

1 DIRECT TESTIMONY

2 OF

3 MELVIN T. LOVE

4 MISSOURI PIPELINE COMPANY

5 CASE NO. GR-92-314

6
7 Q. Please state your name and business address.

8 A. Melvin T. Love, P.O. Box 360, Jefferson City, Missouri
9 65102.

10 Q. By whom are you employed and in what capacity?

11 A. I am employed by the Missouri Public Service
12 Commission (MPSC or Commission) as an engineer in the Energy Department.

13 Q. What are your duties as an engineer in the Energy
14 Department?

15 A. I have the responsibility of performing studies
16 regarding depreciation, trended original cost, and trended original cost
17 less depreciation, and of reviewing plant property records, utility
18 property sales, nuclear decommissioning costs and a variety of other
19 issues which may come before the Commission.

20 Q. Have you ever testified before this Commission?

21 A. Yes, on numerous occasions.

22 Q. Would you please state briefly your qualifications,
23 educational background and experience.

24 A. I am a Registered Professional Engineer under the laws
25 of the State of Missouri. In 1963, I received a Bachelor of Science
26 degree in Civil Engineering from the University of Missouri. After
27 graduation, I was employed by the Missouri State Highway Department.

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1 I held positions as Designer II, Designer III and District Highway
2 Design Engineer. I was responsible for the design of interstate,
3 primary and secondary highway projects assigned to me. My duties
4 consisted primarily of assisting and coordinating the work of other
5 designers and draftsmen under my supervision.

6 Upon terminating my employment with the Missouri State
7 Highway Department, I was employed by the Commission in 1968. My duties
8 consisted of preparing studies and exhibits relating to depreciation,
9 trended costs and allocations of utility plant.

10 In 1973, I accepted employment with Central Telephone and
11 Utilities Corporation (CTU) where I was placed in charge of organizing
12 a depreciation section within the Tax Department. The depreciation
13 section was charged with the responsibility of preparing depreciation
14 studies for each of the thirteen states where CTU operated. While in
15 this position, I worked with regulatory commission personnel in the
16 states of Nevada, Florida, Illinois, North Carolina, Virginia, Kansas
17 and Missouri, as well as valuation engineers from the Internal Revenue
18 Service.

19 In 1976, I returned to the Commission and have held
20 positions as Allocation and Separations Engineer, Supervisor of
21 Depreciation and Assistant Director of Utilities-Rate Administration.
22 My duties as Allocation and Separations Engineer consisted of performing
23 allocations and separations studies pertaining to plant investment and
24 expenses. As Supervisor of Depreciation, my duties consisted of
25 preparing depreciation studies for electric, gas, water, sewer and
26 telephone utilities. While I was employed as Assistant Director of

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1 Utilities-Rate Administration, my responsibilities consisted of
2 administering all tariff filings, customer complaints, investigations,
3 allocations, depreciation rates, rate design and plant record reviews
4 for electric, gas, telephone, water and sewer utilities.

5 Q. Please state the purpose of your testimony in this
6 case.

7 A. The purpose of my testimony is to provide testimony
8 regarding Missouri Pipeline Company's (MPC), (1) proposed reduction in
9 some depreciation rates in this proceeding, (2) to make recommendations
10 concerning MPC's depreciation reserve, and (3) to make recommendations
11 concerning their continuing property records and plant accounting
12 instructions.

13 Q. Please state your recommendations concerning MPC's
14 request to reduce its depreciation rates.

15 A. When MPC originally applied for a Certificate of
16 Convenience and Necessity in Case No. GA-89-126, they requested a
17 composite four percent (4.0%) depreciation rate for their transmission
18 facilities. Since this was a new company, Staff took no exception to
19 MPC's requested depreciation rates. In this proceeding, MPC has
20 requested lowering their depreciations rate to 2.50 % which they state
21 is more reflective of the actual life of the facilities. MPC is a new
22 company operating facilities with no previous retirement experience from
23 which to determine the lives of the assets. It is my opinion the
24 depreciation rates requested by MPC in this case are reasonable at this
25 time. It is my recommendation that the Commission prescribe the
26 depreciation rates for the various accounts as shown on Schedule 1

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1 attached to this testimony.

2 Q. What is your opinion or interpretation regarding the
3 depreciation of transmission plant rights-of-way.

4 A. Sample easement contracts furnished to the Staff by
5 MPC contain language which indicate they are perpetual easements. These
6 easements are the type that could be passed on to MPC's successors and
7 assigns through sale or other similar transactions, much the same as
8 land. My review and interpretation of the Uniform System of Accounts
9 indicates that transmission plant rights-of-way should not be
10 depreciated.

11 Q. Please state your recommendations regarding MPC's
12 depreciation reserve?

13 A. I am requesting the Commission require MPC to maintain
14 their depreciation reserve by primary plant account.

15 Q. Why it is necessary that the reserve for depreciation
16 be maintained by primary plant account?

17 A. If the Commission should choose to prescribe
18 depreciation rates on the basis of remaining life for some accounts then
19 the calculation of those types of rates would be easier to perform. The
20 amount of the depreciation reserve in any account, though not
21 conclusive, provides an indication if the depreciation rates are too
22 high or too low. Moreover, if equipment in an account becomes obsolete
23 and an amortization is require for full capital recovery, the amounts
24 which must be recovered are easily calculated.

25 Since depreciation rates are prescribed by primary plant
26 account and depreciation expense is accrued by primary plant account,

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1 little effort would be expended to maintain the depreciation reserve by
2 primary plant account. At the present time, there are very few energy
3 utilities that do not maintain their reserve by primary plant account.

4 In past proceedings the Commission has ruled that Staff's
5 recommendation to maintain depreciation reserve by primary plant account
6 is reasonable (Case No. EO-85-17 and ER-85-160 Re: Union Electric Company
7 and EO-85185 and EO-85-224 Re: Kansas City Power & Light Company).

8 Q. Please state your recommendations regarding MPC's
9 continuing property records and property unit catalog.

10 A. It is my recommendation that within six (6) months
11 after the effective date of the Commission's order in this proceeding
12 that MPC be required to provide the Energy Department Staff with an
13 acceptable continuing property record and property unit catalog for all
14 of its plant facilities and establish detailed accounting procedures to
15 account for the various units of property distinguishing between
16 capitalization, maintenance and operations in accordance with the
17 Uniform System of Accounts.

18 Q. Why is it necessary that MPC establish a property unit
19 catalog and accounting procedures to account for the various units of
20 property?

21 A. MPC has the start of an excellent continuing property
22 record since they are a relatively new company. Their present books and
23 records do detail to some extent the various units of property, except
24 that at the time of my visit to the Company's offices, they had not
25 unitized all units of property contained in each account. The property
26 record should show the vintage year of each addition and the year

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1 retired of all units of property.

2 The property unit catalog would establish consistency in the
3 accounting of plant property for the benefit of MPC's employees,
4 Commission Staff, Outside Auditors, etc. Prudent management would
5 dictate that there be a written corporate policy regarding the
6 accounting treatment of various items and instructions on whether plant
7 investments should be capitalized or expensed. Maintaining a good
8 property record and plant catalog ensures the integrity of the rate base
9 which supports the return to investors.

10 Q. What should the continuing property record show?

11 A. The property record should show by primary plant
12 account, the various units of property, year installed, location of the
13 unit, the unit price of each unit of property by vintage year installed
14 or where there are many (mass) identical units, the average unit price
15 of all identical units by vintage year installed, and the total cost of
16 all units.

17 Q. What should be contained in the property unit catalog?

18 A. The catalog should specifically describe in detail the
19 various units of property and specify the accounting instructions to
20 eliminate any question as to what is to be capitalized or expensed to
21 maintenance and operations. In addition, the accounting instructions
22 should state that additions and retirements by vintage year be
23 maintained for the purposes of conducting depreciation studies.

24 Q. Please summarize your recommendations.

25 A. I recommend that the Commission (1) prescribe for MPC
26 the depreciation rates contained on Schedule 1 for the purpose of

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1 accruing depreciation expense to the reserve for depreciation, (2) order
2 the company to establish and maintain the depreciation reserve by
3 primary plant account, and (3) order the company to establish and
4 maintain a continuing property record and property unit catalog and
5 submit a copy to the Energy Department Staff within six (6) months of
6 the effective date of the Commissions order in this case.

7 Q. Does this conclude your direct prepared testimony?

8 A. Yes, it does.

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**MISSOURI PIPELINE COMPANY
CASE NO. GR-92-314
MPSC STAFF PROPOSED DEPRECIATION RATES**

Account Number	Account Description	Average Service Life Years	Gross Salvage %	Cost of Removal %	Depreciation Rate %
<u>TRANSMISSION PLANT</u>					
366	Structures and Improvements	40	0	0	2.50
367	Mains	40	0	0	2.50
369	Meas. & Regulating Sta. Equipment	40	0	0	2.50
370	Communication Equipment	40	0	0	2.50
<u>GENERAL PLANT</u>					
390	Structures and Improvements	4	0	0	25.00
391	Office Furniture & Equipment	5	0	0	20.00
392.2	Transportation Equipment -- Trucks	3	0	0	33.33