

MAWC 44

Exhibit No.:
Issues: Capitalized Depreciation,
Emerald Pointe Pipeline, &
City of Arnold MSD Plant

Witness: Todd P. Wright
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water
Company
Case No.: WR-2015-0301
SR-2015-0302
Date: March 4, 2016

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

SURREBUTTAL TESTIMONY

OF

TODD P. WRIGHT

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

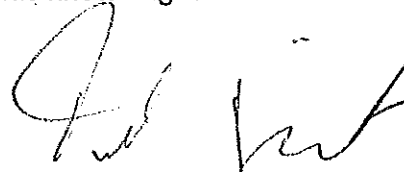
MAWC Exhibit No. 44
Date 2-2-16 Reporter TW
File No. WR-2015-0301

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED)	CASE NO. WR-2015-0301
RATES FOR WATER AND SEWER)	CASE NO. SR-2015-0302
SERVICE)	

AFFIDAVIT OF TODD P. WRIGHT

Todd P. Wright, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Todd P. Wright"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.



Todd P. Wright

State of New Jersey
County of Camden

SUBSCRIBED and sworn to

Before me this 1st day of MARCH 2016.



Notary Public

My commission expires: 4/15/2020

ANN G. ALFANO
NOTARY PUBLIC OF NEW JERSEY
ID # 60014130
My Commission Expires 4/15/2020

**SURREBUTTAL TESTIMONY
TODD P. WRIGHT
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

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SURREBUTTAL TESTIMONY

TODD P. WRIGHT

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I. WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Todd P. Wright and my business address is 131 Woodcrest Road, Cherry Hill, New Jersey 08034.

Q. BY WHOM ARE YOU EMPLOYED AND IN CAPACITY?

A. I am employed by American Water Works Service Company, Inc. ("Service Company" or "AWWSC") as a Financial Analyst. The Service Company is a subsidiary of American Water Works Company, Inc. ("American Water") that provides support services to American Water's subsidiaries, including Missouri-American Water Company ("MAWC" or "Company").

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes, I have submitted direct and rebuttal testimony in this proceeding on behalf of MAWC.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to address Staff's positions on capitalized depreciation, Emerald Pointe Pipeline, and the City of Arnold/MSD Amortization and Rate Base Treatment.

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II. CAPITALIZED O&M DEPRECIATION

Q. DOES MAWC AGREE WITH THE STAFF PROPOSAL TO CAPITALIZE DEPRECIATION RELATED TO CERTAIN USOA PLANT ACCOUNTS?

A. No.

Q. WHAT DEPRECIATION ACCOUNTS DOES STAFF PROPOSE TO CAPITALIZE?

A. On page 2 of her Rebuttal Testimony, Staff Witness Lisa M. Ferguson proposes to capitalize a percentage of depreciation related to accounts 392, 392.1, 392.2, 392.3, 392.4 –transportation, 394 – tools, shop, and garage equipment, and 396 – power-operated equipment. The capitalized amount is generally based on the same percentage as it used for the assignment of labor costs to capital.

Q. WHAT ARE THE CURRENT AVERAGE SERVICE LIVES OF THESE USOA ACCOUNTS?

A. The current average service lives of these accounts are from 5 to 20 years. These are generally short-lived asset classifications.

Q. IF DEPRECIATION FROM THESE USOA ACCOUNTS IS CAPITALIZED, WHAT ASSET CLASS WOULD THESE AMOUNTS GENERALLY BE BOOKED TO?

1 A. The capitalized depreciation from the USOA accounts referenced above
2 would generally end up in Transmission and Distribution plant that have
3 average service lives of between 40 and 90 years.

4
5 **Q. SHOULD EVEN A PORTION OF THESE ASSETS BE DEPRECIATED**
6 **OVER THIS LONGER PERIOD OF TIME?**

7 A. No. Since these assets will be utilized to service the current customers of
8 MAWC, regardless of the nature of the work, the costs should be recovered
9 over the same shorter period. Further, because these assets have short
10 lives, they are being replaced at a much faster pace than they would be
11 depreciated under Staff's proposal.

12
13 **Q. WHAT ARE THE BENEFITS OF MAWC'S RECOVERY METHODOLOGY?**

14 A. The benefits of this methodology are that the costs are recovered in the same
15 time frame as when the asset will be replaced, maintaining inter-generational
16 equity. This also allows the Company to re-invest the recovered amounts into
17 new assets. The new assets will then be funded by future customers whom
18 will receive the benefit of the service.

19

20 **III. EMERALD POINTE PIPELINE**

21

22 **Q. WHAT ISSUE EXISTS IN REGARD TO THE EMERALD POINTE**
23 **PIPELINE?**

1 A. In her rebuttal testimony, Staff Witness Lisa M. Ferguson recommends a
2 change to how a portion of the Emerald Pointe sewer pipeline is treated.

3

4 **Q. PLEASE DESCRIBE THE PIPELINE IN QUESTION.**

5 A. In order to eliminate a failing sewer treatment plant, Emerald Pointe built a
6 pipeline to a treatment plant owned by the City of Hollister. The pipeline
7 started in Emerald Pointe's legacy certificated area, continued into
8 certificated area granted for purposes of the pipeline (Case No. SA-2012-
9 0362), and then crossed into the city limits of the City of Hollister. The
10 project was placed into service in January of 2013.

11

12 **Q. DID EMERALD POINTE CONTINUE TO OWN THE ENTIRE PIPELINE?**

13 A. No. As a part of its agreement with Hollister, Emerald Pointe was required
14 to contribute to Hollister that part of the line that sits within the city limits of
15 Hollister.

16

17 **Q. WHAT PORTION OF THE CONSTRUCTION COST WAS ASSOCIATED
18 WITH THE CONTRIBUTED PLANT FUNDED BY EMERALD POINTE?**

19 A. \$323,321.

20

21 **Q. WAS EMERALD POINTE GIVEN SOME RECOGNITION OF THIS
22 INVESTMENT IN ITS RATES?**

23 A. Yes. As reflected on page 5 of Staff witness Ferguson's rebuttal
24 testimony, Staff included the unamortized balance of \$323,321 associated

1 with this portion of the pipeline and an amortization in its calculations of
2 the Emerald Pointe rates that was accepted by the Commission in Cases
3 Nos. SR-2013-0016 and WR-2013-0017.

4

5 **Q. WHAT DOES STAFF WITNESS FERGUSON RECOMMEND IN REGARD**
6 **TO THIS PORTION OF THE PIPELINE?**

7 A. Ms. Ferguson states that “in hindsight, the Staff maintains today that the
8 inclusion in rate base for the unamortized balance related to the
9 contributed pipeline that was donated to the City of Hollister was a mistake
10 on Staff’s part.” (Ferguson RT, p. 5-6) She further suggests that “it was
11 not appropriate for Emerald Pointe to earn a return on an item that they
12 did not own, that was contributed to another entity, is not an asset on the
13 utility’s books and records and for which it made no upfront investment.”
14 (Ferguson RT, p. 7) Therefore, Ms. Ferguson suggests that the
15 unamortized balance should not be included in rate base.

16

17 **Q. DO YOU HAVE A GENERAL REACTION TO THE STAFF POSITION?**

18 A. Yes. My review of the facts behind the pipeline construction leads me to
19 believe that Staff’s approach creates a disincentive for a public utility to
20 make a decision that would otherwise be in the best interest of its
21 customers and the environment. These dollars were expended as a part
22 of a single project, a great majority of which is still owned by the utility and
23 is on the utility’s books and records. Moreover, Witness Ferguson’s

1 allegation that there was "no upfront investment made" for the portion of
2 pipeline in question is just plain wrong.

3

4 **Q. WAS EMERALD POINTE'S DECISION TO CONSTRUCT THE PIPELINE**
5 **TO THE HOLLISTER TREATMENT PLANT REVIEWED BY THE**
6 **COMMISSION PRIOR TO THE CONSTRUCTION?**

7 A. Yes. As mentioned before, the construction project required a certificate
8 prior to construction. That certificate application was considered by the
9 Commission in Case No. SA-2012-0362. Emerald Pointe further
10 requested the Commission's approval for the financing associated with
11 this project, which was granted in Case No. SF-2013-0346.

12

13 **Q. WHAT WAS STAFF'S CONCLUSION?**

14 A. Staff's Recommendation concluded that the pipeline project was
15 reasonable and, in, fact cost effective from a capital cost standpoint, with
16 the benefits of elimination of existing treatment facility and sewage
17 discharge into Table Rock Lake as well as making additional capacity
18 available for future customers.

19

20 **Q. WHAT DOES MAWC PERCEIVE FROM THIS CONCLUSION?**

21 A. The Pipeline project appears to have been thought to be a prudent
22 decision, for both cost and environmental reasons, even if the full cost of
23 the pipeline project is treated as rate base. That would seem to make this
24 an easy decision for both the utility and the regulators.

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Q. OTHER THAN THE EMERALD POINTE RATE CASE, WAS THERE ANOTHER PROCEEDING WHERE THIS INVESTMENT WAS TREATED AS RATE BASE?

A. Yes. When MAWC purchased the Emerald Pointe assets, it was required to obtain the Commission’s approval. This was done in Commission Cases Nos. WO-2014-0113 and SO-2014-0116.

Q. WHAT AMOUNT DID STAFF IDENTIFY AS RATE BASE FOR THE ACQUISITION APPROVAL CASE?

A. In addressing the question of what, if any, acquisition premium was present in that transaction, the Staff identified Total Rate Base of \$1,506,030, as of December 31, 2013.

Q. DID THAT TOTAL RATE BASE INCLUDE THE PORTION OF THE PIPELINE STAFF NOW WANTS TO REMOVE?

A. Yes. The unamortized balance of \$316,993 associated with this portion of the pipeline is included in the \$1,506,030 Total Rate Base identified by the Staff. The unamortized balance is made up of the original cost of \$323,321, minus the then accumulated amortization of \$6,328.

IV. CITY OF ARNOLD/MSD PLANT AND AMORTIZATION

1 Q. WHAT ISSUE DID STAFF HAVE WITH THE COMPANY'S TREATMENT OF
2 THE MSD PLANT CAPACITY CHANGES AND OBLIGATION ASSUMED
3 BY MAWC?

4 A. Staff disagrees with MAWC's proposal to include in rate base an unamortized
5 net regulatory asset for the value of the plant built, by MSD, for the City of
6 Arnold, and recovered over the expected service life of those plant changes.

7

8 Q. HOW MUCH DID MAWC PLACE IN RATE BASE RELATED TO THE MSD
9 AGREEMENT?

10 A. A net amount of \$1,534,816 was placed in rate base related to the MSD
11 Agreement. This consists of the principal amounts for the Phase 1 (primary
12 construction), Additional Phase 1, and the Disinfection system as well as the
13 upfront payment of the drop shaft being amortized over expected service lives
14 of 50 and 45 years netted against the liability of principal payments owed for
15 the obligation as of January 31, 2016.

16

17 Q. HOW MUCH WAS THE UPFRONT PAYMENT FOR THE DROP SHAFT?

18 A. \$662,162 associated with the drop shaft was paid upfront by the City of
19 Arnold on October 8, 2008.

20

21 Q. WHY HAS MAWC PROPOSED TO RECOVER THE UNAMORTIZED NET
22 BALANCE THROUGH RATE BASE?

23 A. The net amount of the facility and collection plant is providing service to
24 MAWC's customers. This on-going service will continue to be provided over

1 the expected service life of those plant costs owed to MSD. Recovery on this
2 plant maintains inter-generational equity for current and future customers.

3

4 **Q. IS THERE LESS OF A RATE IMPACT IN MAWC'S PROPOSAL?**

5 A. Yes. The rate impact is reduced and the annual cost to the customer is less
6 while receiving the benefits of the plant construction from the agreement.
7 MAWC's proposal is designed to match the responsibility for the costs to the
8 life of the underlying asset.

9

10 **Q. SO STAFF'S PROPOSAL WOULD HAVE A GREATER IMPACT IN THIS**
11 **CASE?**

12 A. Yes.

13

14 **Q. HOW LONG WOULD STAFF'S PROPOSED RECOVERY AMOUNT**
15 **CONTINUE?**

16 A. Over the life of the contract terms or through 2032.

17

18 **Q. WHAT IS THE EXPECTED SERVICE LIFE OF THE SUBJECT PLANT?**

19 A. 45-50 years.

20

21 **Q. WHAT IS YOUR CONCLUSION?**

22 A. MAWC's proposal will maintain inter-generational equity by spreading the
23 costs over the expected life of the asset, thereby requiring all those
24 benefitting from the asset to pay for the asset.

1

2 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

3 **A. Yes.**

