

*Exhibit No.:*  
*Issue:* Depreciation  
*Witness:* Arthur W. Rice  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal Testimony  
*Case No.:* WR-2013-0461  
*Date Testimony Prepared:* January 31, 2014

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**UTILITY SERVICES**

**SURREBUTTAL TESTIMONY**

**OF**

**ARTHUR W. RICE, PE**

**LAKE REGION WATER & SEWER COMPANY**

**CASE NO. WR-2013-0461**

*Jefferson City, Missouri*  
*January 2014*

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1 the prior rate case stipulated accounting schedules be entered in this current rate case as  
2 adjustments that only alter plant in service and the accruing of depreciation expense on a going  
3 forward basis from the end of test year in the current rate case.

4 **INTRODUCTION**

5 Q. In general, what starting plant and accumulated depreciation reserve balances  
6 does Staff use as a basis for the starting plant and reserves balances when auditing the plant and  
7 depreciation reserve accounts during a rate case?

8 A. When a previous rate case for the Company has a Unanimous Stipulation  
9 agreement where it is stated that the Parties do not dispute the information contained within a  
10 specific filed set of Staff Accounting Schedules, and the Commission's Final Report and Order  
11 states that this Stipulation has been fully examined and accepted by the Commission as  
12 undisputed facts, Staff uses the plant and reserves balances from that Stipulated set of accounting  
13 schedules as the starting balances. Staff then reviews all plant additions and retirements that  
14 have occurred since the dates of those balances in the last case. Sometimes, as in this case, the  
15 Staff will also review plant additions and retirements that occurred before the last rate case but  
16 were not included in the previous rate case.

17 **ANALYSIS**

18 Q. What is the specific issue?

19 A. Mr. Addo's Rebuttal Testimony pages 3 through 6 addresses plant in service in  
20 the amounts of \$14,036 and \$15,332 in accounts 345 and 346 (Services and Meters),  
21 respectively, that were actually placed in service during the test year for the previous case, Case  
22 No. WR-2010-0111, but were erroneously not included in the Stipulated plant accounting  
23 schedules for that rate case. Staff entered these amounts as adjustments to plant in service in the

1 current rate case at the June 30, 2013 end of test year date for the current case. Staff did not  
2 retroactively compute depreciation expense and enter an adjustment to the accumulated  
3 depreciation reserves for this plant. Mr. Addo testifies that Staff should have retroactively  
4 computed depreciation expense and entered adjustments to the accumulated depreciation  
5 reserves of \$1,423 and \$1,534, respectively, for accounts 345 and 346.

6 Q. Does Staff agree with Mr. Addo's adjustment to the accumulated reserves?

7 A. No.

8 Q. Why does Staff not agree?

9 A. There are two reasons Staff does not agree.

10 1. Adjusting accumulated reserve balances for depreciation expense on plant not  
11 included in a prior case Stipulated Agreement is synonymous with altering the prior  
12 Stipulated Agreement and the prior Commission Order.

13 2. Picking this one issue out of the prior Stipulation and Agreement and adjusting  
14 accumulated reserves does not follow the "matching principal" used in all rate cases. The  
15 matching principal requires that all accounts be examined simultaneously at one point in time.  
16 To apply the matching principal to the last case's stipulated plant in service would require  
17 reviewing all plant accounts for omitted plant additions, omitted retirements, and other errors  
18 that would also have altered the current recorded accumulated depreciation reserves, and then  
19 retroactively computing adjustments. It is evident that Mr. Addo did not follow the matching  
20 principal in that he failed to address a multitude of other omissions and errors that Staff  
21 discovered in the plant balances of the prior Stipulated Accounting Schedules. For all known  
22 errors that occurred before the stipulated plant balances, Staff has made the adjustments effective  
23 at the end of the test year in this case.

1 Q. What did the Commission Report and Order for Case No.WR-2010-0111 state?

2 A. The Commission Report and Order on page 8 states,

3 On March 16, 2010, the parties jointly filed a Unanimous Stipulation of  
4 Undisputed Facts. The Commission, having fully examined this  
5 stipulation, will address the specifics of the agreement in its findings of  
6 facts and conclusions of law.

7 Furthermore, Item 75 on page 31 states,

8 The Parties do not dispute the information contained within the Staff  
9 Accounting Schedules-Utility Service, filed on January 14, 2010, and  
10 subsequently updated as of February 8, 2010 to correct a revenue  
11 calculation error and a miscommunication between Lake Region and Staff  
12 regarding Payroll resulting in adjusted increased revenue requirements of  
13 \$18,125 for Horseshoe Bend Sewer, \$108,076 for Shawnee Bend Sewer  
14 and \$20,549 for Shawnee Bend Water, subject however to the following  
15 exceptions: specific information on the topics of Management Fees and  
16 Availability Fees.

17 Q. Did Staff use the Staff Accounting Schedules-Utility Service, filed on January 14,  
18 2010, and subsequently updated as of February 8, 2010, as the beginning balance for examining  
19 plant and accumulated depreciation reserve balances?

20 A. Yes.

21 **STAFF'S RECOMMENDATION**

22 Staff recommends that Mr. Addo's adjustments to accumulated reserves not be allowed.  
23 Any adjustments to plant resulting from the discovery of omissions or errors in the prior rate  
24 case's stipulated accounting schedules should be entered in this current rate case as adjustments  
25 that only alter plant in service and the accrual of depreciation expense should be on a going  
26 forward basis from the end of the test year in the current rate case.

27 Q. Does this end your testimony?

28 A. Yes.

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

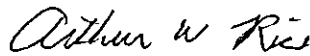
In the Matter of Lake Region Water & Sewer )  
Company's Application to Implement a )  
General Rate Increase in Water & Sewer )  
Service )

Case No. WR-2013-0461

AFFIDAVIT OF ARTHUR W. RICE, PE

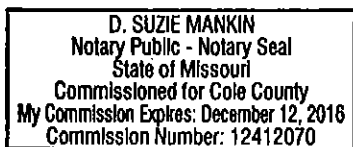
STATE OF MISSOURI     )  
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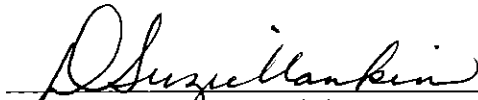
Arthur W. Rice, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he 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.



Arthur W. Rice

Subscribed and sworn to before me this 31<sup>st</sup> day of January, 2014.



  
Notary Public