1961	4,000.0	80.0	8.7	
1962	4,000.0	80.0	8.7	
1963	4,000.0	80.0	8.7	
1964	4,000.0	80.0	8.7	
1965	4,000.0	80.0	8.7	
1966	4,000.0	80.0	8.7	
1967	4,000.0	80.0	8.7	
1968	4,000.0	80.0	8.7	
1969	4,000.0	80.0	8.7	
1970	4,000.0	80.0	8.7	
1971	4,000.0	80.0	8.7	
1972	4,000.0	80.0	8.7	
1973	4,000.0	80.0	8.7	
1974	4,000.0	80.0	8.7	
1975	4,000.0	80.0	8.7	
1976	4,000.0	80.0	8.7	
1977	4,000.0	80.0	8.7	
1978	4,000.0	80.0	8.7	
1979	4,000.0	80.0	8.7	
1980	4,000.0	80.0	8.7	
1981	4,000.0	80.0	8.7	
1982	4,000.0	80.0	8.7	
1983	4,000.0	80.0	8.7	
1984	4,000.0	80.0	8.7	
1985	4,000.0	80.0	8.7	
1986	4,000.0	80.0	8.7	
1987	4,000.0	80.0	8.7	
1988	4,000.0	80.0	8.7	
1989	4,000.0	80.0	8.7	
1990	4,000.0	80.0	8.7	
1991	4,000.0	80.0	8.7	
1992	4,000.0	80.0	8.7	
1993	4,000.0	80.0	8.7	
1994	4,000.0	80.0	8.7	
1995	4,000.0	80.0	8.7	
1996	4,000.0	80.0	8.7	
1997	4,000.0	80.0	8.7	
1998	4,000.0	80.0	8.7	
1999	4,000.0	40.0	4.4	5,000.0
		4,000.0	436.0	5,000.0
		SHORTFALL		**4,564.0**

In the Matter of the Application of Atmos Energy Corporation for Adjustment of its Natural Gas Rates in the State of Kansas	)))))	DOCKET NO. 03-ATMG-1034-RTS

DIRECT TESTIMONY

OF

DONALD S. ROFF

DELOITTE & TOUCHE LLP

ON BEHALF OF

ATMOS ENERGY

DIRECT TESTIMONY

OF

DONALD S. ROFF

ATMOS ENERGY
DOCKET NO. 03-ATMG-___-RTS

Q. STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Donald S. Roff and I am a Director with the public accounting firm of Deloitte & Touche LLP. My business address is JPMorgan Chase Tower, Suite 1600, 2200 Ross Avenue, Dallas, Texas 75201-6778.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. My background and experience are described on Exhibit DSR-1.

Q. HAVE YOU EVER TESTIFIED BEFORE THIS OR ANY OTHER REGULATORY BODY?

A. Yes. A list of my regulatory appearances is contained on Exhibit DSR-2.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked by Atmos Energy Corporation ("Atmos" or "the Company") to conduct a depreciation study of its Kansas Properties and to provide recommendations regarding depreciation rates and depreciation accounting practices. Exhibit DSR-3 is the report of my findings and recommendations.

Q. PLEASE DESCRIBE EXHIBIT DSR-3.

A. Exhibit DSR-3 presents a discussion of depreciation accounting principles, presents the depreciation study methodology, summarizes the results and itemizes recommendations.

Q. WHAT WERE YOUR FINDINGS AND RECOMMENDATIONS?

A. I found that changes were needed to the mortality characteristics (average service life, retirement dispersion and net salvage allowance) of a number of asset categories resulting in revised depreciation rates. A summary comparison of the existing and recommended depreciation rates follows:

Function	Existing %	Recommended %
Gathering	5.24	8.12
Transmission	3.25	1.60
Distribution	3.17	3.49
General	9.48	8.60

Total Gas Plant	3.54	3.78

Q. HAVE YOU QUANTIFIED THE IMPACT ON ANNUAL DEPRECIATION EXPENSE DUE TO YOUR RECOMMENDED CHANGES?

A. Yes. The above summary is taken from Schedule 1 of Exhibit DSR-3. Using September 30, 2002 depreciable plant in service balances, the effect of the above changes in depreciation rates results in an increase in annual depreciation of about $392,000, or nearly 7%.

Q. WHAT ARE THE PRIMARY FORCES THAT DRIVE THIS CHANGE IN ANNUAL DEPRECIATION EXPENSE?

A. In one sense, it is difficult to isolate specific factors due to the fact that the existing mortality characteristics are not known. The increase in annual depreciation expense is affected by implied changes in average service life; by implied changes in retirement dispersion; by the depreciation procedure utilized; by implied changes in net salvage allowances; and the respective reserve position for each asset category. Gathering Plant is affected by the relatively short recovery period for the net un-depreciated investment. These facilities are being phased out as the gas supply at these locations dwindles. The Transmission, Distribution and General Plant functional categories are impacted by a combination of these factors.

Q. HAVE YOU ATTEMPTED TO QUANTIFY THE EFFECT OF EACH OF THESE FACTORS ON ANNUAL DEPRECIATION EXPENSE?

A. Yes, but only in the very broadest sense. For Gathering Plant, the effect on annual depreciation expense of the shorter recovery period is approximately $119,000. For Transmission, Distribution and General Plant, the combined effects of the various factors mentioned above are an increase of approximately $273,000.

Q. WHAT ARE MORTALITY CHARACTERISTICS?

A. Mortality characteristics are the basic parameters necessary to calculate depreciation rates. They encompass average service life, retirement dispersion (the various ages at which assets within a group retire) defined by Iowa type curves, and net salvage allowance. Net salvage is the difference between salvage and cost of removal. If cost of removal exceeds salvage, negative net salvage occurs.

Q. WHAT IS DEPRECIATION?

A. The most widely recognized accounting definition of depreciation is that of the American Institute of Certified Public Accountants, which states:

> Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation.[1]

---

[1] Accounting Research Bulletin No. 43, Chapter 9, Paragraph 5 (June 1953).

Q. WHAT IS THE SIGNIFICANCE OF THIS DEFINITION?

A. This definition of depreciation accounting forms the accounting framework under which my depreciation study was conducted. Several aspects of this definition are particularly significant. Salvage (net salvage) is to be recognized. The allocation of costs is over the useful life of the assets. Grouping of assets is permissible. Depreciation accounting is not a valuation process. And the cost allocation must be both systematic and rational.

Q. PLEASE EXPLAIN THE IMPORTANCE OF THE TERMS "SYSTEMATIC AND RATIONAL".

A. Systematic implies the use of a formula. The formula used for calculating the recommended depreciation rates is shown on Page 13 of Exhibit 3. Rational means that the pattern of depreciation, in this case, the depreciation rate itself, must match either the pattern of revenues produced by the asset, or match the consumption of the asset. Since revenues are determined through regulation (versus produced by the asset), asset consumption is directly measured and reflected in the calculation of depreciation rates. This measurement of asset consumption is accomplished by conducting a depreciation study.

Q. ARE THERE OTHER DEFINITIONS OF DEPRECIATION?

A. Yes. The Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts provides a series of definitions related to depreciation as shown on Page 3 of Exhibit DSR-3. These definitions of depreciation make reference to asset consumption, and therefore relate very well to the accounting framework for depreciation. These definitions form the regulatory framework under which my depreciation study was conducted.

Q. WHY ARE YOU RECOMMENDING REMAINING LIFE DEPRECIATION RATES?

A. Remaining life depreciation rates are recommended because such depreciation rates provide for full recovery of net investment adjusted for net salvage over the future useful life of each asset category. Use of the remaining life technique is consistent with the technique utilized in developing the existing depreciation rates.

Q. HOW DOES YOUR DEPRECIATION STUDY RECOGNIZE ASSET CONSUMPTION?

A. Asset consumption (retirement dispersion) is defined by the use of Iowa type curves and related average service lives.

Q. WHAT IS RETIREMENT DISPERSION?

A. Retirement dispersion merely recognizes that groups of assets have individual assets of different lives, i.e., each asset retires at differing ages. Retirement dispersion is the scattering of retirements by age around the average service life for each group of assets.

Q. PLEASE DESCRIBE HOW THESE ELEMENTS WERE DETERMINED AND UTILIZED IN YOUR DEPRECIATION STUDY.

A. A depreciation study consists of four distinct, yet related phases - data collection, analysis, evaluation and rate calculation. Data collection refers to the gathering of historical accounting information for use in the other phases. Company personnel were responsible for this effort. Analysis refers to the statistical processing of the data collected in the first phase. There are two separate analysis procedures, one for life, and one for salvage and cost of removal, and was conducted by Deloitte & Touche personnel. The evaluation phase incorporates the information developed in the data collection and analysis phases to determine the applicability of the historical relationships developed in these phases to the future, and was conducted jointly by Deloitte & Touche personnel and Company personnel. The rate calculation phase merely utilizes the parameters developed in the other phases in the computation of the recommended depreciation rates, and was accomplished by Deloitte & Touche personnel.

Q. PLEASE DISCUSS THE LIFE ANALYSIS PROCESS UTILIZED FOR GATHERING, TRANSMISSION, DISTRIBUTION AND GENERAL PLANT.

A. Life analysis was conducted using two different approaches, depending upon the type of data available. Where the age of retirements was known, the Actuarial

Method of Life analysis was employed. In general, for actuarial analysis, retirement experience was collected for the period 1987 through 2002 updating the historical data files used for the prior depreciation study. These data were arrayed into a format suitable for life analysis. Life tables were developed and Iowa type curves were fitted to the historical summaries.

Where the age of retirement was not known, the Simulated Plant Record ("SPR") Method of life analysis was utilized. The SPR method determines retirement dispersion and average service life combinations for various bands of years which best match the actual retirements and balances for each asset category. The simulated balances procedure consists of applying survivor ratios (portion surviving at each age) from Iowa-type dispersion patterns in order to calculate annual balances, and then comparing the calculated balances with the actual balances for several periods, followed by statistical comparisons of differences in balances. The simulated retirements procedure is similar, except that the retirement frequency rates of the Iowa patterns are utilized to calculate annual retirements, and the comparisons are to actual retirements rather than to balances. Tabulations of the best ranking curves were made and this became the starting point for the evaluation phase of my review. In most cases, retirement history for a thirty-year period was available.

Q. PLEASE DESCRIBE THE LIFE ANALYSIS PHASE OF YOUR DEPRECIATION STUDY FOR TRANSMISSION, DISTRIBUTION AND GENERAL PLANT.

A. Life analysis measures history and results in the determination of an estimate of average service life for each asset category. The actual analysis involves "converting" historical accounting data into mortality tables. In very simple terms, one is looking at the portion (or percent) surviving at each age for every asset category. This is true for which aged accounting data are available.

Q. HOW IS THIS "CONVERSION" ACCOMPLISHED?

A. Because the age of retirement is known, as well as the age of the surviving balances, retirements of like ages are related to the asset amounts available to be retired at the same age. These retirement ratios are then related to the portion (percent) surviving at the beginning of each successive age, thus building what is known as the observed life table. When converted to a graphical format, this plot becomes the observed survivor curve. For example, let us assume that ten items are all placed in service in the same year. Further assume that one item is retired every year for the next ten years. The observed life table would be developed as follows:

Age	Retirements	Exposures	Retirement Ratio	Survivor Ratio	Life Table
0					
1	1	10	10.0%	90.0%	100.%
2	1	9	11.1%	88.9%	90.0%
3	1	8	12.5%	87.5%	80.0%
4	1	7	14.3%	85.7%	70.0%
5	1	6	16.7%	83.3%	60.0%
6	1	5	20.0%	80.0%	50.0%
7	1	4	25.0%	75.0%	40.0%
8	1	3	33.3%	66.7%	30.0%
9	1	2	50.0%	50.0%	20.0%
10	1	1	100.0%	0.0%	10.0%
					0.0%
			ASL =		5.50

Q. WHAT IS AN OBSERVED SURVIVOR CURVE?

A. An observed survivor curve is a plot, or graph of the recorded retirement and survivor history as a function of age. This observed curve is essentially a graphical representation of history and is developed from the observed life table shown above.

Q. HOW IS THE OBSERVED CURVE USEFUL?

A. The observed curve is useful for two reasons. The area underneath the survivor curve is, by definition, equal to average service life. First, if one could find a matching empirical curve, such as the Iowa-type curves, an estimate of average service life can be made. Second, this estimate then becomes the starting point in the evaluation phase of a depreciation study.

Q. WHY DO YOU SAY THAT THIS OBSERVED CURVE IS ONLY THE STARTING POINT IN THE EVALUATION PROCESS?

A. The observed curve is only the starting point in the evaluation process because it only represents a pictorial view of history. In order to develop appropriate average service lives for depreciation rate calculation purposes, this history must be understood, and combined with expectations for the future.

Q. HOW IS THE SURVIVOR CURVE USED IN YOUR STUDY?

A. The observed survivor curve derived from the Company history is matched to generalized known curves, such as the Iowa-type curves to provide an estimate of average service life.

Survivor curves were also utilized in the Simulated Plant Balances Method analysis process.

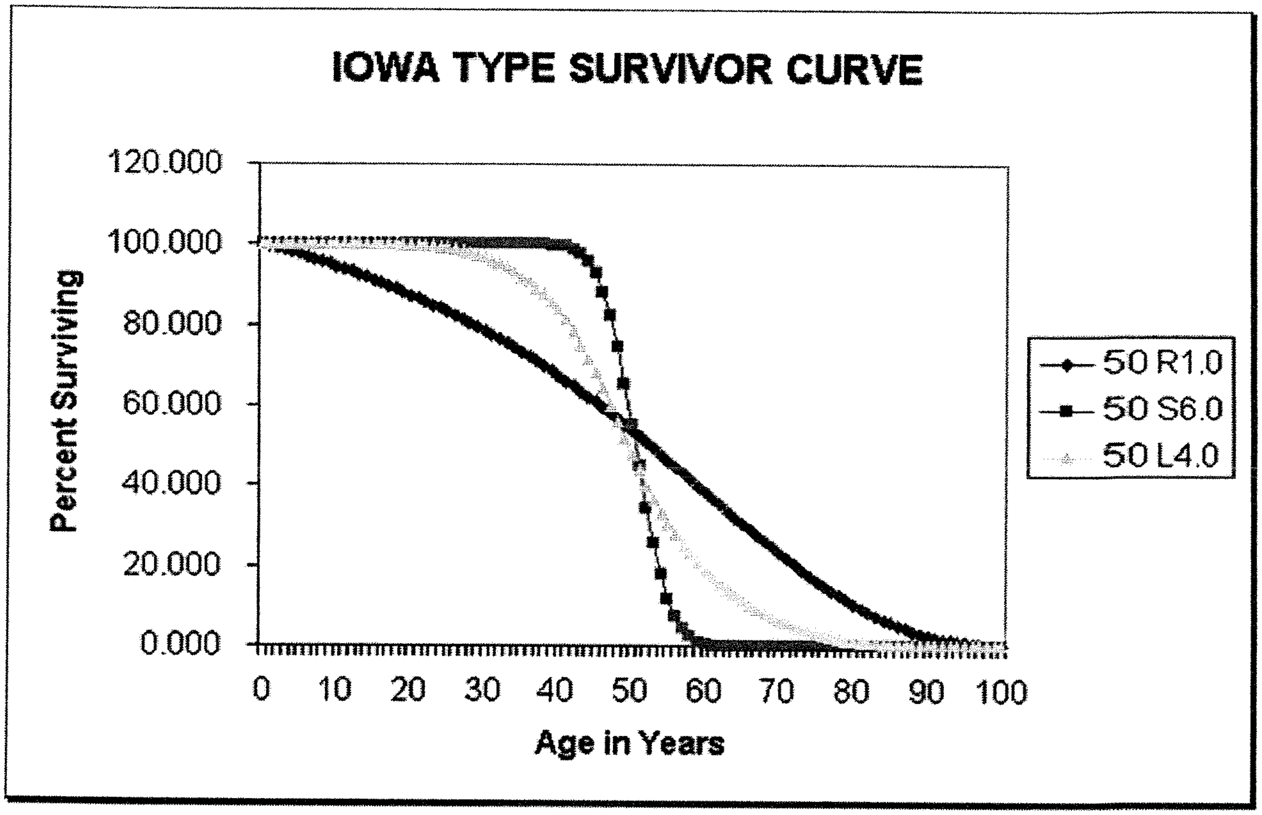
Q. WHAT ARE IOWA-TYPE CURVES?

A. The Iowa-type curves were devised empirically over 60 years ago by the Engineering Research Institute at what is now Iowa State University to provide a set of standard definitions of retirement dispersion. Retirement dispersion merely recognizes that groups of assets have individual assets of different lives, i.e., each asset retires at differing ages. Retirement dispersion is the scattering of retirements by age around the average service life for each group of assets. Standard dispersion patterns are useful because they make calculations of the remaining life of existing property possible and allow life characteristics to be compared.

The Engineering Research Institute collected dated retirement information on many types of industrial and utility property and devised empirical curves that matched the range of patterns found. A total of 18 curves were defined. There were six left-skewed, seven symmetrical and five right-skewed curves, varying from wide to narrow dispersion patterns. The Iowa-curve naming convention allows the analyst to relate easily to the patterns. The left-skewed curves are known as the "L series", the symmetrical as the "S series" and the right-skewed as the "R series." A number identifies the range of dispersion. A low number represents a wide pattern and a high number a narrow pattern. The combination of one letter and one number defines a unique dispersion pattern.

Q. HOW DO IOWA-TYPE CURVES PROVIDE AN ESTIMATE OF AVERAGE SERVICE LIFE?

A. Iowa-type curves and average service lives are inseparable. That is, the shape of the survivor curve defines the average service life. As mentioned above, the area underneath the survivor curve is equal to average service life. Thus the average service life cannot be described without also defining an Iowa-type curve, i.e., shape. An example is shown below:



Q. WHAT DOES THIS CHART ILLUSTRATE?

A. This chart illustrates that Iowa type survivor curves are composed of two elements, the curve shape and the average service life. Each of the above survivor curves (R1, S6 and L4) has the same average service life, in this case 50 years.

Q. HOW WERE THE IOWA CURVE SHAPES AND AVERAGE SERVICE LIFE SELECTIONS MADE?

A. Summaries of the individual asset category life analysis indications were prepared and discussed with Atmos personnel. Anomalies and trends were identified and engineering and operations input were requested where necessary. A single average service life and Iowa curve was selected for each asset category reflecting the combination of the historical results and the additional information obtained from the engineering, accounting and operations personnel. This process is a part of the evaluation phase of the depreciation study.

Q. WHAT IS THE EVALUATION PHASE OF A DEPRECIATION STUDY?

A. The evaluation phase of a depreciation study combines the results of historical analyses with information regarding the age of property retired, the age of property surviving, knowledge of the types of assets surviving and being retired, and Company experience and expectations, all coupled with the knowledge, experience and judgment of the depreciation analyst. The goal is to give recognition to these factors and their influence upon historical indications and the applicability of such historical indications to plant surviving into the future. Both Atmos and Deloitte & Touche personnel participated in this process.

Q. WHAT TYPES OF INFORMATION ARE DISCERNED IN THIS PHASE OF THE DEPRECIATION STUDY?

A. Information discerned includes the specific types of equipment being retired and added, the relative age of property surviving and retiring and Company plans and expectations regarding the property being evaluated, as well as forces influencing the salvage obtainable and removal costs associated with retired assets.

Q. CAN YOU PROVIDE SPECIFIC EXAMPLES OF THE INFORMATION THAT WAS UTILIZED IN YOUR STUDY?

A. Yes. One example would be the effect of diminishing gas supplies for the Gathering Plant and the use of an estimated future life span to reflect this eventuality.

Q. HOW WAS NET SALVAGE DETERMINED FOR GATHERING, TRANSMISSION, DISTRIBUTION AND GENERAL PLANT?

A. Historical retirement, salvage and cost of removal activity was collected and analyzed for the period 1992-2002 for each asset category. Both salvage and cost of removal were divided by retirements on an annual basis to develop salvage and cost of removal percentages. Shrinking and rolling band analyses were also conducted to illustrate any trends that might exist. A single net salvage percentage was developed for each asset category reflecting the history, trends and Company expectations.

Q. **WHAT ARE SHRINKING AND ROLLING BAND ANALYSES?**

A. There are two techniques to help discern trends in the historical data. A shrinking band begins with the full experience period and successively eliminates the oldest year's activity, thus illustrating trends as one moves through time. Rolling bands are useful because salvage, cost of removal and retirements are not always recorded in the same accounting period. Rolling band analysis combines activity for fixed periods, in the case of this study, three years. Three years was selected because virtually all salvage and cost of removal activity occurs within three years of the recording of the retirement. These three-year combined activities are then "rolled" forward one year at a time, and similarly aid in identifying trends as with the shrinking bands. Examples of rolling bands would be 1992-1994, 1993-1995, 1994-1996, etc.

Q. **WERE THERE ANY TRENDS EVIDENT FROM THE DATA CONTAINED IN THE SALVAGE AND COST OF REMOVAL ANALYSYES?**

A. In general, salvage is declining and cost of removal is increasing.

Q. **WHY IS THIS THE CASE?**

A. I believe that there are two reasons for this occurrence. First, both salvage and cost of removal are a function of the age of property retired. Younger property is more valuable as it can be reused. In general, we have seen longer lives for most of the mass assets contained in the Transmission and Distribution Plant functions. Older property retirements have less salvage value and cost more to remove relative to their original cost due to cost escalation over time. The second reason is there are just more environmental requirements that impact the level of cost of removal. This creates additional costs that are not reflected in the existing depreciation rates.

Q. WHAT ARE THE RESULTS OF YOUR DEPFRECIATION STUDY FOR GATHERING PLANT?

A. As mentioned earlier, the gathering system is being impacted by dwindling gas supplies. In my study, we estimated average service lives for each asset category which would develop an average remaining life of approximately five years. This is the estimated period over which the remaining supplies should be utilized at current depletion rates. The effect upon annual depreciation expense is an increase of about $119,000.

Q. WHAT ARE THE RESULTS OF YOUR DEPRECIATION STUDY FOR TRANSMISSION PLANT?

A. For the Transmission Plant function, the depreciation rate decreases from 3.25% to 1.60%. A portion of the decrease in depreciation rate is attributable to the reserve position, whereby the accumulated depreciation to date is higher than it should be, presuming that assets retiring in the future follow the selected patterns. The net dollar impact of the change in depreciation rate is a decrease in annual depreciation expense of approximately $116,000.

Q. WHAT ARE THE RESULTS OF YOUR DEPRECIATION STUDY FOR DISTRIBUTION PLANT?

A. For the Distribution Plant function, the depreciation rate increases from 3.17% to 3.49%. It is difficult to isolate the cause of the increase. Based upon a review of the 1990 depreciation study, both average service lives and net salvage factors have changed. The impact of the change in rate is an increase in annual depreciation expense of approximately $463,000.

Q. WHAT ARE YOUR DEPRECIATION STUDY RESULTS FOR GENERAL PLANT?

A. The composite depreciation rate decreases from 9.48% to 8.60%. Two accounts contribute the majority of the decrease, Account 392 – Transportation Equipment and Account 396 – Power Operated Equipment. The impact of the change in rate is a decrease in annual depreciation expense of approximately $74,000.

Q. WHAT DEPRECIATION PROCEDURE ARE YOU RECOMMENDING IN THIS PROCEEDING?

A. I am recommending the use of the Equal Life Group ("ELG) procedure.

Q. WHY ARE YOU RECOMMENDING THE ELG PROCEDURE?

A. There are two reasons for recommending the ELG procedure. First, the ELG procedure provides the best matching of the recording of depreciation with the consumption of the depreciable assets. Such a matching is desirable from both an accounting and a regulatory perspective. The second reason is to provide consistency with the methodology used by Atmos in other jurisdictions. The actual decision regarding the use of the ELG procedure was made by Atmos management, after careful review and consideration of the concepts, advantages and shortcomings of various depreciation methodologies.

Q. PLEASE BRIEFLY EXPLAIN THE ELG PROCEDURE.

A. Certainly. The ELG procedure merely recognizes that assets within a group have different service lives. The ELG calculation procedure divides each category of assets into components of estimated equal life and depreciates these components over their respective lives.

Q. CAN YOU PROVIDE A SIMPLE EXAMPLE OF THE DIFFERENCE BETWEEN THE ELG PROCEDURE AND THE EXISTING PROCEDURE?

A. Yes, I can. But first let me describe the existing procedure. The existing procedure is referred to as the broad group procedure or average life group ("ALG") procedure. The broad group is generally the primary asset account, e.g., Account 376, Mains. This procedure effectively treats all the assets within the group as if they have the same life, that is, the average life.

Let us assume that we have a two unit asset group. Each unit costs $10 and were installed in the same period. Unit 1 has a life of 2 years and Unit 2 has a life of 8 years. The average service life of this group is 5 years. The ALG depreciation rate is 20.00% (100% / 5 years). For purposes of this example, we shall ignore salvage and/or cost of removal. The following Table illustrates the difference between the ALG procedure and the ELG procedure:

	ALG				ELG			
	Accrual		EOY Reserve		Accrual		EOY Reserve	
Period	Asset "A"	Asset "B"	Asset "A"	Asset "B"	Asset "A"	Asset "B"	Asset "A"	Asset "B"
1	2	2	2	2	5	1.25	5	1.25
2	2	2	-6	4	5	1.25	0	2.50
3	0	2	-6	6	0	1.25	0	3.75
4	0	2	-6	8	0	1.25	0	5.00
5	0	2	-6	10	0	1.25	0	6.25
6	0	2	-6	12	0	1.25	0	7.50
7	0	2	-6	14	0	1.25	0	8.75
8	0	2	-6	6	0	1.25	0	-

Q. WHAT DOES THIS EXAMPLE ILLUSTRATE?

A. This example illustrates a number of facts. First, there is retirement dispersion, which is recognized in the determination of the average service life. Second, neither asset has a life equal to the average service life. Third, and most important, there is a deferral of depreciation under the ALG procedure. The longer lived asset must over-accrue to make up for the under-accrual on the shorter lived asset. This is evident by the reserve position at the end of period two for the ALG procedure. It is negative! Fourth, the depreciation under the ELG procedure reflects the life of each asset appropriately and effectively replicates item depreciation. Fifth, the ELG depreciation rate declines over time and changes to match the mix of assets surviving.

Q. DOES THE USE OF THE ELG PROCEDURE VERSUS THE ALG PROCEDURE HAVE ANY IMPACT ON REVENUE REQUIREMENTS?

A. Yes. The above example is expanded below to include the impact on revenue requirements:

	ALG			ELG		
Period	Rate Base	Return @ 12%	Rev. Reqs.	Rate Base	Return @ 12%	Rev. Reqs.
1	20.00	2.40	6.40	20.00	2.40	8.65
2	16.00	1.92	5.92	13.75	1.65	7.90
3	12.00	1.44	3.44	7.50	0.90	2.15
4	10.00	1.20	3.20	6.25	0.75	2.00
5	8.00	0.96	2.96	5.00	0.60	1.85
6	6.00	0.72	2.72	3.75	0.45	1.70
7	4.00	0.48	2.48	2.50	0.30	1.55
8	2.00	0.24	2.24	1.25	0.15	1.40
Totals			29.36			27.20

Thus, the ELG procedure produces a lower, total-life revenue requirement of approximately 7.5% in this example.

Q. WHAT ARE THE BENEFITS OF THE ELG PROCEDURE?

A. First and foremost, the individual asset categories are depreciated over their respective lives. This is consistent with item depreciation, and this allocation of cost provides the most appropriate matching between the recording of depreciation and asset consumption. Second, the ELG procedure gives appropriate recognition to the fact that assets within a group retire at different ages. Third, the ELG procedure produces a lower total life revenue requirement to the benefit of customers. Fourth, the ELG procedure produces a systematic and rational allocation of cost in a straight-line method over the life of each asset, consistent with generally accepted accounting principles ("GAAP").

Q. ARE THERE CRITICISMS OF THE ELG PROCEDURE?

A. Yes, there are, but in my view these criticisms are either misplaced or asserted due to a lack of understanding of the ELG procedure.

Q. WHAT ARE THESE CRITICISMS AND WHY ARE THEY MISPLACED OR DUE TO MISUNDERSTANDING?

A. One common criticism is that the ELG procedure is not widely accepted. This may be true for certain segments of the utility environment, but should certainly <u>**not**</u> be used as a basis for denying its use. The beneficial features of the ELG procedure as described above should be the basis for its acceptance and approval. A second common criticism is that the ELG procedure results in accelerated depreciation. This is patently incorrect and is demonstrated in the above example. While the ELG depreciation rate in early years may be higher than the ALG depreciation rate, this does not equate to accelerated depreciation. In fact, the ELG rate in later years is less than the ALG rate. Using the same logic, this would say that the ALG procedure produces accelerated depreciation. I believe that the ELG procedure produces the correct depreciation expense.

Q. ARE THERE OTHER FEATURES OF THE ELG PROCEDURE THAT ARE DESIRABLE?

A. Yes. Robley Winfrey, the "father" of the Iowa curves, in a letter dated February 1, 1975 to Dr. W. Chester Fitch, Center for Depreciation Studies, Western Michigan University, wrote:

> "In the 43 years, 1932 to 1975, that have passed since I developed the concepts and procedures that led to the publication in 1942 of *Depreciation of Group Properties*, I have continued to have faith that the unit summation procedure of applying the concept of the so-called average life method of computing annual depreciation cost for accounting purposes would someday prevail. Now, the discussion and publications of the past ten years are giving evidence that my 1932 expectations are being upheld.
>
> The beginning of my study of group property depreciation was undertaken in the belief that the commonly applied method of applying the straight line method to group properties, as contrasted to single units of property in which terms the method is usually defined and explained, results in inappropriate answers. But the analysts and accountants were not aware of the true character of their results and their effects on the depreciation reserve balance. But the publication in 1942 created no awareness and made no impression on the legal and business actions involving depreciation within the subjects of accounting, property valuation, utility rate making, income tax, and depreciation reserves.
>
> What kept me on course 1928 to 1932 was the firm conviction that any depreciation procedure using a zero discount rate and the concept of average life as applied to single units of property, should produce for a fully stabilized property, a depreciation reserve credit balance of 50 percent of the cost new (depreciation base) of the surviving property. The unit summation procedure (**ELG**) (emphasis by Mr. Roff) gives that 50 percent result for all properties regardless of the character of the distribution of the retirement over total life of a vintage group.
>
> I think of no reasons why the unit summation method should not be used by public utilities, private industries, for income tax returns, and other uses. On the other hand, I can think of good reasons for using the unit summation procedure in cost accounting applications to the preference of other methods and procedures. Now that we are in the computer age, the details of the calculation can no longer be supported as an administrative objection to using the unit summation procedure.
>
> The Portland (Oregon) General Electric Court Case and the recent proposal by the American Telephone and Telegraph Company of their equal life group (a different name for unit summation) procedure are evidence that the unit summation procedure is now an accepted and legally approved method of cost accounting for

depreciation expense. We can look ahead for wider adoption of the procedure in public utility regulation and in private business."[2]

Q. PLEASE SUMMARIZE AGAIN WHY THE COMPANY IS SEEKING THE APPROVAL OF THE USE OF THE ELG PROCEDURE.

A. First, Atmos Energy believes that the ELG procedure provides the best matching between the recording of depreciation with asset consumption. This was the finding before the Railroad Commission of Texas in the Lone Star Pipeline Case (Docket No. GUD 8664). Second, Atmos Energy desires consistency in depreciation methodology for each of its jurisdictions. Finally, I believe that the ELG procedure more correctly allocates cost over the life of the assets.

Q. WHAT ARE THE RESULTS OF YOUR STUDY FOR THE TOTAL COMPANY?

A. At the total Company depreciable level, the composite depreciation rate increases from 3.54% to 3.78%, or approximately $392,000 more depreciation expense on an annual basis.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. I recommend that Atmos adopt the depreciation rates shown on Schedule 1 of Exhibit DSR-3 and that this Commission approves their use. I base this recommendation on the fact that I have conducted a comprehensive depreciation study, giving appropriate recognition to historical experience, recent trends and Company expectations. My study results in a fair and reasonable level of

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[2] *The Estimation of Depreciation*, Fitch, Wolf and Bissinger, Center for Depreciation Studies, Western Michigan University, 1975, pages 45 and 46.

depreciation expense which, when incorporated into a revenue stream, will provide the Company with adequate capital recovery until such time as a new depreciation study indicates a need for change. .

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Academic Background

Donald S. Roff graduated from Rensselaer Polytechnic Institute with a Bachelor of Science degree in Management Engineering in 1972.

Mr. Roff has also received specialized training in the area of depreciation from Western Michigan University's Institute of Technological Studies. This training involved three forty-hour seminars on depreciation entitled "Fundamentals of Depreciation", "Fundamentals of Service Life Forecasting" and "Making a Depreciation Study" and included such topics as accounting for depreciation, estimating service life, and estimating salvage and cost of removal.

Employment and Professional Experience

Following graduation, Mr. Roff was employed for eleven and one-half years by Gilbert Associates, Inc., as an engineer in the Management Consulting Division. In this capacity, he held positions of increasing responsibility related to the conduct and preparation of various capital recovery and valuation assignments.

In 1984, Mr. Roff was employed by Ernst & Whinney and was involved in several depreciation rate studies and utility consulting assignments.

In 1985, Mr. Roff joined Deloitte Haskins & Sells (DH&S), which, in 1989, merged with Touche Ross & Co. to form Deloitte & Touche. In 1995, Mr. Roff was appointed as a Director with Deloitte & Touche.

During his tenure with Gilbert Associates, Inc., Ernst & Whinney, DH&S and Deloitte & Touche, Mr. Roff has participated in or directed depreciation studies for electric, gas, water and steam heat utilities, pipelines, railroad and telecommunication companies in over 30 states, several Canadian provinces and Puerto Rico. This work requires an in-depth knowledge of depreciation accounting and regulatory principles, mortality analysis techniques and financial practices. At these firms, Mr. Roff has had varying degrees of responsibility for valuation studies, development of depreciation accrual rates, consultation on the unitization of property records, and other studies concerned with the inspection and appraisals of utility property, preparation of rate case testimony and support exhibits, data responses and rebuttal testimony, in addition to appearing as an expert witness.

Industry and Technical Affiliations

Mr. Roff is a registered Professional Engineer in Pennsylvania (by examination).

Mr. Roff is a member of the Society of Depreciation Professionals and a Certified Depreciation Professional, and a Technical Associate of the American Gas Association (A.G.A.) Depreciation Committee. He currently serves as the lead instructor for the A.G.A.'s Principles of Depreciation Course.

DONALD S. ROFF

TESTIMONY EXPERIENCE

CASE NO.	DATE	COMPANY	JURISDICTION	SUBJECT
Docket No. 93-3005	July 1993	Southwest Gas Corporation	Nevada	Gas Depreciation Rates
Docket No. 93-3025	July 1993	Southwest Gas Corporation	Nevada	Gas Depreciation Rates
Docket No. 12820	June 1994	Central Power and Light Company	Texas	Electric Depreciation Rates
Case No. U-10380	Dec 1994	Consumers Power Company	Michigan	Gas Depreciation Rates and Accounting
Cause No. 39938	April 1995	Indianapolis Power & Light Company	Indiana	Electric Depreciation Rates
Case No. U-10754	July 1995	Consumers Power Company	Michigan	Electric Depreciation Rates and Accounting
Docket No. 13369	Aug 1995	West Texas Utilities Company	Texas	Electric Depreciation Rates
Docket No. 95-02116	Sept 1995	Chattanooga Gas Company	Tennessee	Gas Depreciation Rates
Docket No. 95-715-G	Oct 1995	Piedmont Natural Gas Company	South Carolina	Gas Depreciation Rates
Docket No. 14965	Dec 1995	Central Power and Light Company	Texas	Electric Depreciation Rates
Cause No. 40395 (I)	Feb 1996	Wabash Valley Power Association, Inc.	Indiana	Electric Depreciation Rates
GUD NO. 8664	Oct 1996	Lone Star Pipeline Company	Texas	Gas Depreciation Rates
Docket No. 96-360-U	Nov 1996	Entergy Arkansas Inc.	Arkansas	Electric Depreciation Rates
Docket No. 16705	Nov 1996	Entergy Gulf States Inc.	Texas	Electric Depreciation Rates/Competitive Issue
Docket No. ER-97-394	Mar 1997	Missouri Public Service	Missouri	Electric Depreciation Rates/Competitive Issue
Docket No. U-22092	Mar 1997	Entergy Gulf States Inc.	Louisiana	Electric Depreciation Rates/Competitive Issue
Docket No. 97-00982	May 1997	Chattanooga Gas Company	Tennessee	Gas Depreciation Rates
Cause No. 40395 (II)	June 1997	Wabash Valley Power Association, Inc.	Indiana	Electric Depreciation Rates
Case No. U-11509	Sept 1997	Consumers Energy Company	Michigan	Gas Depreciation Rates and Accounting
Docket No. ER98-11	Sept 1997	Long Island Lighting Company	FERC	Electric Depreciation Rates
Docket No. 8390-U	Dec 1997	Atlanta Gas Light Company	Georgia	Gas Depreciation Rates and Accounting
Cause No. 41118	Mar 1998	Wabash Valley Power Association, Inc.	Indiana	Electric Depreciation Rates
Case No. U-11722	Oct 1998	Detroit Edison Company	Michigan	Electric Depreciation Rates
Docket No. 98-2035-03	Nov 1998	PacifiCorp	Utah	Electric Depreciation Rates
Docket No. 99-4006	April 1999	Nevada Power Company	Nevada	Electric Depreciation Rates
GUD Docket No. 9030	March 2000	Atmos Energy Corporation	Texas	Gas Depreciation Rates and Accounting
GUD Docket No. 9145	April 2000	TXU Gas Distribution	Texas	Gas Depreciation Rates
City of Tyler	Dec 2000	Reliant Energy Entex	Texas	Gas Depreciation Rates and Accounting
Docket No. U-24993	March 2001	Entergy Gulf States Inc.	Louisiana	Electric Depreciation Rates and Accounting
Docket Nos. GR01050328/GR0105029	May 2001	Public Service Electric & Gas	New Jersey	Gas Depreciation Rates and Accounting
Case No. U-12999	July 2001	Consumers Energy Company	Michigan	Gas Depreciation Rates and Accounting
Docket No. 01-10002	Oct 2001	Nevada Power Company	Nevada	Electric Depreciation Rates
Docket No. 14618-U	Nov 2001	Savannah Electric and Power Company	Georgia	Electric Depreciation Rates
Docket No. 01-11031	Dec 2001	Sierra Pacific Power Company	Nevada	Electric Depreciation Rates
Docket No. 010949-EL	Jan 2002	Gulf Power Company	Florida	Electric Depreciation Rates
Docket No. 14311-U	Jan 2002	Atlanta Gas Light Company	Georgia	Gas Depreciation Rates and Accounting
Docket No. UD-00-2	March 2002	Entergy New Orleans, Inc.	New Orleans	Electric Depreciation Accounting
Cause No. PUD200200166	May 2002	Reliant Energy Entex	Oklahoma	Gas Depreciation Rates and Accounting
Docket No. 01-243-U	June 2002	Reliant Energy Entex	Arkansas	Gas Depreciation Rates and Accounting
Docket No. 02-035-12	Oct 2002	PacifiCorp	Utah	Electric Depreciation Rates
Docket No. 20000-ER-2-192	Oct 2002	PacifiCorp	Wyoming	Electric Depreciation Rates
Docket No. UE-021271	Oct 2002	PacifiCorp	Washington	Electric Depreciation Rates
Docket No. UM-1064	Oct 2002	PacifiCorp	Oregon	Electric Depreciation Rates
Docket No. PAC-E-02-5	Oct 2002	PacifiCorp	Idaho	Electric Depreciation Rates