

EXHIBIT

FILED³

FEB 27 2014

Missouri Public
Service Commission

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

OPC-1

Depreciation Expense/

Accumulated Depreciation Reserve

Addo/Rebuttal

Public Counsel

WR-2013-0461

REBUTTAL TESTIMONY

OF

WILLIAM ADDO

Submitted on Behalf of the Office of the Public Counsel

LAKE REGION WATER & SEWER COMPANY

CASE NO. WR-2013-0461

January 10, 2014

OPC Exhibit No. 1

Date 2-18-14 Reporter RSG

File No. WR-2013-0461

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

In the Matter of Lake Region Water &)
Sewer Company's Application to)
Implement a General Rate Increase) File No. WR-2013-0461
in Water and Sewer Service)

AFFIDAVIT OF WILLIAM ADDO

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

William Addo, of lawful age and being first duly sworn, deposes and states:


1. My name is William Addo. I am a Public Utility Accountant I for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal 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.


William Addo
Public Utility Accountant I

Subscribed and sworn to me this 10th day of January 2014.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037


Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

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**REBUTTAL TESTIMONY
OF
WILLIAM ADDO
LAKE REGION WATER AND SEWER COMPANY
CASE NO. WR-2013-0461**

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. William Addo, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

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

A. I am employed by the Missouri Office of the Public Counsel ("OPC" or "Public Counsel") as a Public Utility Accountant 1.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

A. My duties include performing audits and examinations of the books and records of public utilities operating within the state of Missouri under the supervision of the Chief Public Utility Accountant, Mr. Ted Robertson.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated in May, 2004, from the University of Ghana with a Diploma in Accounting. In May 2007, I received a Bachelor of Science Degree in Business Administration (Accounting Major) from the same institution. In May 2010, I received a Masters Degree

1 in Business Administration (Accounting Major) from Lincoln University in Jefferson
2 City, Missouri.

3
4 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC
5 UTILITY ACCOUNTING?

6 A. Yes. I have attended the National Association of Regulatory Utility Commissioners
7 ("NARUC") Annual Regulatory Studies Program.

8
9 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
10 SERVICE COMMISSION ("COMMISSION" OR "MPSC")?

11 A. Yes. I have filed testimony in Empire District Electric Company, Case No. ER-2012-
12 0345, Lincoln County Sewer and Water Company, LLC, Case No. SR-2013-0321 and in
13 Kansas City Power & Light Company and Kansas City Power & Light Greater Missouri
14 Operations Company, Case No. EU-2014-0077.

15
16 **II. PURPOSE OF TESTIMONY.**

17 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

18 A. The purpose of this Rebuttal Testimony is to address the Public Counsel's positions
19 regarding the ratemaking positions taken by the MPSC Staff regarding depreciation
20 expense and accumulated depreciation reserve balance for Lake Region Water and Sewer

1 Company's Shawnee Bend water operations ("LRWS" or "Company") plant assets that
2 were inadvertently omitted from the calculation of rate base for the Shawnee Bend water
3 operations in the Company's last rate cases, Case Nos. SR-2010-0110 and WR-2010-
4 0111.

5
6 **III. VALUE OF PLANT ASSETS OMITTED FROM RATE BASE IN LRWS PRIOR**
7 **CASES.**

8 Q. WHAT IS IT VALUE OF THE PLANT ASSETS THAT WERE OMITTED FROM
9 RATE BASE CALCULATIONS IN THE COMPANY'S PRIOR CASES?

10 A. My review of the Company's general ledger for calendar year 2009 shows that Accounts
11 345 and 346 (Services and Meters), of the Uniform System of Accounts ("USOA"), were
12 understated by an amount of \$14,036 and \$15,332, respectively.

13
14 Q. DOES PUBLIC COUNSEL HAVE CONCERNS WITH THE INCLUSION OF THESE
15 PLANT ASSETS IN THIS INSTANT CASE?

16 A. No.

17
18 **IV. DEPRECIATION EXPENSE.**

19 Q. WHAT IS THE ISSUE?

Rebuttal Testimony of William Addo
Case No. WR-2013-0461

1 A. This issue pertains to whether annual depreciation expense calculations on the plant
2 assets referenced above should commence on the date the plant assets were put in service
3 (calendar year 2009) or whether it should commence at the end of the test year in this
4 case (June 30, 2013).

5
6 Q. WHAT IS DEPRECIATION EXPENSE?

7 A. Depreciation expense is the periodic allocation of the cost of a depreciable asset's
8 original purchase value to expense over the service life of the asset.

9
10 Q. WHEN DOES DEPRECIATION BEGIN?

11 A. Depreciation begins during the month or year that a utility starts using a plant asset
12 productively to generate revenue. The utility, as a result, cannot record depreciation
13 expense in its regulatory books for an asset that is not yet in service or defer the recording
14 of depreciation expense for an asset that is in service.

15
16 Q. WHAT IS THE MPSC STAFF'S POSITION?

17 A. My review of the MPSC Staff's Workpaper, Rice – Lake Region Water & Sewer Plant,
18 Reserve, CIAC Work Paper – Rice 11-12, Tab: Water, shows that the MPSC Staff,
19 successively from calendar year 2009 to the end of the test year (June 30, 2013), reflected
20 an amount of \$0 annual depreciation expense for these plant assets.

1 Q. DOES PUBLIC COUNSEL HAVE CONCERNS WITH THE MPSC STAFF'S
2 CALCULATION OF DEPRECIATION EXPENSE FOR THESE OMITTED PLANT
3 ASSETS?

4 A. Yes. Public Counsel believes that annual depreciation expense calculation should
5 commence on the exact date these omitted plant assets were put in service, in this case
6 calendar year 2009.

7
8 **V. ACCUMULATED DEPRECIATION RESERVE.**

9 Q. WHAT IS THE ISSUE?

10 A. This issue pertains to whether the plant assets that were inadvertently omitted
11 from LRWS's Shawnee Bend water operations rate base in the Company's last
12 rate cases, Case Nos. SR-2010-0110 and WR-2010-0111, should be offset by
13 accumulated depreciation reserve in this case.

14
15 Q. WHAT IS ACCUMULATED DEPRECIATION RESERVE?

16 A. Accumulated depreciation represents the aggregation of all annual depreciation expense.
17 It is viewed as the periodic recovery of a portion of a utility's plant investment. For rate
18 making purposes, accumulated depreciation is excluded from rate base calculation upon
19 which rate of return is earned.

1 Q. WHAT IS THE MPSC STAFF'S POSITION?

2 A. My review of the MPSC Staff's Workpaper, Rice – Lake Region Water & Sewer Plant,
3 Reserve, CIAC Work Paper – Rice 11-12, Tab: Water, shows that the MPSC Staff
4 reflected an amount of \$0 accumulated depreciation reserve balance as of the end of June
5 30, 2013, even though the plant assets were put in service in calendar year 2009.

6
7 Q. DOES PUBLIC COUNSEL HAVE CONCERNS WITH THE MPSC STAFF'S
8 CALCULATION OF ACCUMULATED DEPRECIATION RESERVE BALANCE FOR
9 THESE OMITTED PLANT ASSETS?

10 A. Yes. Public Counsel believes that accumulated depreciation reserve balance
11 should reflect the aggregation of all annual depreciation expense from the
12 effective date that the omitted plant assets were put in service to the end of the test
13 year, and subsequently, the end of the true-up period authorized by the
14 Commission in this case.

15
16 Q. WHAT IS THE AMOUNT OF ACCUMULATED DEPRECIATION RESERVE
17 BALANCE THAT PUBLIC COUNSEL BELIEVES SHOULD BE USED AS
18 AN OFFSET TO THE OMITTED PLANT ASSETS?

19 A. By Public Counsel's calculations, USOA Accounts 345 and 346 should be offset
20 by an amount of \$1,423 and \$1,534, respectively.

1 Q. HOW DID YOU ARRIVE AT THESE AMOUNTS?

2 A. I subtracted the exact dates that the omitted plant assets were put in service from
3 the test year in this case (June 30, 2013) to arrive at the number of days that the
4 assets have been in use as of the end of the test year. I then multiplied the original
5 costs of the omitted plant assets by the Commission's authorized depreciation
6 rates in the Company's last rate case (2.9% for Services and 2.7% for Meters) to
7 derive annual depreciation expense for the respective omitted plant assets.
8 Finally, I multiplied the respective annual depreciation expense by the number of
9 days that the plant assets have been in use and then divided by 365 days (Number
10 of days in a calendar year) to arrive at Public Counsel's recommended
11 accumulated depreciation reserve balance.

12
13 Q. DOES PUBLIC COUNSEL'S RECOMMENDATION TO OFFSET PLANT ASSETS
14 THAT WERE NOT PART OF THE DEVELOPMENT OF LRSW'S CURRENT
15 RATES, WITH ACCUMULATED DEPRECIATION RESERVE, AMOUNT TO
16 DENYING THE SHAREHOLDERS OF LRWS "RETURN OF" THEIR
17 INVESTMENTS?

18 A. No. As discussed earlier in my testimony, depreciation expense, which is
19 aggregated to derive accumulated depreciation reserve, begins during the month
20 or year that a utility starts using a plant asset productively to generate revenue.

1 Public Counsel does not believe that the mere fact that a plant asset was omitted
2 from a utility's books for a period of time, justifies the misapplication of basic
3 accounting and rate making principles. Also, Public Counsel believes that,
4 LRWS had the burden to validate the rate base that was developed in the
5 Company's last rate case; hence, the Company should bear the burden for any
6 variance that had resulted in the last case, not the customers.
7

8 **VI. THE PUBLIC COUNSEL'S RECOMMENDATION.**

9 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S RECOMMENDATION.

10 A. It is the Public Counsel's recommendation that, LRWS's annual depreciation
11 expense calculations for the omitted plant assets should commence on the exact
12 date the assets were put in service, and that the accumulated depreciation reserve
13 balance should reflect the aggregation of all annual depreciation expense from the
14 effective date that the omitted plant assets were put in service to the end of the test
15 year, and subsequently, the end of the true-up period authorized by the
16 Commission in this case.
17

18 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

19 A. Yes, it does.