Docket No. 19-057-03
Technical Conference

February 20, 2019

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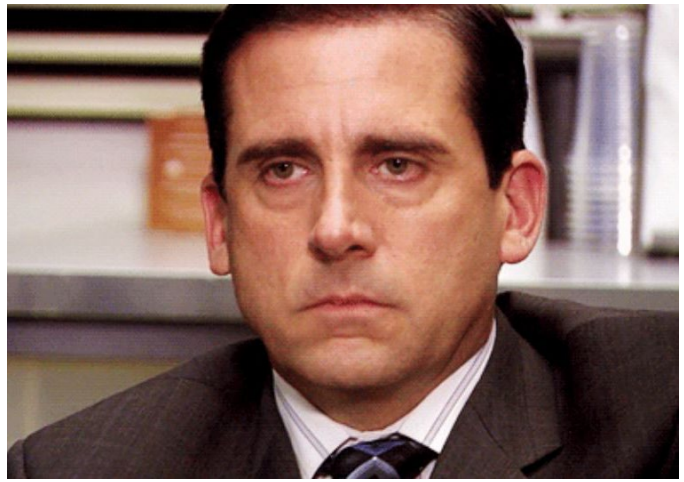
Introduction – Depreciation Study

Typical Understanding of Depreciation Calculation (College Grad – Accounting)



Straight line Method: Sigh of relief

Seems like this was called “salvage”

(Asset cost +/- some stuff) / Useful lifespan of asset

Double D e

Thoughts of KFC Double Down Sandwich Intrude

ate X Book Value of Asset

Sum of Years Digits: Forget It

Bunch of numbers added together, divided by something?

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Change to Depreciation Accrual

- The Company is proposing a $9 million increase to its annual depreciation accrual
  - To be effective in its next general rate case

- The reserve variance in 2012 was $86.5 million; the reserve variance in 2017 is $7.4 million
  - Annual reserve variance amortization was $8.6 million (10 yr amortization)
  - Proposed reserve variance amortization is $2 million (remaining life amortization)

- Remaining life amortization is $1.3 million lower than the 10-year amortization

- Other changes to the annual depreciation accrual:
  - Average service life
  - Salvage percentage/cost of removal
  - Average remaining life in 2017 vs 2012
  - Accumulated depreciation reserve in 2017 vs 2012

Net Salvage Percentage

	DEPRECIABLE GROUP	ORIGINAL COST AT 12/31/2017	Existing NET SALVAGE PCT.	Proposed NET SALVAGE PCT.
DEPRECIABLE GAS PLANT				
DISTRIBUTION PLANT				
375	STRUCTURES AND IMPROVEMENTS	16,505,532	0	(10)
376	MAINS	1,596,898,536	(39)	(47)
377	COMPRESSOR STATION EQUIPMENT	14,446,634	(5)	(20)
378	MEASURING AND REGULATING STATION EQUIPMENT	108,881,182	(29)	(33)
380	SERVICES	413,430,548	(85)	(100)
GENERAL PLANT				
390.41	STRUCTURES & IMPROVEMENTS - CNG FUEL STATIONS	172,296	0	(5)

Of the 31 accounts studied in the depreciation study, only 6 had changes to the Salvage Percentage

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Survivor Curve

DEPRECIABLE GROUP		ORIGINAL COST AT 12/31/2017	Existing SURVIVOR CURVE		Proposed SURVIVOR CURVE
DEPRECIABLE GAS PLANT					
DISTRIBUTION PLANT					
376	MAINS	1,596,898,536	65 - R2		67 - R2.5
380	SERVICES	413,430,548	54 - R2.5		58 - R3
381.21	METERS - TRANSPONDERS	81,807,796	15 - S4		13 - S3
382	METER INSTALLATIONS	137,965,772	44 - R2.5		46 - R3
384	HOUSE REGULATOR INSTALLATIONS	3,223,420	48 - R1.5		52 - R1.5
GENERAL PLANT					
390.01	STRUCTURES AND IMPROVEMENTS				
	SL OPS OFFICE	44,815,471	100 - R1	a	80 - R1
	OTHER MAJOR FACILITIES	37,305,814	120 - R1	a	100 - R1
390.41	STRUCTURES & IMPROVEMENTS - CNG FUEL STATIONS	172,296	20 - S1		18 - S1.5

Of the 31 accounts studied in the depreciation study, only 7 had changes to the Survivor Curve

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Utah Division of Public Utilities Questions

1. Please explain how DEU's depreciation methods and the current depreciation study comply with GAAP.

Utah Division of Public Utilities Questions

2. What is the effect on a typical residential customer's bill of the changes proposed in the current depreciation study?

Typical Customer Bill

- Using the cost-of-service approved in Docket No. 13-057-19, a typical customer would see a $6.75 annual increase to their bill, or 1.1%.
- The Company would propose that these rates take effect as part of its next general rate case, and the cost-of-service and rate design will be updated at that time.

EFFECT ON GS TYPICAL CUSTOMER
80 DTHS - ANNUAL CONSUMPTION

	(A)	(B)	(C)	(D)	(E)	(F)
	Rate Schedule	Month	Usage In Dth	Billed at Current Rate Effective 12/1/2018	Billed at Proposed Rate	Change
1	GS	Jan	14.9	$110.29	$111.66	$1.37
2		Feb	12.5	93.61	94.77	1.16
3		Mar	10.1	76.94	77.87	0.93
4		Apr	8.3	53.93	54.49	0.56
5		May	4.4	31.76	32.06	0.30
6		Jun	3.1	24.37	24.58	0.21
7		Jul	2.0	18.12	18.25	0.13
8		Aug	1.8	16.98	17.10	0.12
9		Sep	2.0	18.12	18.25	0.13
10		Oct	3.1	24.37	24.58	0.21
11		Nov	6.3	50.53	51.11	0.58
12		Dec	11.5	86.67	87.72	1.05
13		Total	80.0	$605.69	$612.44	$6.75
					Change per Month:	$0.56

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Utah Division of Public Utilities Questions

3. Have there been changes in selection of Iowa curves from the prior depreciation study to the current study?

4. If there have been changes in the selection of Iowa curves (ie to achieve a better match), how significant have the changes been? What are the primary causes precipitating the change?

Utah Division of Public Utilities Questions

5. Are the current transponders being retired early? If so, how is this impacting the Depreciation Study? What are the accounting entries to retire the current transponders? What is the impact to rate-payers?

Accumulated Dpr (108)	
Debit	

Plant in Service (101)	
	Credit

Normally, transponders are retired based on vintage and expected life.

Accounting is working with operations to assure that Elster transponder retirements are up to date.

Utah Division of Public Utilities Questions

6.a) The Depreciation Study discusses the need to replace the current Elster transponders. (See page iv and III-5 of Exhibit 1.2). Was the issue due to the age of the Elster transponders or an issue with the product?

Utah Division of Public Utilities Questions

6.b) How long had the Elster transponders been in service prior the beginning of the issue? Has the manufacturer provided information regarding the reason(s) for the issues the company has experienced with the Elster transponders?

Utah Division of Public Utilities Questions

7. The current depreciation rates are calculated using whole life technique with an adjustment for the calculated reserve variance. Is it correct that the company's proposed depreciation rates use remaining life technique? What is the reserve variance amortization amounts proposed in the deprecation study referenced on lines 112-113 of the Direct Testimony of Jordan K. Stephenson? Where is this reserve variance amortization amount shown in the depreciation study?

Utah Division of Public Utilities Questions

8. Page III-4 of the Depreciation Study discusses a Feeder Line and Intermediate High Pressure Replacement Program. How many miles of mains are being replaced under this program? How may more miles are being replaced under the accelerated replacement program compare to the normal level of replacement for these types of mains? What impact did this replacement program have on the average service life estimate in the depreciation study? What impact did this replacement program have on estimated future net salvage amounts in the depreciation study?

Miles of Pipeline Replacement

2013: $54,890,577	20 miles retired
2014: $68,233,344	20 miles retired
2015 $66,425,036	23 miles retired
2016 $70,556,816	22 miles retired
2017 $68,991,700	9.1 miles retired*

*Much of 2017 work occurred on a multiyear project and the pipeline will be retired in 2018

Utah Public Service Commission Questions

1. The Depreciation Study references that it used visual and mathematical “matching” to assess the goodness of fit of the chosen Iowa survivor curves to the observed “stubs." Please elaborate on those methods. For example, 1) did the study rely on quantitative metrics that allowed for numerical comparisons between the different goodness-of-fit scores associated with potential Iowa curves for each given “stub;” or 2) which elements did the study rely on in its “visual matching” assessment?