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Witness: Arthur W. Rice
Sponsoring Party: MoPSC Staff
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Case No.: WR-2011-0337
Date Testimony Prepared: February 2, 2012

MISSOURI PUBLIC SERVICE COMMISSION
REGULATORY REVIEW DIVISION
UTILITY SERVICES

SURREBUTTAL TESTIMONY

OF

ARTHUR W. RICE, PE

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2011-0337

Jefferson City, Missouri
February 2, 2012

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ARTHUR W. RICE, PE
MISSOURI-AMERICAN WATER COMPANY
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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **ARTHUR W. RICE, PE**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2011-0337**

6 Q. Please state your name and business address?

7 A. My name is Arthur W. Rice and my business address is Missouri Public Service
8 Commission, P.O. Box 360, Jefferson City, MO 65102.

9 Q. What is your position with the Staff (Staff) of the Missouri Public Service
10 Commission (Commission)?

11 A. I am a Utility Regulatory Engineer I in the Commission's Engineering and
12 Management Services of the Utility Services Department.

13 Q. Are you the same Arthur W. Rice that previously filed testimony in this
14 proceeding?

15 A. Yes, I am. I filed testimony on November 17, 2011 contributing to Staff's Cost
16 of Service Report, section VIII B, Depreciation, and Rebuttal Testimony on January 19, 2012 in
17 the Missouri-American Water Company (MAWC) rate case in Case No. WR-2011-0337.

18 **PURPOSE and SUMMARY**

19 Q. What is the purpose of your Surrebuttal Testimony?

20 A. I will provide testimony regarding the following two issues:

21 (1) An update to Staff's position presented in my Rebuttal Testimony regarding
22 the St. Joseph understatement of depreciation reserves.

23 (2) Staffs response to Company witness Mr. John Spanos's Rebuttal Testimony.

1 **St. Joseph Understated Depreciation Reserves**

2 Q. Has MAWC provided detailed plant and depreciation reserve records for the
3 St. Joseph facility that Staff accepts as sufficient evidence to show that the write off of the
4 unrecovered plant and cost of removal resulting from the year 2000 retirement of a water
5 treatment facility was conducted by the Company such that Staff's computed rate base was
6 reduced by \$3,177,861, as discussed in your Rebuttal Testimony?

7 A. Yes.

8 **Response To Company Witness Mr. John Spanos**

9 Q. Does Mr. Spanos agree with Staff that MAWC's overall Company book reserves
10 exceed the overall Company theoretical reserves by approximately \$15 million?

11 A. Yes. Mr. Spanos' Rebuttal Testimony, pages 6 through 8, demonstrates he is
12 aware that MAWCs depreciation reserves are over-accrued by approximately \$15 million.

13 Q. Is Staff's method of estimating the size of the over-accrual consistent with
14 Mr. Spanos' method of estimating the over-accrual?

15 A. Yes. Staff used the same calculation Mr. Spanos used.

16 Q. What method was used by Staff and Mr. Spanos to compare MAWC's book
17 reserve to the theoretical reserve?

18 A. The remaining life method and the life span technique.

19 Q. Why did Staff choose this method and technique to estimate the size of MAWC's
20 over-accrual?

21 A. For determining the existence of an over-accrual, Staff needed a high-end
22 estimate of theoretical reserve. If the booked reserves are larger than this high-end estimate,
23 Staff can be confident that MAWC has sufficient reserves to cover a shortfall that may occur

1 from an individual facility. Use of the remaining life method with the life span technique relies
2 on the assumption that existing plant will continue to be replaced until a given point in time, and
3 at that time, all plant of all ages will be simultaneously retired and removed. Thus, use of the
4 remaining life method with the life span technique produces a theoretical reserve at the high end
5 of reasonable estimates, which is appropriate for purposes of determining the existence of an
6 over-accrual.

7 Q. Is this approach for determining the existence and size of an over-accrual
8 consistent with estimates made by MAWC?

9 A. Yes. This approach was used by MAWC in its December 31, 2008, depreciation
10 study. This approach is also adopted by Company Witness Mr. Spanos in his Rebuttal
11 Testimony in this case.

12 Q. Does Mr. Spanos testimony show that sufficient depreciation reserves exist
13 across all plant accounts in aggregate?

14 A. Yes.

15 Q. Is MAWC's request for recovery of a Platte County (Parkville) amortization,
16 which is effectively additional and accelerated depreciation, consistent with Mr. Spanos'
17 acknowledgement of a \$15 million over-accrual of MAWC's depreciation reserves?

18 A. Not at all. MAWC's \$15 million over-accrual is more than adequate to cover a
19 2018 retirement of the Parkville facility. Even if MAWC retires and green-fields the Parkville
20 facility in 2018, all else being equal, MAWC's reserves would still be over-accrued by
21 approximately \$10,000,000.

22 Q. What if MAWC's Parkville account reserves are not adequate to cover the
23 retirement and cost-of-removal of the Parkville facility?

1 A. The Commission can, and likely should, order transfer of excess reserves existing
2 at other facilities or accounts to cover any deficient Parkville subaccount.

3 Q. When would that reserve transfer take place?

4 A. If necessary to cover a deficiency, this transfer would take place after the
5 treatment facility is removed from service and disposed of, the actual retired equipment
6 identified, and the cost of removal and salvage amounts are known.

7 Q. Has the Commission ordered MAWC to utilize state-wide depreciation rates for
8 its multiple districts?

9 A. Yes. Depreciation rates for MAWC have been consistent across all districts
10 since the Commission ordered depreciation rates, effective January 1, 2008, in Case
11 No. WR-2007-0216.

12 Q. Is use of existing over-accruals to mitigate potential reserve shortfalls particularly
13 appropriate where MAWC uses state-wide depreciation rates?

14 A. Yes.

15 Q. Is Staff willing to work with MAWC and potential interveners to discuss methods
16 for carrying out a reserve transfer prior to MAWC's potential Parkville retirement?

17 A. Yes. Because the Company has requested consolidated tariffs across all of
18 Missouri, Staff has recommended different community systems consolidated into districts, and
19 the Office of the Public Counsel has proposed keeping existing districts, Staff does not have a
20 recommendation at this time for a potential reserve transfer several years in the future. The
21 Commission and parties have until 2018 to agree on a methodology to handle transfers of
22 reserves to balance deficiencies and excesses which occur in different parts of the Company as a
23 result of consolidated depreciation rates. The Company as a whole has sufficient reserves.

1 Q. What should the Commission order to effectuate Staff's recommendations in
2 this case?

3 A. (1) The Commission should **not allow special additional depreciation expense**
4 **for the Platte County (Parkville) water treatment plant** in this rate case. If a shortfall exists
5 in the Parkville account following retirement of the Parkville unit, then the Commission should
6 order the transfer of reserves between accounts and facility locations to balance reserve shortfalls
7 and excesses for out of balance reserves accounts, prior to any modification of depreciation rates
8 in any future case brought before the Commission.

9 (2) **Continue to use the current ordered Company-wide consolidated**
10 **depreciation rates for water and sewer** plant accounts as shown in the Staff Report Cost
11 of Service Appendices, Schedules AR-1 and AR-2.

12 (3) As recommended in the Staff's Cost of Service report and Rebuttal
13 Testimony of Arthur Rice, that **MAWC Conduct a depreciation study** for submission to
14 the Commission with the Company's next rate case or within three years from the effective
15 order date of this case. This study shall include all depreciable water and sewer plant
16 accounts. Additionally, the definition of the retirement history to be included, the source of
17 the historical records used in this depreciation study, and applicable distinctions in treatment
18 among different Company tariff districts, if any, shall be submitted to the Manager of the
19 Staff's Engineering and Management Services Unit for review 60 days prior to the Company
20 conducting the depreciation study.

21 (4) As recommended in Arthur Rice's Rebuttal Testimony, the Commission
22 should reject MAWC's request that the Commission authorize a **12 year amortization**

Surrebuttal Testimony of
Arthur W. Rice, PE

1 **period** for future accounting of the cost of American Water's Business Transformation
2 System.

3 Q. Does this end your Surrebuttal Testimony?

4 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)
Implement A General Rate Increase for Water)
and Sewer Service Provided in Missouri)
Service Areas)

Case No. WR-2011-0337

AFFIDAVIT OF ARTHUR W. RICE, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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 6 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 PE
Arthur W. Rice, PE

Subscribed and sworn to before me this 1st day of February, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

Suzie Mankin
Notary Public