

Exhibit No.:
Issues:
Witness: John J. Spanos
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2015-0301
SR-2015-0302
Date: March 1, 2016

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

SURREBUTTAL TESTIMONY

OF

JOHN J. SPANOS

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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

| | |
|--------------------------------------|-----------------------|
| IN THE MATTER OF MISSOURI-AMERICAN) | |
| WATER COMPANY FOR AUTHORITY TO) | |
| FILE TARIFFS REFLECTING INCREASED) | CASE NO. WR-2015-0301 |
| RATES FOR WATER AND SEWER) | CASE NO. SR-2015-0302 |
| SERVICE) | |

AFFIDAVIT OF JOHN J. SPANOS

John J. Spanos, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of John J. Spanos"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.



John J. Spanos

**Commonwealth of Pennsylvania
County of Cumberland**

**SUBSCRIBED and sworn to
Before me this 23rd day of February 2016.**



Notary Public

My commission expires:

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2019
MEMBER, PENNSYLVANIA ASSOCIATION OF NOTARIES

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**SURREBUTTAL TESTIMONY
JOHN J. SPANOS
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
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1 **SURREBUTTAL TESTIMONY**

2 **JOHN J. SPANOS**

3 **I. INTRODUCTION**

4 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

5 A. My name is John J. Spanos, and my business address is 207 Senate
6 Avenue, Camp Hill, PA 17011.

7
8 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. Yes, I have submitted both direct and rebuttal testimony in this proceeding.

11
12 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

13 A. The purpose of my surrebuttal testimony is to respond to the rebuttal
14 testimony of the Missouri Public Service Commission Staff witness John A.
15 Robinett regarding depreciation issues.

16
17 **Q. WHAT IS THE SUBJECT OF YOUR SURREBUTTAL TESTIMONY?**

18 A. The subject of my surrebuttal testimony relates to general plant amortization,
19 the negative reserve at the district level, the business transformation assets
20 and depreciation of land rights.

21
22 **II. GENERAL PLANT AMORTIZATION**

23 **Q. CAN YOU DISCUSS THE GENERAL PLANT AMORTIZATION ISSUE?**

24 A. Yes. I believe Staff has incorrectly assessed the past life determinations and
25 overall benefit of general plant amortization. First, the currently approved life
26 parameters for the general plant accounts determined in the last case were
27 based on general plant amortization methodology. Each current life
28 parameter for accounts that general plant amortization is recommended in
29 this proceeding are based on judgment related to the useful life of assets
30 within the account. There was no statistical life analysis performed for these

1 accounts. For example, the life parameter for Account 340.10, Office
2 Furniture and Equipment - Office Furniture (Staff Report Account 391.00) is
3 20 years. This is the same life estimate that was used and approved in WR-
4 2011-0337 and WR-2007-0216 which were based on reasonable useful lives,
5 not statistical analyses.

6 Second, the proper implementation of general plant amortization or
7 mass depreciation accounting anticipates matching the service life to the
8 recovery of the assets. Staff's proposal does not accomplish this objective.

9

10 **Q. PLEASE ELABORATE ON HOW THE LIFE ESTIMATES HAVE BEEN**
11 **DETERMINED AND AGREED UPON THE PAST FEW PROCEEDINGS.**

12 A. In the past few proceedings, representatives of MAWC and I have reviewed
13 the nature of the assets in each general plant account and determined the
14 appropriate useful life of each account. There has not been a statistical
15 analysis performed to determine the historical or future life characteristics.
16 We have also included the concept of amortization which only applies the life
17 parameter to the assets that are within that amortization period in order to
18 insure full recovery, no more, no less. Staff agrees to the life parameter, but
19 does not recommend the appropriate implementation of general plant
20 amortization. Therefore, Staff recommends a reasonable life parameter
21 based on understanding of the assets within the account, but does not
22 recommend making the corresponding retirements, which then applies a rate
23 to an asset balance that is not correlated to the life parameter.

24

25 **Q. WHAT ARE THE RESULTS OF THE PARTIAL IMPLEMENTATION OF THE**
26 **LIFE PARAMETERS?**

27 A. First, since the whole life method is recommended by Staff, there is no
28 monitoring of the reserve to plant ratio in the rate. Therefore, Staff is creating
29 a situation wherein the wrong rate is applied to a plant balance. This will cause
30 negative rate base, if applied too long. Second, Staff's approach requires the
31 continual record-keeping of all property records. This is very time consuming

1 for small plant dollars with no benefit. Because of this, almost all other
2 jurisdictions have agreed to the full amortization implementation.

3

4 **Q. HAS STAFF PERFORMED STATISTICAL ANALYSES ON THESE**
5 **GENERAL PLANT ACCOUNTS?**

6 A. No, they have not. Actually, they have not conducted statistical analyses on
7 these accounts for many years.

8

9 **Q. WILL CONDUCTING STATISTICAL ANALYSES IMPROVE THE**
10 **RESULTS?**

11 A. No. The general plant accounts represent less than four percent of the water
12 plant in service and two percent of the wastewater plant in service.
13 Therefore, maintaining individual property history of every asset in these
14 accounts likely would cost more labor effort than any potential benefit of
15 statistical analyses and physical inventories.

16 **Q. DOES THIS MEAN AMORTIZATION PERIODS CANNOT BE CHANGED?**

17 A. No. Similar to the current recommendation for general plant amortization, the
18 amortization period is based on judgment which incorporates an
19 understanding of the assets within the account and their expected useful
20 lives. Were MAWC to begin placing into service assets with a different life
21 expectancy, then the amortization period changes and the vintage retirement
22 implementation changes accordingly.

23

24 **Q. HAS STAFF AGREED TO OTHER UTILITIES UTILIZING THE GENERAL**
25 **PLANT AMORTIZATION METHOD?**

26 A. Yes. It is being utilized both by KCP&L and Ameren Missouri.

27

28 **Q. DO YOU AGREE WITH STAFF'S GENERAL PLANT AMORTIZATION**
29 **ADJUSTMENTS TO THE PLANT AND RESERVE?**

30 A. Conceptually yes. Staff has described a similar process to the practices I set
31 forth in the depreciation study, however, the amounts and timing are different.
32 The method that I have presented correlates the reserve adjustment with the

1 actual vintage retirements to be applied as of March 31, 2015 and smooths
2 the reserve adjustment over five years in order to mitigate any major swings
3 in expense.
4

5 **III. BUSINESS TRANSFORMATION ASSETS**

6 **Q. HAS STAFF ADDRESSED THE BUSINESS TRANSFORMATION**
7 **ASSETS?**

8 A. Yes. In Mr. Robinett's rebuttal testimony, page 8, he comments that MAWC
9 is not recording all business transformation assets in Account 391.4. The fact
10 that the Business Transformation assets are not recorded in Account 391.4
11 should not be a factor in the impact of depreciation expense if the proper
12 recovery period is utilized.
13

14 **Q. IS ACCOUNT 391.3 AMORTIZED OVER THE SAME PERIOD AS**
15 **ACCOUNT 391.4 SHOULD BE AMORTIZED?**

16 A. Yes.
17

18 **Q. CAN YOU EXPLAIN THIS SITUATION.**

19 A. Given the assets in Account 391.3 and the assets in Account 391.4 have the
20 same proposed amortization period of 10 years, the recovery of the two
21 accounts is the same. Additionally, the Business Transformation assets are
22 over 90 percent of the \$52 million plant balance. Therefore, the Business
23 Transformation assets are the driver of the account depreciation expense.
24

25 **IV. NEGATIVE RESERVE ADJUSTMENTS**

26 **Q. IS IT APPROPRIATE TO MAKE RESERVE ADJUSTMENTS ACROSS**
27 **FUNCTIONAL ASSET CLASSES?**

28 A. No. Reserve adjustments should only apply to the same functional assets
29 because the assets are related.
30

1 **Q. WOULD THESE RESERVE ADJUSTMENTS BE NEEDED IF THE**
2 **REMAINING LIFE METHOD WAS UTILIZED INSTEAD OF THE WHOLE**
3 **LIFE METHOD?**

4 A. No, as long as periodic depreciation studies are performed as MAWC has
5 done.

6

7 **Q. WERE THESE NEGATIVE RESERVES AT THE DISTRICT LEVEL**
8 **CAUSED BY INCONSISTENT APPLICATIONS IN THE PAST?**

9 A. Yes. Past cases have applied the Company level life and salvage
10 parameters to the district level with no regard to the district level reserve to
11 plant ratio. Therefore, the required inconsistent application followed by
12 MAWC has not allowed for this process to correct itself.

13

14 **Q. DOES THE RECOVERY OF RATE BASE AT THE COMPANY LEVEL**
15 **RESOLVE THIS ISSUE?**

16 A. Yes.

17

18 **Q. ARE THERE ADDITIONAL REASONS TO APPLY AT THE COMPANY**
19 **LEVEL?**

20 A. Yes. Depreciation for utilities should be calculated at the group or account
21 level as prescribed by utility accounting. All the districts are under the same
22 management so recovery as one group should be prescribed, since the basis
23 for the recovery pattern is performed at the Company or group level.

24

25 **V. NON-DEPRECIABLE PLANT**

26

27 **Q. DO YOU AGREE WITH STAFF ABOUT DEPRECIATION OF NON-**
28 **DEPRECIABLE PLANT?**

29 A. Yes, however, I do not believe Staff has completely presented the situation.
30 First, land is non-depreciable, but land rights are depreciable. Second, the
31 assets in these accounts are not being depreciated in the depreciation study
32 because all assets currently in service are considered non-depreciable, so the
33 minimal amounts of reserve referenced by Staff have related to unusual

1 transactions. Third, the net amount of the reserve in the three accounts total
2 \$1,668 which will not be part of rates going forward since the accounts are
3 non-depreciable.

4

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

6 A. Yes, it does.