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MISSOURI PUBLIC
SERVICE COMMISSION

Exhibit No. _____

Issue(s): Water Plant Premature Retirement
Witness// Type of Exhibit: Bolin/Surrebuttal
Sponsoring Party: Public Counsel
Case Nos.: WR-2000-281 and SR-2000-282

SURREBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

Submitted on Behalf of the Office of the Public Counsel

Missouri-American Water Company

Case Nos.: WR-2000-281 and SR-2000-282

May 25, 2000

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

In the matter of Missouri-American Water)	
Company's tariff sheets designed to implement)	
General rate increases for water and sewer)	Case Nos. WR-2000-281 and
Service provided to customers in the Missouri)	SR-2000-282
Area of the Company.)	

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

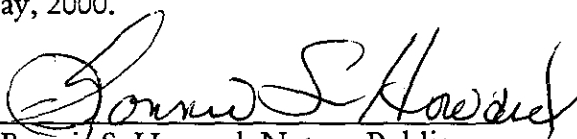
Kimberly K. Bolin, of lawful age and being first duly sworn, deposes and states:

1. My name is Kimberly K. Bolin. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached, hereto and made a part hereof for all purposes, is my surrebuttal testimony consisting of pages 1 through 6.
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.



Kimberly K. Bolin

Subscribed and sworn to me this 25th day of May, 2000.



Bonnie S. Howard, Notary Public

My Commission expires May 3, 2001.



SURREBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2000-281/SR-2000-282

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. Kimberly K. Bolin, P.O. Box 7800, Jefferson City, Missouri 65102.

**Q. ARE YOU THE SAME KIMBERLY K. BOLIN WHO HAS FILED DIRECT AND
REBUTTAL TESTIMONIES IN THIS CASE?**

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. To response to the rebuttal testimony of Missouri-American Water Company (Company or Missouri-American) witness James E. Salser concerning the premature retirement of the river source water treatment plant in St. Joseph.

Q. WHAT IS THE ISSUE?

A. The Company built a new ground source water treatment plant in St. Joseph, Missouri that replaces the Company's river source water treatment plant. The "old" river source water treatment plant was retired and is no longer used to provide service to St. Joseph. However, the river source water treatment plant was not fully depreciated before its retirement. The Company has proposed to treat this premature retirement like a normal retirement, thus removing the original cost of the plant from both the plant in service and the accumulated depreciation reserve. The Office of the Public

1 Counsel (Public Counsel or OPC) is opposed to this because removing the amount of the original
2 cost of the plant from the accumulated depreciation reserve decreases the reserve by more than the
3 amount the Company has recorded in the reserve for the river source water treatment plant. This
4 decrease causes an increase in the Company's rate base in the amount of \$2,832,906. This amount
5 is the amount of the net plant (original cost less accumulated depreciation reserve) before the
6 retirement.

7 Company's proposal allows Missouri-American to earn a return on plant that is no longer used and
8 useful in rendering utility service. Public Counsel believes the Company should remove the
9 original cost of the plant from plant in service and remove only the recorded amount of depreciation
10 from the accumulated depreciation reserve. The difference between the original cost of the plant
11 and the recorded depreciation in the reserve would then be written off.

12 **Q. DID THE COMPANY CHANGE ITS POSITION IN REBUTTAL TESTIMONY**
13 **FROM WHAT THE COMPANY PRESENTED IN ITS DIRECT TESTIMONY?**

14 A. Yes. In Company's direct testimony Missouri-American proposed including the retired net plant in
15 rate base **and** amortizing the retired plant over a 20-year period. In Company's rebuttal testimony
16 Missouri-American has proposed a different method to recognize the "old" river net plant in rate
17 base. Removing the original cost of the plant from plant in service and from the accumulated
18 depreciation reserve has the same rate base effect as leaving net plant in rate base. The Company
19 has abandoned its effort to increase the cost of service to recover any amortization of the "old" river
20 plant not fully depreciated.

1 **Q. DOES THE MISSOURI-AMERICAN'S PROPOSAL AS PRESENTED IN**
2 **REBUTTAL TESTIMONY HAVE THE SAME EFFECT ON RATE BASE AS THE**
3 **COMPANY'S PROPOSAL IN DIRECT TESTIMONY?**

4 A. Yes. Company's proposed accounting gymnastics does not mask the fact that leaving the retired
5 plant on the books (in plant in service) has the same effect on rate base as removing the original
6 cost of the plant from the accumulated depreciation reserve.

7 **Q. PLEASE EXPLAIN WHAT A DEPRECIATION RESERVE IS, HOW IT IS**
8 **CREATED AND HOW IT AFFECTS RATE BASE.**

9 A. Depreciation is the method used to recover the cost of an asset over its useful life. Each year a
10 predetermined depreciation expense percent is applied to that asset's cost and the result is recorded
11 on the books as depreciation expense. This expensed amount is reflected also in a depreciation
12 reserve account, which acts as an accumulation of the total depreciation expense recorded for that
13 asset, from the time that asset was first placed in service. When determining rate base, the
14 depreciation reserve is a deduction from plant in service which results in a total net plant in service
15 that is then included in rate base.

16 **Q. WHAT IS THE AMOUNT THAT HAS BEEN RECORDED IN THE DEPRECIATION**
17 **RESERVE AS OF APRIL 30, 2000 FOR THE RIVER SOURCE WATER**
18 **TREATMENT PLANT IN ST. JOSEPH?**

19 A. \$4,052,188.

1 Q. WHAT AMOUNT IS THE COMPANY PROPOSING TO REMOVE FROM THE
2 DEPRECIATION RESERVE FOR THE RETIREMENT OF THE ST. JOSEPH
3 RIVER SOURCE WATER TREATMENT PLANT?

4 A. The Company is proposing to remove original cost (\$6,885,094) of the St. Joseph river source
5 water treatment plant from the depreciation reserve.

6 Q. HOW DOES COMPANY'S PROPOSAL AFFECT THE DEPRECIATION RESERVE?

7 A. Company's proposal decreases the depreciation reserve by \$2,832,906 more than what the
8 Company has recorded in the reserve for the retired river source water treatment plant. By
9 decreasing the depreciation reserve the Company will be increasing the net plant in service and the
10 rate base.

11 The following table illustrates the effect on plant in service and rate base if the amount removed for
12 the retirement of the river source water treatment plant is the original cost of the plant (Company's
13 proposal). The table also compares the effect if the amount removed for the retirement is the
14 amount recorded (OPC's proposal) in the accumulated depreciation reserve.

	<u>COMPANY'S PROPOSAL</u>	<u>OPC'S PROPOSAL</u>
<u>PLANT IN SERVICE</u>		
PLANT IN SERVICE AS OF 12/31/99	\$33,868,100	\$33,868,100
LESS: PLANT RETIREMENT*	<u>(\$6,885,094)</u>	<u>(\$6,885,094)</u>
PLANT IN SERVICE	\$26,983,006	\$26,983,006
<u>LESS: ACCUMULATED DEPRECIATION RESERVE</u>		
ACCUMULATED DEPRECIATION RESERVE		
AS OF 12/31/99	\$10,107,730	\$10,107,730
LESS: PLANT RETIREMENT	<u>(\$6,885,094)</u>	<u>(\$4,052,188)</u>
ACCUMULATE DEPRECIATION RESERVE	<u>\$3,222,636</u>	<u>\$6,055,542</u>
NET PLANT IN SERVICE	\$23,760,370	\$20,927,464

*Retirement of the river source water treatment plant in St. Joseph

The Commission should recognize that under the Company's proposal, whether or not the \$6,885,094 is removed from plant in service and the accumulated depreciation reserve, rate base will be the same (\$33,868,100 plant in service minus \$10,107,730 accumulated depreciation reserve equals \$23,760,370 net plant in service).

Q. PLEASE EXPLAIN HOW COMPANY'S PROPOSAL INCREASES RATE BASE.

A. Company's proposal adds \$2,832,906 to rate base by decreasing the accumulated depreciation reserve. The accumulated depreciation reserve is subtracted from plant in service to arrive at net

1 plant in service. Items are then added and deducted from net plant in service to arrive at rate base.

2 Items such as cash working capital, materials and supplies and prepayments are added to net plant
3 in service and items such as contributions in aid of construction and customer advances are
4 deducted from net plant in service. In mathematical terms, subtraction of a negative (the
5 accumulated depreciation reserve), results in an addition (in this case to rate base).

6 **Q. UNDER COMPANY'S PROPOSAL WOULD THE COMPANY EARN A RETURN ON**
7 **PLANT THAT IS NO LONGER USED AND USEFUL?**

8 A. Yes. By decreasing the accumulated depreciation reserve by the original cost of the river source
9 water treatment plant the Company has added the undepreciated amount of the retired plant to rate
10 base. Thus, the Company would be earning a return on plant that is no longer providing utility
11 service to the ratepayers.

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

13 A. Yes.