–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

In the Matter of Application of Enbridge Gas Utah to Increase Distribution Rates and Charges and Make Tariff Modifications	)))))))	**DOCKET NO. 25-057-06** **Exhibit No. DPU 5.0 DIR**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Direct Testimony of

Roxie McCullar

August 26, 2025

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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Roxie McCullar. My business address is 8625 Farmington Cemetery Road, Pleasant Plains, IL 62677.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. Since 1997, I have been employed as a consultant with the firm of William Dunkel and Associates and have regularly provided consulting services in regulatory proceedings throughout the country.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I am a Certified Public Accountant licensed in the state of Illinois. I received my Master of Arts degree in Accounting from the University of Illinois in Springfield. I received my Bachelor of Science degree in Mathematics from Illinois State University in Normal. Over the past 25 years. I have filed testimony in over 50 state regulatory proceedings on cost allocation, universal service, and depreciation issues.

Q. HAVE YOU PREPARED AN APPENDIX THAT DESCRIBES YOUR QUALIFICATIONS?

A. Yes. My qualifications and previous experiences are shown on the attached DPU Exhibit 5.01 DIR.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the Utah Division of Public Utilities (“Division” or “DPU”).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address reasonable depreciation rates related to Enbridge Gas Utah ("EGU" or "Company") in Utah.

Q. PLEASE DESCRIBE SOME OF THE STEPS YOU TOOK IN THE PREPARATION OF THIS TESTIMONY.

A. I took the following steps in preparation for this testimony:

- Examined EGU's 2022 Depreciation Study filed as EGU Exhibit 4.17.
- Examined the Company's data request responses as they pertain to depreciation, prepared rounds of follow-up data requests as appropriate, and reviewed responses to the follow-up data requests.
- Considered the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA") requirements pertaining to depreciation.[1]
- Considered the accepted depreciation practices, including those contained in the *Public Utilities Depreciation Practices* published by the National Association of Regulatory Utility Commissioners ("NARUC").[2]
- Conducted additional analyses, which are detailed in this testimony.

Q. PLEASE PROVIDE A COMPARISON OF DPU'S AND EGU'S PROPOSED DEPRECIATION RATES.

A. The table below compares EGU's and DPU's proposed depreciation rates.

[1] FERC Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act. (18 C.F.R. § 201).
[2] National Association of Regulatory Utility Commissioners, *Public Utilities Depreciation Practices* (1996).

Table 1: Comparison of Composite Annual Accrual Rates

			EGU Proposed		DPU Proposed		
Function	Plant in Service as of 12/31/22	Current Approved Accrual Rate	Accrual Rate	Difference from Current	Accrual Rate	Difference from Current	Difference from EGU Proposed
LNG Plant	197,755,294	2.50%	2.98%	0.48%	2.98%	0.48%	0.00%
Distribution Plant	3,502,882,981	2.35%	2.94%	0.59%	2.53%	0.18%	-0.41%
General Plant	304,769,725	5.20%	4.99%	-0.21%	4.99%	-0.21%	0.00%
Total Gas Plant	**4,005,408,001**	**2.58%**	**3.10%**	**0.52%**	**2.75%**	**0.17%**	**-0.35%**

DPU Exhibit 5.02 DIR attached to this testimony is the source of Table 1 above.

DEFINITION OF DEPRECIATION

Q. COULD YOU PLEASE PROVIDE THE DEFINITION OF DEPRECIATION?

A. Yes. The FERC definitions contained in the FERC Uniform System of Accounts (18 CFR 201 ("FERC USOA")) for Natural Gas plant states:

> 12.B. Depreciation, as applied to depreciable gas plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of gas plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities, and, in the case of natural gas companies, the exhaustion of natural resources.[3]

[3] FERC Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act. (18 C.F.R. § 201).

The FERC USOA definition of "depreciation" specifically states depreciation is a "loss in service value." FERC defines service value as "the difference between original cost and net salvage value of gas plant."[4]

Since this is a utility regulation proceeding, I rely on the FERC USOA definition of "depreciation" which focuses on the "loss of service value." Determining reasonable depreciation rates is necessary for establishing the loss in service value of utility cost-based plant-in-service and incorporating it into ratemaking revenue requirement to allow for recovery of that cost.

Q. PLEASE PROVIDE A BRIEF DISCUSSION ABOUT THE REMAINING LIFE TECHNIQUES FOR CALCULATING DEPRECIATION RATES.

A. In the calculation of depreciation rates, the remaining life technique formula is:

$$\text{Depreciation Rate} = \frac{(100\% - \text{Book Reserve \%} - \text{Future Net Salvage \%})}{\text{Average Remaining Life}}$$

In the formula above, the 100% represents the actual plant-in-service investment, and the book reserve percent is the actual accumulated depreciation reserve on the utility's books divided by the actual plant-in-service investment on the utility's books at the time of the depreciation study. The future net salvage percentage and the average remaining life are estimated in the depreciation study.

The estimated future net salvage parameter from the depreciation study estimates the future cost of removing and/or retiring the utility asset less any estimated future salvage amounts. The average remaining life is calculated using the projected

[4] FERC USOA (18 C.F.R. § 201, Definition 37).

average service life and retirement pattern (survivor curve) estimates from the depreciation study. These estimates are referred to as depreciation parameters.

Q. WHAT ARE SOME CONSIDERATIONS WHEN ESTIMATING THE DEPRECIATION PARAMETERS IN THE DEPRECIATION STUDY?

A. When estimating a depreciation parameter for an account, an initial step is to analyze the utility's actual historic life and net salvage experience data for that account. The expectations of management, any changes to current industry practices, and informed judgment are also part of the estimation process.

With respect to informed judgment, NARUC's *Public Utility Depreciation Practices* explains:

> Informed judgment is a term used to define the subjective portion of the depreciation study process. It is based on a combination of general experience, knowledge of the properties and a physical inspection, information gathered throughout the industry, and other factors which assist the analyst in making a knowledgeable estimate.
>
> The use of informed judgment can be a major factor in forecasting. A logical process of examining and prioritizing the usefulness of information must be employed, since there are many sources of data that must be considered and weighed by importance.[5]

ESTIMATED FUTURE NET SALVAGE PERCENT

Q. BASED UPON YOUR REVIEW, DO YOU HAVE A RECOMMENDATION REGARDING EGU'S PROPOSED ESTIMATED FUTURE NET SALVAGE PERCENT FOR ANY MASS PROPERTY ACCOUNTS?

[5] NARUC, *Public Utility Depreciation Practices* 128 (1996).

A. Yes. For Account 376.00, Mains, Account 378.00, Measuring and Regulating Station Equipment, and Account 380.00, Services, I recommend estimated future net salvage percents that differ from EGU's proposed as shown in Table 2 below.

Table 2: Comparison of Proposed Estimated Future Net Salvage Percent Recommendations

Account	Description	Current Approved	EGU Proposed	DPU Proposed
376.00	Mains	-39%	-60%[6]	-35%
378.00	Measuring & Regulating Station Equip	-33%	-35%	-25%
380.00	Services	-85%	-110%	-80%

Based on my review, the DPU's proposed estimated future net salvage percentages for these accounts are reasonable.

Q. PLEASE EXPLAIN THE MEANING OF NET SALVAGE.

A. NARUC's *Public Utility Depreciation Practices* defines net salvage as "[t]he gross salvage for the property retired less its cost of removal."[7] Gross salvage is defined as "[t]he amount recorded for the property retired due to the sale, reimbursement, or reuse of the property."[8] Cost of removal is defined as "[t]he costs incurred in connection with the retirement from service and the disposition of depreciable plant. Cost of removal may be incurred for plant that is retired in place."[9]

NARUC also explains that careful consideration should be given to the net salvage estimate stating: "[c]ost of retirement, however, must be given careful thought and

[6] EGU Exhibit 4.17 at 41-42 states that the proposed estimated future net salvage percent is negative forty-seven percent for Account 37600, Mains. However, EGU Exhibit 4.17 at 52, column (3), shows a proposed estimated future net salvage percent of negative sixty percent and EGU Exhibit 4.17 at 131-32 shows a proposed estimated future net salvage percent of negative sixty percent used in the calculation of EGU's proposed depreciation rate.
[7] NARUC, *Public Utility Depreciation Practices* 322 (1996).
[8] *Id.* at 320.
[9] *Id.* at 317.

attention, since for certain types of plant, it can be the most critical component of the depreciation rate."[10] NARUC's Public Utility Depreciation Practices later points out that "[d]etermining a reasonably accurate estimate of the average or future net salvage is not an easy task; estimates can be the subject of considerable discussion and controversy between regulators and utility personnel."[11]

Q. WHAT EFFECT DOES THE ESTIMATED FUTURE NET SALVAGE PERCENT HAVE ON DEPRECIATION RATES?

A. All other things being equal, positive net salvage results in a lower depreciation rate since a positive net salvage percent assumes the company will receive value for the asset when it retires, which reduces the total amount to be recovered over the life of the asset. Conversely, negative net salvage results in a higher depreciation rate since a negative net salvage percent assumes the company will have expenses exceeding any possible salvage at the time of retirement, all other things being equal.

As stated in NARUC's Public Utility Depreciation Practices, "[p]ositive net salvage occurs when gross salvage exceeds cost of retirement, and negative net salvage occurs when cost of retirement exceeds gross salvage."[12] The estimated future net salvage is part of the annual depreciation accrual, which is credited to the depreciation reserve to cover the estimated future net salvage costs the company may incur in the future associated with plant asset retirements.

[10] *Id.* at 19.
[11] *Id.* at 157.
[12] *Id.* at 18.

Q. PLEASE EXPLAIN WHAT INFORMATION IS INCLUDED IN YOUR PROPOSED ESTIMATED FUTURE NET SALVAGE PERCENT ANALYSIS.

A. As discussed above, estimating the depreciation parameters includes informed judgment. My analysis included reviewing the historic net salvage data that EGU provided, other relevant information provided in response to discovery, and applying my previous experience.

Q. DID THE DEPRECIATION STUDY ANALYZE HISTORIC NET SALVAGE DATA?

A. Yes. EGU's 2022 depreciation study included the historic net salvage data. Additionally, the 2022 depreciation study calculated historic net salvage ratios. As stated in the 2022 depreciation study:

> The estimates of net salvage by account were based in part on historical data compiled through 2022. For most plant accounts, the historical net salvage data were available for the years 1990 through 2022. Cost of removal and salvage were expressed as percents of the original cost of plant retired, both on annual and three-year moving average bases. The most recent five-year average also was calculated for consideration. The net salvage estimates by account are expressed as a percent of the original cost of plant retired.[13]

Q. ARE YOU AWARE OF CONCERNS REGARDING THE HISTORIC NET SALVAGE RATIOS CALCULATED IN THE DEPRECIATION STUDY?

A. Yes. As pointed out in Wolf and Fitch's *Depreciation Systems*: "Salvage ratios are a function of inflation."[14] Additionally, Wolf and Fitch's *Depreciation Systems* points out

[13] EGU Ex. 4.17 at 41.
[14] Frank K. Wolf & W. Chester Fitch, *Depreciation Systems* 267 (1994).

that a historic net salvage ratio that includes inflated dollars in the numerator and historic dollars in the denominator is a ratio using different units, stating:

> One inherent characteristic of the salvage ratio is that the numerator and denominator are measured in different units; the numerator is measured in dollars at the time of retirement, while the denominator is measured in dollars at the time of installation. Inflation is an economic fact of life and although both numerator and denominator are measured in dollars, the timing of the cash flows reflects different price levels.[15]

Calculating the historic net salvage ratio includes the impact of historic inflation rates, since the net salvage amount in the numerator is in current dollars and the cost of the plant (which may have been installed decades before) in the denominator is in historic dollars. In other words, due to inflation, the amounts in the numerator and denominator of the net salvage ratio are at different price levels.

Q. IS THE FACT THAT HISTORIC INFLATION IS INCLUDED IN THE NET SALVAGE RATIO RECOGNIZED IN ANOTHER AUTHORITATIVE DEPRECIATION TEXT?

A. Yes. NARUC's *Public Utility Depreciation Practices*, regarding inflation states, "[t]he sensitivity of salvage and cost of retirement to the age of the property retired is also troublesome. Due to inflation and other factors, there is a tendency for costs of retirement, typically labor, to increase more rapidly than material prices."[16]

Q. WHY SHOULD INFLATION IN THE HISTORIC NET SALVAGE RATIOS BE CONSIDERED WHEN ESTIMATING THE FUTURE NET SALVAGE AMOUNTS TO BE COLLECTED FROM TODAY'S RATEPAYERS?

[15] *Id.* at 53.
[16] NARUC, *Public Utility Depreciation Practices* 19 (1996).

A. The estimated future net salvage accruals included in the revenue requirement in this proceeding are to be collected from ratepayers in today's more valuable current dollars. Therefore, I not only reviewed the historic net salvage data as presented in the depreciation study and the underlying data provided in response to discovery but also considered the impact of collecting the more valuable current dollars from ratepayers to pay for estimated future costs.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY MORE VALUABLE CURRENT DOLLARS.

A. Due to inflation, today's dollar has more purchasing power than a future dollar.

Q. HAVE YOU REVIEWED THE ACTUAL NET SALVAGE DATA INCLUDED IN THE 2022 DEPRECIATION STUDY?

A. Yes. EGU provided the database containing the historical data used in the depreciation study. Estimating the depreciation parameters includes informed judgment. Relevant information, in addition to the historic data, that has been presented in the depreciation study and workpapers can properly be considered. The interests of EGU investors and the interests of its ratepayers should be considered.

Q. DOES YOUR PROPOSED ESTIMATED FUTURE NET SALVAGE PERCENTAGE RESULT IN AN UNDER-RECOVERY OF THE ESTIMATED FUTURE COSTS?

A. No. Just because my proposed estimated future net salvage percentages are less negative than those EGU proposed, does not indicate my proposed depreciation rates will result in an under-recovery of the estimated future costs.

As a reasonableness check on the estimated future net salvage accrual amount to be included in EGU's revenue requirement, which is collected from ratepayers in today's dollars, I compared the estimated future net salvage costs included in EGU's proposed depreciation accrual to the actual net salvage costs EGU incurred on average over the recent five-year period of 2018 through 2022. This comparison is shown in Table 3.

As shown in Table 3, my recommendation results in an annual accrual that is many times the average annual amount EGU has actually incurred for net salvage; therefore, my recommendation provides recovery of the estimated cost of removal expected to be incurred in the near future and builds the reserve for estimated future cost of removal associated with future retirements.

Table 3: Comparison of EGU and DPU Proposed Net Cost of Removal Accrual and Average Net Cost of Removal Actually Incurred

Account	Description	Five-Year Average Annual Net Salvage Actually Incurred	Net Salvage Recovery Included in EGU's Proposed Depreciation Rates	EGU's Proposed / Actually Incurred	Net Salvage Recovery Included in DPU's Proposed Depreciation Rates	DPU's Proposed / Actually Incurred
		A	B	C=B/A	D	E=D/A
376.00	Mains	$2,121,614	$22,201,021	10.0	$12,030,853	5.7
378.00	Measuring & Regulating Station	$167,759	$1,530,733	9.1	$1,078,905	6.4
380.00	Equip Services	$177,451	$9,271,839	52.3	$6,283,101	35.4

Table 3 is shown in DPU Exhibit 5.03 DIR.

In my judgment, my proposed estimated future net salvage accrual is a good balance between the depreciation expense charged to current customers and building the book reserve to cover any future net salvage costs associated with the retirement of an asset.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY BUILDING A RESERVE FOR ANY ESTIMATED FUTURE NET SALVAGE COSTS.

A. Using Account 376, Mains for discussion, as shown in Table 3 above, EGU actually incurred $2,121,614 net removal costs on average in the recent five-year period included in the 2022 Depreciation Study.[17] DPU proposes to collect $12,030,853 annual net salvage accrual from the current ratepayers, which is 5.7 times the average cost actually incurred as compared to EGU's proposed 10 times.

Additionally, in anticipation of EGU's rebuttal claiming that my proposed estimated future net salvage percents will result in under-recovery, the 5.7 times indicates that the amount recovered from ratepayers will not only cover the expected net removal costs in the near future; but also build the reserve to cover future net salvages costs associated with future retirements.

Q. ARE YOUR PROPOSED ESTIMATED FUTURE NET SALVAGE PERCENTAGES BASED ONLY UPON THE COMPARISON SHOWN IN TABLE 3 AND DPU EXHIBIT 5.03 DIR?

[17] EGU Ex. 4.17 at 102.

A. No, as evidenced by the fact that my proposed estimated future net salvage accrual amounts are not equal to the average annual historical amount shown in DPU Exhibit 5.03 DIR.[18]

As discussed above, estimating the depreciation parameters includes informed judgment. My analysis included reviewing the historic net salvage data provided in the depreciation study and the relevant information EGU provided in response to discovery.

DPU Exhibit 5.03 DIR is a reasonableness check on the estimated future net salvage accrual amount to be included in the revenue requirement.

CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. For the reasons stated above, I recommend that the DPU proposed depreciation rates shown on DPU Exhibit 5.02 DIR be approved for EGU in Utah.

The DPU proposed depreciation rates incorporate the more reasonable estimated future net salvage percents for Account 376.00, Mains, Account 378.00, Measuring and Regulating Station Equipment, and Account 380.00, Services, as discussed and supported in this testimony.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

[18] If my proposed estimated future net salvage accrual amounts were equal to the average historical amounts shown in Table 3, the ratio in column E would be 1.0.