

Exhibit No.:
Issue: Depreciation Rates
Witness: Keenan B. Patterson, PE
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: WR-2017-0285
Date Testimony Prepared: January 17, 2018

MISSOURI PUBLIC SERVICE COMMISSION

**COMMISSION STAFF DIVISION
OPERATIONAL ANALYSIS DEPARTMENT**

REBUTTAL TESTIMONY

OF

KEENAN B. PATTERSON, PE

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

*Jefferson City, Missouri
January 2018*

1 WR-2011-0337, and recently ordered again in Case No. WR-2015-0301.¹ In the direct
2 testimony of Mr. Brian W. LaGrand, MAWC requested to change this rate to 14.3 percent.

3 Q. What reason does MAWC provide for requesting a change in the depreciation
4 rate for the BT system?

5 A. MAWC bases its request on the claim that the supplier, SAP, will end
6 “mainstream maintenance” of the BT system in 2025.²

7 Q. Does Staff agree that this depreciation rate should be changed?

8 A. No. Staff recommends that the Commission order MAWC to continue to use
9 the depreciation rate of 5 percent for Account No. 391.4.

10 Q. What are the reasons that Staff recommends continued use of the current
11 depreciation rate for the BT system?

12 A. Staff disagrees with MAWC’s request for several reasons. First, it is not clear
13 that the end of “mainstream maintenance” will represent the immediate end of the useful life
14 of the BT system. According to the SAP website, SAP HANA users have options for
15 “extended maintenance” and “customer-specific maintenance” after the end of mainstream
16 maintenance.³ In Staff Data Request No. 0199, Staff asked MAWC what BT System
17 maintenance options available to it after the expiration of the mainstream maintenance and its
18 plans related to the options or its reasons for not using them. In response, Mr. LaGrand stated
19 that “Missouri-American has not started planning for maintenance options outside of the

¹ *Order Approving Non-Unanimous Stipulation and Agreement*, Issued March 7, 2012, Case No. WR-2011-0337.

² *Order Approving Non-Unanimous Stipulation Agreement*, Issued April 6, 2016, Case No. WR-2015-0301.

³ Direct Testimony of Brian W. LaGrand, p. 29, ll. 2-19.

³ Mainstream Maintenance, <https://wiki.scn.sap.com/wiki/display/SL/Maintenance+Strategy>, accessed November 6, 2017.

1 standard enhancement and functional upgrades offered by SAP.” A copy of MAWC’s
2 response to Data Request No. 0199 is attached as Schedule KBP-r1.

3 Second, MAWC has not presented a plan for what will follow or replace the BT
4 system. In Staff Data Request No. 0200, Staff inquired of MAWC about its planning or
5 preparations for the end of mainstream maintenance for the BT System. As stated above,
6 MAWC indicated it in its response that it has no plans outside of the enhancement or upgrade
7 packages offered by SAP. A copy of MAWC’s response to Data Request No. 0200 is attached
8 as Schedule KBP-r2.

9 Third, MAWC agreed to do a depreciation study in the stipulation in Case No.
10 WR-2011-0337 but the study submitted by MAWC in Case No. WR-2015-0301 did not
11 address Account No. 391.4.⁴

12 Fourth, MAWC has presented no new information related to its request for a change in
13 the depreciation rate for Account No. 391.4. The only claim in this case is that mainstream
14 maintenance for the BT System is scheduled to end in 2025.

15 Fifth, Staff finds the current depreciation rate of 5 percent is reasonable and in keeping
16 with rates for similar systems. For instance, in Case No. GO-2015-0363, the Commission
17 found that a 15-year service life was appropriate for Laclede Gas Company’s business
18 transformation system and ordered a depreciation rate of 7 percent.⁵

19 Finally, if the rate is adjusted to allow for an end of useful life in 2025, the rate of
20 14.3 percent is not appropriate. This rate would allow MAWC to recover the entire book cost
21 of the BT system in 7 years. However, MAWC has already recovered a significant portion of

⁴ *Non-Unanimous Stipulation and Agreement*, Case No. WR-2011-0337, EFIS Item No. 283, which was approved by the Commission effective March 16, 2012.

⁵ *Report and Order*, Issued October 3, 2012, Case No. GO-2012-0363.

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1 book cost as represented in the accumulated depreciation. If the depreciation rate for
2 Account 391.4 were to be adjusted to account for a potentially shorter life, it should also be
3 adjusted to account for the accrued depreciation.

4 Q. What does staff recommend?

5 A. Staff recommends that the Commission order MAWC to continue to use the
6 depreciation rate schedule order in Case No. WR-2015-0301, including the 5 percent
7 depreciation rate for Account No. 391.4.

8 Q. Does this complete your rebuttal testimony?

9 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Request for Authority to) Case No. WR-2017-0285
Implement General Rate Increase for Water)
and Sewer Service Provided in Missouri)
Service Areas)

AFFIDAVIT OF KEENAN B. PATTERSON, PE

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

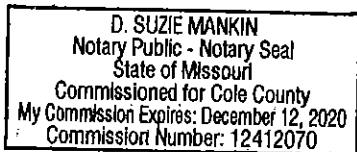
COMES NOW KEENAN B. PATTERSON, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Rebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

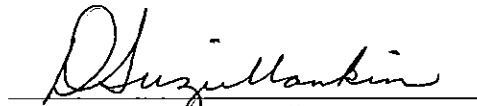
Further the Affiant sayeth not.


KEENAN B. PATTERSON, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 16th day of January, 2018.




Notary Public

Missouri Public Service Commission

Respond Data Request

Data Request No.	0199
Company Name	Missouri-American Water Company-(Water)
Case/Tracking No.	WR-2017-0285
Date Requested	10/16/2017
Issue	Expense - Operations - Depreciation
Requested From	Brian LaGrand
Requested By	Jacob Westen
Brief Description	Business Transformation System
Description	What maintenance options are available to Missouri-American for the business transformation system after the expiration of mainstream maintenance? Has Missouri-American considered using these options? If these options were not selected by Missouri-American, please explain. * DR requested by Keenan Patterson (Keenan.Patterson@psc.mo.gov)
Response	Missouri-American Water Company purchases SAP Software Maintenance and Support on an annual basis from SAP to ensure supportability, security and compliance requirements. In addition American Water has contracts with two preferred partners for functional support of SAP and our business processes. Missouri-American has not started planning for maintenance options outside of the standard enhancement packs and functional upgrades offered by SAP. Responsible Witness: Brian LaGrand
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WR-2017-0285** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Missouri-American Water Company-(Water)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Missouri-American Water Company-(Water)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

Schedule KBP-r1

Missouri Public Service Commission

Respond Data Request

Data Request No.	0200
Company Name	Missouri-American Water Company-(Water)
Case/Tracking No.	WR-2017-0285
Date Requested	10/16/2017
Issue	Expense - Operations - Depreciation
Requested From	Brian LaGrand
Requested By	Jacob Westen
Brief Description	Business Transformation System
Description	Please provide a brief description of Missouri-American's planning or preparation for the end of mainstream maintenance for its business transformation system. Please provide copies of any reports of plans Missouri-American has prepared as part of its planning or preparation. * DR requested by Keenan Patterson (Keenan.Patterson@psc.mo.gov)
Response	See response to MoPSC 0199. Responsible Witness: Brian LaGrand
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WR-2017-0285** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Missouri-American Water Company-(Water)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Missouri-American Water Company-(Water)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

Schedule KBP-r2