

Exhibit No.:
Issue(s): Depreciation
Witness: Cedric E. Cunigan
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: WR-2020-0344
Date Testimony Prepared: January 15, 2021

MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRY ANALYSIS DIVISION

ENGINEERING ANALYSIS DEPARTMENT

REBUTTAL TESTIMONY

OF

CEDRIC E. CUNIGAN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

Jefferson City, Missouri
January 2021

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **CEDRIC E. CUNIGAN**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2020-0344**

6 Q. Please state your name and business address.

7 A. Cedric E. Cunigan, 200 Madison Street, Jefferson City, Missouri 65101.

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

9 A. I am an Associate Engineer in the Engineering Analysis Department with the
10 Missouri Public Service Commission (“Commission” or “PSC”).

11 Q. Are you the same Cedric E. Cunigan that contributed to the Staff Cost of Service
12 Report filed on November 24, 2020, in this proceeding?

13 A. Yes, I am.

14 Q. What will your testimony address?

15 A. I will be rebutting the testimony of Missouri-American Water Company
16 (MAWC) witness Larry E. Kennedy; specifically in regard to MAWC’s depreciation study,
17 Staff’s concerns with general plant amortization, and MAWC’s use of the 1996 version of the
18 Uniform System of Accounts (USOA).

19 Q. Did staff review the depreciation study submitted in the Direct Testimony of
20 Larry E. Kennedy?

21 A. Yes. Staff reviewed the depreciation study provided in the Direct Testimony of
22 MAWC witness Larry E. Kennedy. Staff also requested the source data for this depreciation
23 study in Staff Data Request No. 0093. Staff has been able to replicate similar results to that of

1 MAWC witness Larry E. Kennedy since the filing of Staff’s Cost of Service Report.¹ However,
2 Staff still has concerns with the depreciation study.

3 Q. What are Staff’s concerns with the depreciation study?

4 A. Staff has issues with amortization used for certain general plant accounts.

5 Q. What has Missouri American proposed regarding general plant amortization?

6 A. The company is proposing amortization for the following accounts:

7 **Table 1**

Account	Account Description	Survivor Curve	Original Cost as of Dec. 31, 2019	Book Depreciation Reserve	Future Accruals	Calculated Annual Accrual Amount
339.10	Intangible Plant - Other	25-SQ	3,421	306,586	-303,165	0
339.20	Source of Supply - Other	25-SQ	1,730	889	840	34
339.30	Water Treatment - Other	30-SQ	1,473,221	591,225	881,996	29,400
339.50	Intangible Plant - Software	30-SQ	1,063,104	0	1,063,104	35,437
340.1	Office Furniture	20-SQ	2,025,804	1,223,861	801,943	40,097
340.2	Computer Hardware	5-SQ	6,969,440	4,069,951	2,899,489	579,898
340.3	Computer Software	10-SQ	34,590,346	13,425,268	21,165,078	2,116,508
340.31	Computer Software - BT Initial Investment	7-SQ	46,360,757	15,716,706	30,644,051	4,377,722
340.5	Other Equipment	20-SQ	15,666	-19,368	35,034	1,752
342	Stores Equipment	25-SQ	830,051	-76,419	906,471	36,259
342.98	Engineered Tank Coatings	20-SQ	0	0	0	0
343	Tools, Shop, and Garage Equipment	20-SQ	8,641,510	3,743,100	4,898,411	244,921

¹ Staff analyzed the data submitted in response to Staff Data Request No. 0093, but was unable to verify the results of the depreciation study with the data submitted. Staff requested additional data in Staff Data Request Nos. 0093.1 and 0093.2. MAWC provided assistance with data concerns in a Microsoft teams meeting on January 8, 2020.

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Account	Account Description	Survivor Curve	Original Cost as of Dec. 31, 2019	Book Depreciation Reserve	Future Accruals	Calculated Annual Accrual Amount
344	Laboratory Equipment	15-SQ	1,933,696	784,954	1,148,742	76,583
346.1	Communication Equipment - Non-Telephone	15-SQ	9,157,637	2,277,598	6,880,039	458,669
346.2	Communication Equipment - Telephone	10-SQ	41,965	97,257	-55,292	0
347	Miscellaneous Equipment	15-SQ	5,614,170	1,313,493	4,300,677	286,712
348	Other Tangible Property	20-SQ	31,940	-296,829	328,769	16,438
390	Office Furniture and Equipment	20-SQ	214,551	78,342	136,209	8,248
390.2	Computers and Peripheral	5-SQ	55,120	120,140	-65,020	0
392	Stores Equipment	25-SQ	27,005	27,296	-292	0
393	Tools, Shop, and Garage Equipment	20-SQ	201,002	56,764	144,238	11,050
394	Laboratory Equipment	15-SQ	118,229	42,001	76,228	7,809
396	Communication Equipment	15-SQ	424,499	68,136	356,363	29,168
397	Miscellaneous Equipment	15-SQ	199,965	197,814	2,150	148
398	Other Tangible Plant	20-SQ	110,814	22,660	88,154	5,343
	Totals		120,105,643	43,771,425	76,334,217	8,362,196

1

2 Q. What issues does Staff take with the amortization of the accounts listed in
3 Table 1?

4 A. When general plant amortization is used, historical data on actual retirement of
5 assets is not studied. The cost of assets is recorded for each vintage year and expensed evenly
6 over a set amount of time. Assets that survive longer than the amortization period will be retired
7 from the books while still being used and useful for the provision of service; this would result
8 in an early recovery of the costs of the assets. Assets that retire before the amortization period

1 would continue accruing expense after their useful life. These situations can also occur when
2 using depreciation methods, but depreciation methods attempt to make these estimates more
3 accurate over time using historical data. General plant amortization does not look at historical
4 data to ensure that these estimates would be accurate. In addition, the lack of historical data for
5 these accounts would hinder Staff's ability to access necessary information for prudence
6 reviews of assets in the amortized accounts.

7 Q. Does Staff believe it has sufficient information to verify the accuracy of
8 amortization rates for the accounts you have identified?

9 A. No. MAWC has not submitted sufficient data to verify the accuracy of the
10 amortization rates for the accounts listed in Table 1. Amortization does not track the actual
11 retirement of assets and records retirements on the books after predetermined amount of time.

12 MAWC witness Larry E. Kennedy states:

13 Depreciation accounting is difficult for these assets, inasmuch as
14 periodic inventories are required to properly reflect plant in service. In
15 amortization accounting, units of property are capitalized in the same
16 manner as they are in depreciation accounting. However, retirements
17 are recorded when a vintage is fully amortized rather than as the units
18 are removed from service. That is, there is no dispersion of retirement.
19 All units are retired when the age of the vintage reaches the
20 amortization period.²

21 Some of these accounts have been subject to amortization for several years and
22 have little recent retirement data. Future retirement data will not be recorded for these
23 accounts, unless Staff's recommendation to track this information and provide it in the next rate
24 case is ordered.

25 Q. How does Staff recommend MAWC treat the accounts listed in Table 1?

² Direct Testimony of Larry E. Kennedy page 13, lines 5 through 10.

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1 A. Staff recommends that the company track retirement data for these accounts and
2 provide it with the depreciation study in the next rate case. The accounts as listed above account
3 for more than \$120 million in original cost, \$76 million in future accruals, and \$8 million in
4 calculated annual accruals.³ Staff needs accurate retirement information to verify that these
5 funds are being recovered at the appropriate time.

6 Q. Are there any other issues with the rate schedule as proposed by MAWC?

7 A. Yes. Staff's rate schedule uses the account numbers as listed in the 1973 version
8 of the USOA with 1976 revisions as prescribed by the Commission,⁴ while MAWC's
9 rate schedule uses account numbers as listed in the 1996 version of the USOA. It is possible to
10 convert the account numbers of one USOA to the other by comparing the descriptions in the
11 two version of the USOA, with the exception of 342.98 Engineered Tank Coatings. Staff has
12 recommended that Engineered Tank Coatings continue to be included in expenses and
13 not capitalized as plant. Staff witness Amanda C. McMellen discusses this further in her
14 Rebuttal Testimony.

15 Q. Does this conclude your testimony?

16 A. Yes.

³ Amounts calculated from Table 1 of Schedule LEK-2 and Table 1 of Schedule LEK-3 of the Direct Testimony of Larry E. Kennedy.

⁴ 20 CSR 4240-50.030(1) adopts and prescribes the USOA issued by the National Association of Regulatory Utility Commissioners issued in 1973, as revised July 1976 for use by water companies under the jurisdiction of the Commission. 20 CSR 4240-61.020 (1) adopts and prescribes the USOA for class A and B sewer utilities 1976 and the USOA for class C and D sewer Utilities 1976 for use by sewer companies under the jurisdiction of the Commission.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Request for Authority to)
Implement General Rate Increase for Water) Case No. WR-2020-0344
and Sewer Service Provided in Missouri)
Service Areas)

AFFIDAVIT OF CEDRIC E. CUNIGAN

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COME NOW CEDRIC E. CUNIGAN and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Cedric E. Cunigan*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Cedric E. Cunigan
CEDRIC E. CUNIGAN