Exhibit No.:	
Issues:	*Depreciation Rates*
Witness:	*ROSELLA L. SCHAD*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*TT-2001-328*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

ROSELLA L. SCHAD

OREGON FARMERS MUTUAL TELEPHONE COMPANY

CASE NO. TT-2001-328

Jefferson City, Missouri
March 2001

REBUTTAL TESTIMONY

OF

ROSELLA L. SCHAD

OREGON FARMERS MUTUAL TELEPHONE COMPANY

CASE NO. TT-2001-328

Q. What is your name and business address?

A. Rosella L. Schad, P.O. Box 360, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (PSC or Commission) as an Engineering Specialist II in the Engineering and Management Services Department.

Q. What are your duties as an Engineering Specialist II in the Engineering and Management Services Department?

A. I am responsible for depreciation calculations and engineering analyses of companies regulated by the Commission. In addition, I perform on-site testing of telecommunications equipment throughout the state.

Q. What are your qualifications, educational background and experience?

A. In 1978, I earned a Bachelor of Science degree in Mechanical Engineering from the University of Missouri-Columbia, and I received E.I.T. (Engineer in Training) certification in 1977. I was employed by Union Electric as an engineer intern during the summer of 1977 and employed as an engineer by Union Electric in its Nuclear

Construction Department from 1978-1980. I joined the Missouri Public Service Commission Staff as an Engineering Specialist in 1999.

Q. Have you previously filed testimony before this Commission?

A. Yes. (See Schedule 1 for a list of cases in which I have previously filed testimony.)

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony in this case is to present Staff's determination of Depreciation Rates.

Q. How are Depreciation Rates used?

A. Depreciation Rates are used to determine the annual accrual for depreciation. (See Schedule 2 for Staff's proposed depreciation rates.) This annual value, called the annual depreciation accrual or depreciation expense, is a portion of the Oregon Farmers Mutual Telephone Company's (Company) revenue requirement.

Q. Why is it necessary to make this determination?

A. This determination is necessary because each dollar increase/decrease of the Company's annual depreciation accrual will result in an increase/decrease in the Company's annual revenue requirement. This is important because the revenue requirement represents the money the Company will collect from customers in utility rates.

Q. In a regulated environment, how is the annual depreciation accrual determined?

A. The annual depreciation accrual[1] for an account is the original capital cost of plant in that account divided by the average service life (ASL)[2] of the plant in that account. This is frequently called straight-line depreciation.

Q. How is the ASL of each account determined?

A. Average service life is determined by analyzing the historical lives for plant retired from each account. In conjunction with this, engineering judgment is utilized to determine if the historical lives are reasonable for current plant in service. The historical data and Iowa-type curves[3] are combined to estimate each account's ASL. Because plant in each account or sub-account (subsidiary record category) is similar, plant in service is normally expected to have an average service life closely equal to the historical experience.

Q. Are Staff's depreciation rates for the Company developed from a study of the Company's historical plant data?

A. Yes, indirectly. A full depreciation study requires that the Company maintain and submit historical data of additions and retirements in a format consistent with Staff's depreciation software. Using historical data from other telephone companies with similar property and the use of engineering judgment, standardized depreciation rates have been developed. These rates are then assigned to telephone companies that do not have sufficient historical plant data to do a Company specific study. Staff reviewed

[1] Annual Depreciation Accrual (for the account) = Plant Original Cost (for the account) / Plant Average Service Life (for the account)

[2] ASL = The average expected life of all units in an account.

[3] Iowa curves are standard curves that were empirically developed to describe the life characteristics of most industrial and utility property.

the Company's historical plant data to determine the appropriate depreciation rate for each account.

Q. How does straight-line depreciation recover original capital cost of plant?

A. Straight-line depreciation recovers original capital cost of plant in equal amounts over the average service life of the plant. For example, if a unit of plant lasts 20 years, the Company will recover 1/20th of the plant's original capital cost each year over the life of the plant.

Q. Do you have an additional revenue requirement issue to address in your testimony?

A. Yes. I want to address the net salvage of capital plant, which Staff is treating as an annual expense. Net salvage is the difference between the gross salvage that will be realized when the asset is disposed of and the cost of retiring it. For some accounts, gross salvage will exceed cost of removal and, in those cases, net salvage will be a positive value. For those accounts where net salvage is negative, because cost of removal is greater than gross salvage, Staff frequently uses the term net salvage cost. Regardless of whether net salvage is positive or negative, it will be combined with other annual expenses in this case.

Q. What is the annual net salvage cost for this Company and how is it determined?

A. The annual net salvage cost is $0. A five-year normalization is used to determine net salvage amounts.

Q. How is the net salvage cost included in this case?

A. The net salvage is included with other annual expenses determined by Staff auditors in the revenue requirement calculation.

Q. Does Staff include net salvage in the determination of annual depreciation accrual?

A. No. Staff's annual depreciation accrual recovers only the original capital cost of plant.

Q. Using Staff's recommended depreciation rates, what is the annual depreciation accrual amount for the Company based on December 31, 2000 plant balances?

A. Using Staff's recommended depreciation rates, the estimated annual depreciation accrual based on December 31, 2000 plant balances is $139,592.

Q. Using the currently ordered depreciation rates, what is the annual depreciation accrual amount for the Company based on December 31, 2000 plant balances?

A. Using the currently ordered depreciation rates, the annual depreciation accrual based on December 31, 2000 plant balances is $138,071.

Q. Are depreciation rates presented in Schedule 2 for subsidiary accounts?

A. Yes. Subsidiary accounts, which separate items of plant that have different life characteristics, are presented with their associated depreciation rates in Schedule 2. For example, Staff proposes that Account 2423, Buried Cable be separated into two subsidiary accounts, 2423.1 Nonmetallic and 2423.2 Metallic, and have separate depreciation rates ordered for nonmetallic buried cable and metallic buried cable, respectively.

Q. Are there adjustments to plant balance accounts and depreciation reserve accounts that you are sponsoring?

A. Yes. I am sponsoring the following plant balance account adjustments from Accounting Schedule 3-1, Total Plant In Service: P-2.1, P-3-1, P-10.1, P-10.2, P-18.1, P-19.1, P-19.2, P-20.2, P-20.3, P-25.1 and P-26.1. I am also sponsoring the following depreciation reserve account adjustments from Accounting Schedules 6-1, Depreciation Reserve: R-1.1, R-2.1, R-3.1, R-3.2, R-4.1, R-5.1, R-6-1, R-9.1, and R-10.1.

Q. What is the purpose and effect of the plant balance account adjustments?

A. 1) Account 2114 does not have an ordered depreciation rate. P-3.1 reclassifies the investment in a bucket truck from Account 2114, Special Purpose Vehicles to Account 2112, Motor Vehicles. P-2.1 transfers the investment from Account 2114 and places it in Account 2112. 2) Account 2115 no longer has any electromechanical switches. P-25.1 and P-26.1 reclassifies the investments of an emergency generator and 1976 power equipment and charger from Account 2215, Electromechanical Switches to Account 2212, Digital Switches. P-10.1 and P-10.2 transfer the investment from Account 2114 and places it in Account 2112. 3) Account 2431 has a plant balance even though there is no longer aerial wire in service. P-18.1 eliminates investment in Account 2431, Aerial Wire, for which there is no longer plant in service; and 4) Buried Cable is classified in two subsidiary accounts, 2423.1 Nonmetallic and 2423.2 Metallic. R-20.3 and R-19.1 transfers metallic buried cable investment from account 2423.2 to account 2423.1. R-20.2 and R-19.2 transfers nonmetallic buried cable investment from account 2423.1 to account 2423.2.

Q. What is the purpose and effect of the depreciation reserve adjustments?

A. 1) Transfer of investment from Account 2114 to Account 2112 should have a corresponding transfer of associated depreciation reserve. R-2.1 and R-1.1 reclassifies the depreciation reserve from Account 3121.140 to Account 3121.120, respectively. Staff submitted Data Request No. 200 requesting an explanation as to why there is a depreciation reserve accrual in Account 3121.140. As of this date, the Company has not provided a response to Staff's request. 2) Transfer of investments from Account 2215 to Account 2112 should have a corresponding transfer of associated depreciation reserves. R-4.1, R-5.1, R-3.1 and R-3.2 reclassifies the depreciation reserves from Account 3122.150 to Account 3121.120, respectively. 3) Elimination of investment in Account 2431 should have a corresponding elimination of depreciation reserve. R-6.1 eliminates the depreciation reserve for Account 3124.310. Classification of buried cable into two subsidiary accounts should have corresponding distribution of depreciation reserve. R-9.1 and R-2.2 transfer the depreciation reserve from account 3124.232 to 3124.231, respectively.

Q. Are there any plant accounts that should not have any additional depreciation accrual at this time?

A. Yes. The following plant accounts have a depreciation reserve accrual equal to their associated plant balances and do not require further depreciation accrual at this time: Account 2116, Other Work Equipment; Account 2123.1, Office Equipment-Office Support; Account 2351, Public Telephones; Account 2411, Poles; and Account 2421.1, Aerial Cable – Metallic.

Q. What is your proposal in this case?

A. Staff's proposal is: 1) the depreciation rates presented in Schedule 2 as Staff's proposed depreciation rates be ordered, as of the date Oregon Farmers Mutual Telephone's new rates and charges for services becomes effective; 2) that the net salvage amounts, determined by Staff, be included in Staff's revenue requirement calculation; and; 3) that the Company be ordered to book and maintain subsidiary record categories, as defined in 4 CSR 240-30.040 and as adopted by this Commission; 4) plant account adjustments P-2.1, P-3.1, P-10.1, P-10.2, P-18.1, P-19.1, P-19.2, P-20.2, P-20.3, P-25.1 and P-26.1 should be ordered; 5) depreciation reserve account adjustments R-1.1, R-2.1, R-3.1, R-3.2, R-4.1, R-5.1, R-6.1, R-9.1 and R-10.1 should be ordered; and 6) accounts 2116, 2123.1, 2351, 2411, and 2421.1 should not accrue any additional depreciation reserve at this time.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.

RATE CASE PROCEEDING PARTICIPATION

ROSELLA L. SCHAD

COMPANY	CASE NO.
Iamo Telephone Company	TT-2001-116
Peace Valley Telephone Company	TT-2001-118
Holway Telephone Company	TT-2001-119
KLM Telephone Company	TT-2001-120
Ozark Telephone Company	TC-2001-402
Osage Water Company	SR-2000-556
Osage Water Company	WR-2000-557
Northeast Missouri Rural Telephone Company	TR-2001-344

Schedule 1

OREGON FARMERS MUTUAL TELEPHONE CO.
DEPRECIATION RATES
CASE NO. TT-2001-328

ACCOUNT	ACCOUNT NUMBER	STAFF PROPOSED DEPRECIATION RATES %	AVERAGE SERVICE LIFE (YEARS)	ACCOUNT NUMBER	ORDERED DEPRECIATION RATES %
MOTOR VEHICLES	2112	11.63%	8.6	2112	10.23%
GARAGE WORK EQUIPMENT	2115	7.69%	13.0	2115.0	7.62%
OTHER WORK EQUIPMENT	2116	7.14%	14.0	2116	6.71%
BUILDINGS	2121	2.86%	35.0	2121	2.80%
FURNITURE	2122	7.14%	14.0	2122	6.71%
OFFICE EQUIPMENT-OFICE SUPPORT	2123.1	10.00%	10.0	2123.1	9.70%
OFFICE EQUIPMENT-COMPANY COMMUNICATIONS	2123.2	11.90%	8.4	2123	11.55%
GENERAL PURPOSE COMPUTERS	2124	15.63%	6.4	2124	13.59%
ANALOG ELECTRONIC SWITCHING	2211.0	6.67%	15.0		
DIGITAL SWITCHING	2212	6.67%	15.0	2212.0	6.67%
SATELLITE AND EARTH STATION FACILITIES	2231.1	8.85%	11.3	2231	8.67%
OTHER RADIO FACILITIES	2231.2	8.85%	11.3		
CIRCUIT EQUIPMENT-DIGITAL	2232.1	10.00%	10.0	2232	10.30%
CIRCUIT EQUIPMENT-ANALOG	2232.2	10.00%	10.0	2232	10.30%
PUBLIC TELEPHONE TERMINAL EQUIPMENT	2351	9.71%	10.3	2351	8.74%
OTHER TERMINAL EQUIPMENT	2362	11.49%	8.7	2362	11.49%
POLES	2411	4.76%	21.0	2411	6.19%
AERIAL CABLE-NONMETALLIC	2421.1	4.76%	21.0	2421	5.52%
AERIAL CABLE-METALLIC	2421.2	4.76%	21.0	2421	5.24%
UNDERGROUND CABLE-NONMETALLIC	2422.1	3.57%	28.0	2422	4.04%
UNDERGROUND CABLE-METALLIC	2422.2	3.85%	26.0	2422	3.75%
BURIED CABLE-NONMETALLIC	2423.1	3.57%	28.0	2423.1	4.29%
BURIED CABLE-METALLIC	2423.2	4.17%	24.0	2423	3.68%
SUBMARINE CABLE-NONMETALLIC	2424.1	4.76%	21.0	2424	4.81%
SUBMARINE CABLE-METALLIC	2424.2	4.76%	21.0		
CONDUIT SYSTEMS	2441	2.00%	50.0	2441	2.00%

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Oregon Farmers Mutual Telephone Company's Request For A Rate Increase For Telephone Service Pursuant To The Public Service Commission's Small Company Rate Increase Procedure.	)))))	Case No. TT-2001-328

AFFIDAVIT OF ROSELL L. SCHAD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Rosella L. Schad, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Rosella L. Schad
Rosella L. Schad

Subscribed and sworn to before me this 27th day of February 2001.

Toni M. Charlton

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004