

Exhibit No.:
Issue(s):

Annual Incentive
Plan Compensation/
Platte County Water
Treatment Facility
Lafferty/Surrebuttal
Public Counsel
WR-2011-0337

Witness/Type of Exhibit:
Sponsoring Party:
Case No.:

SURREBUTTAL TESTIMONY
OF
SHAWN LAFFERTY

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2011-0337

February 2, 2012

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**


In the Matter of Missouri-American)	
Water Company's Request for Authority to)	
Implement a General Rate Increase for)	Case Nos. WR-2011-0337
Water and Sewer Service Provided in)	SR-2011-0338
Missouri Service Areas.)	

AFFIDAVIT OF SHAWN LAFFERTY

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Shawn Lafferty, of lawful age and being first duly sworn, deposes and states:

1. My name is Shawn Lafferty. I am a Public Utility Accountant III for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.




Shawn Lafferty
Public Utility Accountant III

Subscribed and sworn to me this 2nd day of February 2012.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2013.

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SHAWN LAFFERTY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2011-0337

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**SURREBUTTAL TESTIMONY
OF
SHAWN LAFFERTY**

**MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2011-0337**

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. Shawn Lafferty, PO Box 2230, Jefferson City, Missouri 65102-2230.

4

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am employed by the Missouri Office of the Public Counsel (“OPC” or “Public
7 Counsel”) as a Public Utility Accountant III.

8

9 Q. ARE YOU THE SAME SHAWN LAFFERTY THAT HAS PREVIOUSLY FILED
10 REBUTTAL TESTIMONY IN THIS CASE?

11 A. Yes.

12

13 **II. PURPOSE OF TESTIMONY**

14 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

15 A. The purpose of my surrebuttal testimony is to:

- 16 • Update my rebuttal testimony for labor related costs pertaining to the Annual
17 Incentive Plan (“AIP”) compensation for Service Company employees.

- Address the rebuttal testimony of Mr. John Spanos, who testified on behalf of Missouri-American Water Company (“MAWC” or “Company”) regarding special additional depreciation for the Platte County Water Treatment Facility.

III. SERVICE COMPANY EMPLOYEE AIP LABOR RELATED COSTS

Q. WHEN FILING REBUTTAL TESTIMONY, DID PUBLIC COUNSEL INDICATE IT NEEDED TO OBTAIN ADDITIONAL INFORMATION PERTAINING TO LABOR RELATED COSTS FOR SERVICE COMPANY EMPLOYEES’ AIP COMPENSATION THAT IS INCLUDED IN THE SERVICE COMPANY MANAGEMENT FEE ALLOCATED TO MAWC?

A. Yes. At the time of filing my rebuttal testimony, I noted on lines 5 through 8 on page 9 that I needed to obtain additional information regarding other costs associated with AIP for Service Company Management Employees.

Q. HAS PUBLIC COUNSEL RECEIVED THE ADDITIONAL INFORMATION?

A. Yes. In response to OPC data request No. 1044, the Company provided the following information for the 2010 Service Company AIP compensation allocated to MAWC.

- Federal Insurance Contribution Act - \$92,845
- Company 401k match - \$16,211

- 1 • Pension Cost – the Company was unable to calculate the costs related to AIP
2 for FAS 87 pension expense.

3
4 Q. DOES PUBLIC COUNSEL BELIEVE THESE COSTS SHOULD BE EXCLUDED
5 FROM RATE RECOVERY?

6 A. Yes, for the reasons described in my rebuttal testimony.

7
8 **IV. ACCELERATED DEPRECIATION FOR PLATTE COUNTY WATER**
9 **TREATMENT FACILITY**

10 Q. WHAT IS THE ISSUE?

11 A. According to Mr. Spanos, the Company anticipates the Platte County Water
12 Treatment Facility can operate for 5 to 6 more years and the planned retirement
13 date is May 31, 2018. He cites the direct testimony of Mr. Kevin Dunn, who
14 provided the underlying rationale for the planned retirement. The Company
15 wishes to accelerate the depreciation rate for this facility to reflect this anticipated
16 retirement date.

17
18 Q. WHAT IS THE IMPACT IF DEPRECIATION IS ACCELERATED?

19 A. According to Company work papers submitted with the direct filing, accelerating
20 depreciation on the Platte County Water Treatment Facility increases the
21 requested depreciation expense by \$494,864.

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Q. WHAT IS THE MISSOURI PUBLIC SERVICE COMMISSION STAFF'S
("STAFF") POSITION ON THIS ISSUE?

A. Page 45 of Staff's Report on Cost of Service dated November 17, 2011, lists
Staff's recommendations regarding depreciation. Item number 4 reads:

Not allow special additional depreciation expense for the Platte County
(Parkville) water treatment plant. (Staff expert Arthur Rice)

Q. DOES PUBLIC COUNSEL CONCUR WITH STAFF'S POSITION?

A. Yes. Public Counsel does not believe any special depreciation consideration is
warranted at this time. The retirement date is anticipated, but not known with any
certainty. As a matter of fact, in Mr. Dunn's direct testimony he cited a Burns &
McDonnell 2000 report that estimated a remaining useful life of about 10 years
for the facility. Therefore, at the time it was assumed the retirement of the plant
would occur in 2010. According to Mr. Dunn, in 2008 MAWC conducted an in-
house study that concluded the plant would need to be replaced within 10 years,
or 2018.

As can be seen from the Company's testimony, the retirement date for the facility
is not a certainty. Within 8 years of the 2000 report, the anticipated life of the
plant was extended by another 8 years.

1 Given the uncertainty regarding when the facility will actually be retired, and the
2 fact the Company has historically had relatively short intervals between rate
3 proceedings (see page 16, lines 1 through 4 of my rebuttal testimony for the filing
4 dates of recent rate cases), OPC believes this is a decision that can be deferred
5 to a future rate case when more facts are known. Therefore, OPC recommends
6 the Commission not allow accelerated depreciation on the water treatment facility
7 at this time.

8
9 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

10 A. Yes.