

*Exhibit No.:*  
*Issue(s):*      *Depreciation*  
                         *CIAC Amortization*  
*Witness:*      *Derick A. Miles*  
*Sponsoring Party:*      *MoPSC Staff*  
*Type of Exhibit:*      *Rebuttal Testimony*  
*Case Nos.:*      *SR-2014-0166*  
                         *WR-2014-0167*  
*Date Testimony Prepared:*      *September 12, 2014*

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**  
**UTILITY SERVICES**  
**ENGINEERING AND MANAGEMENT SERVICES**

**REBUTTAL TESTIMONY**

**OF**

**DERICK A. MILES, P.E.**

**HICKORY HILLS WATER & SEWER COMPANY**

**CASE NOS. SR-2014-0166 and WR-2014-0167**

*Jefferson City, Missouri*  
*September 2014*

**TABLE OF CONTENT OF**  
**REBUTTAL TESTIMONY OF**  
**DERICK A. MILES, P.E.**  
**HICKORY HILLS WATER & SEWER COMPANY**  
**CASE NOS. SR-2014-0166 and WR-2014-0167**

BACKGROUND OF WITNESS .....	1
INTRODUCTION .....	3
DEPRECIATION EXPENSE/DEPRECIATION RESERVE .....	4
CIAC AMORTIZATION & CIAC AMORTIZATION EXPENSE.....	6

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
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**OF**

**DERICK A. MILES, P.E.**

## HICKORY HILLS WATER & SEWER COMPANY

**CASE NOS. SR-2014-0166 and WR-2014-0167**

Q. Please state your name and business address.

A. My name is Derick A. Miles, and my business address is Missouri Public Service Commission, P.O. Box 360, Jefferson City, MO 65102.

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

A. I am employed by the Missouri Public Service Commission as a Utility Regulatory Engineer II within the Engineering and Management Services Unit.

**BACKGROUND OF WITNESS**

Q. Please describe your educational and professional background.

A. I received a Bachelor of Science degree in Engineering Management (with a Civil Engineering emphasis) from Missouri University of Science and Technology (formerly known as The University of Missouri at Rolla). I received a Master of Science degree in Engineering Management (with a Business Administration emphasis) from the same University. Since September 1997, I have been registered as an Engineer-In-Training in the state of Missouri. I obtained my Professional Engineering License in January 2012; licensee number 2011000926. I have a certification for Gas Distribution through the Gas Technology Institute of Des Plaines, Illinois.

1 Q. Please describe your work background.

2 A. I began employment with the Commission in April 2007 as an  
3 Utility Engineering Specialist within the Procurement Analysis Unit. I was promoted to a  
4 Utility Regulatory Engineer I in February of 2012 within the same unit. In September of 2013,  
5 I accepted a promotion and currently work as a Utility Regulatory Engineer II within the  
6 Engineering and Management Services Unit. Prior to joining the Commission, I was  
7 employed by ABB, Inc. While employed with ABB I held various supervisory management  
8 positions with the manufacturing operations of three-phase electrical transformer assembly  
9 plant. I was employed as a Production Manager with MiTek Industries, Inc. where I was  
10 responsible for Plant Operations for the Wall Panel Division. Prior to that, I was employed by  
11 Square D Company as a Manufacturing Engineer in Columbia, Missouri and with Nordyne,  
12 Inc., in Boonville, MO, as a Quality Engineer and an Industrial Engineer. I also previously  
13 taught Principles of Management for the Business Management Department of Columbia  
14 College in Jefferson City, MO as a Part-time Adjunct Professor.

15 Q. Please describe your duties while employed by the Commission.

16 A. The nature of my duties, prior to accepting my current job within the  
17 Engineering and Management Services Unit, was to investigate and review natural gas  
18 reliability, peak day plans, and natural gas supply plans of the Missouri natural gas local  
19 distribution companies. In my current capacity, I am responsible reviewing and conducting  
20 depreciation studies of Missouri investor-owned utilities and provide written reports and/or  
21 testimony of study findings.

22 Q. Have you previously filed testimony before this Commission?

1           A.     No. I have prepared reliability reviews as part of the filed Staff Actual  
2 Cost Adjustment (ACA) recommendations and have filed Staff Recommendations in over  
3 30 ACA/PGA cases with the Commission.

4           Q.     With reference to Case Nos. WR-2014-0167 and SR-2014-0166, have you  
5 participated in Missouri Public Service Commission Staff's ("Staff") audit of Hickory Hills  
6 Water & Sewer Company ("Company" or "Hickory Hills") concerning its request for a rate  
7 increase in this proceeding?

8           A.     Yes.

9           Q.     What is the purpose of this testimony?

10          A.     The purpose of my testimony is to provide rebuttal testimony to the direct  
11 testimony of the Missouri Office of the Public Counsel's ("OPC") witness Ms. Keri Roth and  
12 to provide Staff's recommendation to the Missouri Public Service Commission.  
13 ("Commission")

14           **INTRODUCTION**

15          Q.     Please explain the process the Staff uses to determine starting plant and  
16 accumulated depreciation reserve balances while examining plant and depreciation reserve  
17 accounts during a rate case.

18          A.     When a previous rate case for the Company has a Unanimous Stipulation  
19 agreement, where it is stated that the Parties do not dispute the information contained within a  
20 specific filed set of Staff Accounting Schedules, and the Commission's Final Report and  
21 Order states that this Stipulation has been fully examined and accepted by the Commission as  
22 undisputed facts, Staff uses the plant and reserves balances from that Stipulated set of  
23 accounting schedules as the starting balances. Staff then reviews all plant additions and

1 retirements that have occurred since the dates of those balances in the last case. When a prior  
2 rate case does not result in a Stipulation and Agreement, the Staff will review additional  
3 documentation available to it, including Staff's prior-case work-papers, witness testimonies  
4 and Company documentation to try to develop beginning plant and reserve balances to be  
5 used in a current case.

6 Q. Why are the starting and ending balances for plant and accumulated reserve  
7 balances important in a rate case?

8 A. Accurate plant and accumulated depreciation reserve balances are generally  
9 critical as plant balances reflect the dollars of investment the Company has made in its'  
10 regulated system. Accumulated depreciation reserves represent the dollars the customers  
11 have paid and are being given 'credit for' toward returning to the Company the original cost  
12 of its' investment. These balances serve as a 'beginning point' for plant additions and  
13 retirements to be added and subtracted. Commission ordered plant balances and accumulated  
14 reserve balances from prior cases, such as a rate or certificate case, provide significant  
15 assistance to Staff.

16 **DEPRECIATION EXPENSE/DEPRECIATION RESERVE**

17 Q. What are the specific issues in these cases?

18 A. With respect to the Sewer Company, OPC believes Staff erroneously includes  
19 depreciation on the balances in Account 352.2 –Collection Sewers and Account 372 –  
20 Oxidation Lagoons. OPC argues that the balances in these accounts have been  
21 fully depreciated and continuing depreciation is unreasonable. OPC also asserts that  
22 the depreciation rates for accounts 352.2 and 372 in Case Nos. WR-2005-0126 and  
23 WR-2006-0250 were 0.00%.

1 Q. Does Staff agree with these assertions?

2 A. Yes, Staff agrees that the depreciation rates for the two accounts in question  
3 were 0.00% for those cases. However, OPC fails to recognize that the depreciation rates for  
4 one of the two accounts was changed in the context of the most recent sewer rate case by  
5 Hickory Hills, Case No. SR-2009-0154. Staff recommended rates of 2.0% and 0.0%  
6 respectively for Account 352.2 –Collection Sewers and Account 372 – Oxidation Lagoons.

7 Q. Did Staff use 2.0% and 0.0% for Account 352.2 –Collection Sewers and  
8 Account 372 – Oxidation Lagoons in its workpaper for calculating Depreciation Expense?

9 A. Staff used 2.0% for Account 352.2 –Collection Sewers, however, Staff  
10 mistakenly used a 4.0% depreciation rate for Account 372 – Oxidation Lagoons.  
11 Staff acknowledges this error which results in \$88.00 increase in depreciation expense for  
12 this error.

13 Q. Did the Depreciation Rates change in Case Nos. SR-2009-0154 and  
14 WR-2009-0151?

15 A. Staff recommended these changes in the Company/Staff Disposition  
16 Agreement and they were used in the computations of the Company's revenue requirement.  
17 OPC is correct in that it did not sign on to the Disposition Agreement, however, the  
18 Unanimous Stipulation and Agreement was a "black box" settlement. The Commission's  
19 orders in Case Nos. SR-2009-0154 and WR-2009-0151 did not include specific depreciation  
20 schedules with ordered depreciation rates but Staff defers to its depreciation schedules and  
21 the final Staff accounting schedules in the prior case for plant balances and depreciation  
22 rates used to determine customer rates for that prior case as a starting point for the subsequent  
23 case workpapers. The depreciation rates shown on the prior case (SR-2009-0154) for  
24 account 352.2 is 2.0% and account 372 is 0.0%.

1 Q. Are there similar issues with the Water Company?

2 A. Yes, with respect to the Water Company, OPC believes Staff erroneously  
3 includes depreciation on the balances in Account 314 –Wells & Springs, Account 343 –  
4 Transmission & Distribution Mains, Account 379 –Other General Equipment. Public  
5 Counsel believes the balances in these accounts have already been fully depreciated and  
6 continuing depreciation is unreasonable.

7 Q. Does Staff agree with these assertions?

8 A. Yes, Staff agrees that the depreciation rates for the three accounts in  
9 question were 0.00% in the respective water cases for WR-2005-0126 and WR-2006-0250.  
10 However, what OPC fails to recognize is that the depreciation rates for two of the three  
11 accounts were changed in the context of the most recent water rate case by Hickory Hills,  
12 namely WR-2009-0151. Staff recommended rates of 2.0% for Accounts 314 –Wells &  
13 Springs and Account 343 – Transmission & Distribution Mains.

14 Q. OPC used a 2.5% depreciation rate for account 342 – Distribution Reservoir  
15 and Standpipes. Why is that?

16 A. OPC used the 2.5% depreciation rate to calculate depreciation expense for  
17 Account 342. However, in OPC's calculation of depreciation reserve, they include reserve  
18 amounts which should have been removed in the 2009 rate case due to the retirement of the  
19 imploded pressure tanks that were replaced in March of 2009. The amount that OPC included  
20 for depreciation reserve in the workpaper was \$484.00.

21 **CIAC AMORTIZATION & CIAC AMORTIZATION EXPENSE**

22 Q. Has Staff proposed to continue to amortize Contributions in Aid of  
23 Construction ("CIAC") in the Company/Staff Disposition Agreement for this case?



1           A.     Yes, Staff shows a balance for CIAC amortization. OPC has a zero balance  
2 for amortized CIAC and CIAC Amortization Expense. OPC's work papers show a sewer  
3 plant in service balance of \$22,800 with a zero depreciation rate, zero depreciation reserves,  
4 and zeroed CIAC Amortization. In essence, OPC has erred in that their workpapers show that  
5 the plant infrastructure should be treated as new plant.

6           Q.     Is there an adjustment Staff is proposing for the Company's [accounting]  
7 books as it pertains to Depreciation and CIAC Amortization Expense for the sewer and water  
8 accounts?

9           A.     Yes, for sewer, Staff, Company, and OPC agree that the originally installed  
10 plant and equipment is fully depreciated. Staff finds no record of plant replacements or  
11 upgrades to the sewer system that would result in a net plant contribution to rate base.  
12 CIAC is amortized at an equivalent rate as the contributed plant is depreciated. Consequently,  
13 the accumulated depreciation reserve for the sewer system plant and equipment should match  
14 the original cost. Staff finds that no net salvage has been collected for cost of removal for  
15 Hickory Hills' sewer plant and equipment that would alter the depreciation reserves. For the  
16 water plant, there was \$9,793 worth of storage and pressure tanks replaced as a result of an  
17 implosion of tanks in March of 2009. All other water plant has been fully depreciated.  
18 Further, any contributed plant should have been fully amortized, that is, the accumulated  
19 CIAC amortization should match the original CIAC. Staff recommends adjustments that will  
20 produce plant, depreciation reserve balances, CIAC, and amortized CIAC reserve balances  
21 that reflect fully depreciated plant.

22           Q.     How does Staff propose showing these adjustments in the Staff accounting  
23 schedules?

1           A.     Staff proposes to create a separate account, identified as Account 300 –  
2     Stipulated Plant, for all sewer and water plant placed in service through the update period, and  
3     assigning a zero depreciation rate to the account. Further, the balances for account 300  
4     depreciation reserves will be the same as the plant balance. CIAC and CIAC amortization  
5     reserves will show the same number of dollars.

6           Q.     What is the overall result of Staff's creation of Account 300?

7           A.     All sewer and water plant in service as of June 30, 2014 will receive no further  
8     rate treatment. The plant accounts will start over anew, that is, all future plant added to the  
9     sewer and water systems will be recorded to its appropriate plant account with an appropriate  
10    depreciation rate going forward from effective date of the Report and Order that will be issued  
11    in this case.

12          Q.     Are there any exceptions to this for the Sewer Company?

13          A.     No, all sewer plant has been fully depreciated.

14          Q.     Are there any exceptions to this for the Water Company?

15          A.     Yes, as mentioned previously, there was known plant installed in March of  
16    2009, as a result of implosion of pressure tanks. This account (342 – Distribution Reservoir  
17    and Standpipes) [does and] will have dollars assigned to it in the future. Staff recommends a  
18    continuation of the Commission ordered 2.50% depreciation rate for this account.

19          Q.     What impact does Staff's proposed adjustments have on rate base for the  
20    Sewer Company?

21          A.     It reduces the rate base recommended by Staff to a \$0.00 net rate base. Staff  
22    previously recommended a rate base of \$180.00.

1 Q. What impact does this have on rate base for the Water Company?

2 A. It increases the prior rate base recommended by Staff to a \$8,652.00 net rate  
3 base. Staff previously recommended a \$8,623.00 rate base in the Disposition Agreement.

4 Q. Staff is changing its position regarding the recommended Depreciation Rates  
5 and treatment of CIAC. Why?

6 A. Simply stated, in the prior EMS runs, namely the last two rate cases, Staff did  
7 not make the necessary adjustments to CIAC balances. This will be the most fair and  
8 appropriate method to clean up the Company's records for CIAC and plant depreciation for  
9 Hickory Hills.

10 Q. Does Staff recommend a change to its recommended depreciation rates for  
11 Hickory Hills?

12 A. Yes, Staff recommends the Sewer Depreciation Rates as attached in schedule  
13 DAM-1 and the Water Depreciation Rates as attached in schedule DAM-2.

14 Q. Why does the Company need these depreciation rates, if the books now state  
15 that there is no plant to depreciate?

16 A. In the future, if the Company were to add plant, existing plant accounts and  
17 corresponding depreciation rates would exist to prevent confusion as to what depreciation rate  
18 should be used for these accounts, as shown in schedules DAM-1 and DAM-2.

19 Q. Does this conclude your Rebuttal testimony?

20 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION**

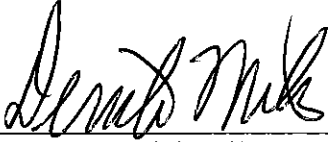
**OF THE STATE OF MISSOURI**

In the Matter of a Requested Rate Increase for )	Case No. WR-2014-0167
Annual Water Operating Revenues by Hickory )	
Hills Water & Sewer )	and
In the Matter of a Requested Rate Increase for )	Case No. SR-2014-0166
Annual Sewer Operating Revenues by Hickory )	
Hills Water & Sewer )	

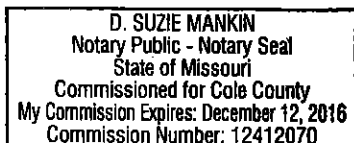
**AFFIDAVIT OF DERICK MILES, P.E.**

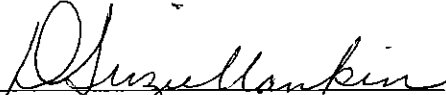
STATE OF MISSOURI                    )  
  )       ss.  
COUNTY OF JACKSON                )

Derick Miles, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Derick Miles

Subscribed and sworn to before me this 11<sup>th</sup> day of September, 2014.



  
\_\_\_\_\_  
Notary Public

**Hickory Hills Water & Sewer Company**  
**DEPRECIATION RATES**  
**(SEWER)**  
**SR-2014-0166**

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
300	Stipulated Plant	0.0%	Fully Accrued	0%
311	Structures & Improvements	4.0%	27.5	-10%
352.1	Collection Sewers (Force)	2.0%	50	0%
352.2	Collection Sewers (Gravity)	2.0%	50	0%
354	Services	2.0%	50	0%
355	Flow Measurement Devices	3.3%	30	0%
362	Receiving Wells	4.0%	26	-5%
363	Electric Pumping Equipment	10.0%	10	0%
372	Treatment & Disposal Facilities	5.0%	22	-10%
372.1	Oxidation Lagoons	4.0%	40	-60%
373	Plant Sewers	2.5%	40	0%
374	Outfall Sewer Lines	2.0%	50	0%
391	Office Furniture & Equipment	5.0%	20	0%
391.1	Office Electronic & Computer Equip.	14.3%	7	0%
392	Transportation Equipment	13.0%	7	9%
393	Other General Equipment (tools, shop equip., backhoes, trenchers, etc.)	10.0%	8.7	13%

Depreciation Rate = (100% - Net Salvage %) / Average Service Life

The retirement rate equals the inverse of the average service life.

Reviewed, 9/7/2014. The above rates are standard small company depreciation rates modified as a result of Staff's investigation of the Company's operation, records, and physical plant, and are dependent on the Company's implementation of the end of the year adjustments to the Company's plant in service.

# Hickory Hills Water & Sewer Company

## DEPRECIATION RATES

(WATER)

WR-2014-0167

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
300	Stipulated Plant	0.0%	Fully Accrued	0%
311	Structures & Improvements	2.5%	44	-10%
314	Wells & Springs	2.0%	55	-8%
325.1	Submersible Pumping Equipment	10.0%	12	-20%
332	Water Treatment Equipment	2.9%	35	0%
342	Distribution Reservoirs & Standpipes	2.50%	42	-5%
343	Transmission & Distribution Mains	2.0%	50	0%
345	Services	2.5%	40	0%
346.1	Meters - Bronze Chamber	3.33%	30	0%
346.2	Meters - Plastic Chamber	10.0%	10	0%
346.2	Meters Installations	2.50%	40	0%
347	Customer Meter Pits & Installation	2.5%	40	0%
372	Office Furniture & Equipment	5.0%	20	0%
372.1	Office Electronic & Computer Equip.	20.0%	5	0%
373	Transportation Equipment	13.0%	7	9%
379	Other General Equipment (tools, shop equip., backhoes, trenchers, etc.)	5.0%	8.7	13%

Depreciation Rate = (100% - Net Salvage %) / Average Service Life

The retirement rate equals the inverse of the average service life.

Reviewed, 9/7/2014. The above rates are standard small company depreciation rates modified as a result of Staff's investigation of the Company's operation, records, and physical plant, and are dependent on the Company's implementation of the end of the year adjustments to the Company's plant in service.