

Exhibit No.:
Issue: Depreciation
Witness: Jolie L. Mathis
Sponsoring Party: MoPSC Staff
Type of Exhibit: Supplemental Direct Testimony
Case No.: TC-2002-1076
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SUPPLEMENTAL DIRECT TESTIMONY

OF

JOLIE L. MATHIS

BPS TELEPHONE COMPANY

CASE NO. TC-2002-1076

Jefferson City, Missouri
October 2004

1 **SUPPLEMENTAL DIRECT TESTIMONY**

2 **OF**

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4 **BPS TELEPHONE COMPANY**

5 **CASE NO. TC-2002-1076**

6 Q. Please state your name and business address.

7 A. Jolie L. Mathis, P.O. Box 360, Jefferson City, MO 65102.

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

9 A. I am employed by the Missouri Public Service Commission (Commission)
10 as a Utility Engineering Specialist III in the Engineering and Management Services
11 Department.

12 Q. What are your duties as a Utility Engineering Specialist III in the
13 Engineering and Management Services Department?

14 A. I am responsible for depreciation calculations and studies of companies
15 regulated by the Commission.

16 Q. Would you please state briefly your qualifications, educational
17 background and experience?

18 A. I graduated from Prairie View A&M University of Texas in August of
19 1993, with a Bachelor of Science degree in Electrical Engineering. During my college
20 years I had internships with Allied Signal Aerospace Company, Missouri Public Service
21 Company and Sprint United Telephone Company – Midwest Division. In 1994 I
22 accepted my current position. I have received four weeks of formal training from
23 Depreciation Programs, Inc., Kalamazoo, Michigan. Topics included actuarial and

1 simulated service life analysis and techniques, forecasting life, forecasting salvage and
2 cost of removal, and models for analyzing both aged and unaged data.

3 Q. Have you previously filed testimony with the Commission?

4 A. Yes, I have. Attached as Schedule 1 to my supplemental direct testimony
5 is a list of cases in which I have previously filed testimony.

6 Q. What is the purpose of your testimony in this case?

7 A. The purpose of my testimony is to present the Commission Staff's
8 (Staff's) position on depreciation expense for BPS Telephone Company (BPS).

9 Q. When were depreciation rates for BPS last ordered by the Commission?

10 A. Depreciation rates were last ordered in Case No. TM-95-135 on May 12th,
11 1995. On that date the Commission approved and ordered a "Stipulation and
12 Agreement," which authorized depreciation rates by plant account for BPS.

13 Q. What are the depreciation rates that you are proposing in this case?

14 A. My proposed depreciation rates are presented in Schedule 2, attached to
15 this testimony. These rates represent Staff's standardized depreciation rates.

16 Q. How were these standardized telephone depreciation rates established?

17 A. Staff depreciation engineers studied data by plant account from November
18 1994 through January 1995 from the four largest phone companies in the state:
19 Southwestern Bell, United, GTE North and Contel. Staff created a database for each of
20 these companies of life and salvage parameters including recently ordered depreciation
21 rates, rates proposed by each of the companies during normal 1993 and 1994 depreciation
22 filings with Staff, and current Staff's proposed rates in response to each company's
23 presentation.

1 Roundtable discussions between depreciation Staff then ensued regarding each
2 large telephone company life and salvage parameter in consideration of and in contrast to
3 probable future experience for the small telephone companies. A small telephone
4 company depreciation rate table was created, listing rates with salvage and life
5 parameters per account, which were concluded by Staff to be appropriate without further
6 company and account specific data information.

7 Q. Have these rates been updated since 1995?

8 A. Yes, these accounts were revisited in 2001. Engineering judgment and
9 recent experience were used to refine the originally assigned values of life and net
10 salvage, creating the “2001 Standardized Telephone Depreciation Rates.” It was also
11 decided at that time to expense the net salvage.

12 Q. Why is company specific data not used with small telephone companies?

13 A. Company specific data is not used because the small telecommunications
14 companies do not have sufficient plant data to study so the Depreciation engineers can
15 come to statistically valid conclusions from historical records of life and salvage
16 indications. There was a need, though, to create an account by account depreciation rate
17 list that could be applied in a consistent manner to all small telephone companies in the
18 state that utilize standard types of telephone plant. The large Missouri telephone
19 companies that use standard types of plant were the logical source of historical plant life
20 data.

21 Q. Do the standardized depreciation rates apply to all accounts?

22 A. No. There are two accounts: 1) Aerial Wire, account number 2431.0; and
23 2) Circuit Equipment – Analog, account number 2232.2, that this does not apply.

1 Q. What is different about these accounts?

2 A. Aerial Wire and Circuit Equipment – Analog are fully accrued in the
3 depreciation reserve, and no new plant is expected to be added in the future. So when the
4 plant in service associated with these accounts is finally retired from the books, the plant
5 and accrual balances will be zeroed.

6 Q. What other companies have been ordered to use the 2001 standardized
7 depreciation rates?

8 A. Other companies include: Green Hills Telephone Corporation, Holway
9 Telephone Company, Iamo Telephone Company, KLM Telephone Company, Northeast
10 Missouri Rural Telephone Co., Oregon Farmers Mutual Telephone Company, Ozark
11 Telephone Co. and Peace Valley Telephone Co.

12 Q. How is the annual net salvage cost for BPS determined?

13 A. Net salvage cost is excluded in those depreciation rates. A five-year
14 average has been used to determine net salvage amounts. Staff witness
15 Amanda McMellen of the Auditing Department determined the appropriate level of cost
16 of removal to include as an expense in this case. Please refer to the supplemental direct
17 testimony of Staff witness Amanda McMellen for a discussion of this matter.

18 Q. What are you recommending for the treatment of depreciation in this case?

19 A. I recommend a change to the currently authorized depreciation rates
20 determined in Case No. TM-95-135, as listed on Schedule 2 of this supplemental direct
21 testimony.

22 Q. Does this conclude your supplemental direct testimony?

23 A. Yes, it does.

**JOLIE MATHIS
CASE PARTICIPATION**

Date Filed	Issue	Case Number	Exhibit	Case Name
12/1/1995		TO96147	Direct	Alltel Missouri, Inc.
3/7/1996		GA96130	Rebuttal	Missouri Pipeline Company
3/7/1996		GA9711	Rebuttal	Missouri Pipeline Company
1/10/1997		GM9770	Rebuttal	Atmos Energy Corp. & United Cities Gas
6/26/1997		GR97272	Direct	Associated Natural Gas
5/13/1999	Depreciation of Plant	HR99245	Direct	St. Joseph Light & Power Company
6/25/1999	Depreciation	WR99326	Direct	United Water Missouri, Inc.
4/3/2000	Amortization of Premature Retirement	SR2000282	Direct	Missouri-American Water Company
4/3/2000	Amortization of Premature Retirement	WR2000281	Direct	Missouri-American Water Company
7/2/2001	Depreciation of Plant	EC20021	Direct	Union Electric Company d/b/a AmerenUE
12/6/2001	Depreciation of Plant	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Depreciation of Plant	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Depreciation of Plant	EC2002265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
3/1/2002	Depreciation of Plant	EC20021	Direct	Union Electric Company d/b/a AmerenUE
6/24/2002	Depreciation - Net Salvage; Average Service Lives; Theoretical Reserve	EC20021	Surrebuttal	Union Electric Company d/b/a AmerenUE
4/15/2004	Depreciation	GR20040209	Direct	Missouri Gas Energy
6/14/2004	Depreciation Rates	GR20040209	Surrebuttal	Missouri Gas Energy
10/14/2004	Depreciation of Plant	HM20040618	Rebuttal	Trigen-Kansas City Energy Corp. and Thermal North America, Inc.

BPS TELEPHONE COMPANY
DEPRECIATION RATES
CASE NO. TC-2002-1076

<u>ACCOUNT</u>	<u>ACCOUNT NUMBER</u>	<u>DEPRECIATION RATES</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>
MOTOR VEHICLES	2112	11.63%	8.6
OTHER WORK EQUIPMENT	2116	7.14%	14.0
BUILDINGS	2121	2.86%	35.0
FURNITURE	2122	7.14%	14.0
OFFICE EQUIPMENT - OFFICE SUPPORT	2123.1	10.00%	10.0
OFFICE EQUIPMENT-COMPANY COMMUNICATIONS	2123.2	11.90%	8.4
GENERAL PURPOSE COMPUTERS	2124	15.63%	6.4
DIGITAL SWITCHING	2212	6.67% *	15.0
CIRCUIT EQUIPMENT-DIGITAL	2232.1	10.00%	10.0
CIRCUIT EQUIPMENT-ANALOG	2232.2	0.00%	
POLES	2411	4.76%	21.0
AERIAL CABLE-METALLIC	2421.2	4.76%	21.0
BURIED CABLE-NONMETALLIC	2423.1	3.57%	28.0
BURIED CABLE-METALLIC	2423.2	4.17%	24.0
AERIAL WIRE	2431.0	0.00%	

* TAO 1009 Allows the Company to book the accrual using a depreciation rate of 10%.
This booked accrual is not to be used for rate purposes.