

Exhibit No. \_\_\_\_\_  
Issues: Depreciation  
Witness: Ned W. Allis  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Confluence Rivers Utility  
Operating Company, Inc.  
File Nos.: WR-2023-0006 / SR-2023-0007  
Date: June 29, 2023

**Missouri Public Service Commission**

**Rebuttal Testimony**

**of**

**Ned W. Allis**

**On Behalf of**

**Confluence Rivers Utility Operating Company, Inc.**

**June 29, 2023**

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1 **I. INTRODUCTION**

2 **Q. Please state your name and address.**

3 A. My name is Ned W. Allis. My business address is 207 Senate Avenue, Camp Hill,  
4 Pennsylvania 17011.

5  
6 **Q. Are you associated with any firm?**

7 A. Yes. I am associated with the firm of Gannett Fleming Valuation and Rate  
8 Consultants, LLC (“Gannett Fleming”).

9  
10 **Q. How long have you been associated with Gannett Fleming?**

11 A. I have been associated with the firm since 2006.

12  
13 **Q. What is your position with the firm?**

14 A. I am Vice President.

15  
16 **Q. On whose behalf are you testifying in this case?**

17 A. I am testifying on behalf of Confluence Rivers Utility Operating Company, Inc.  
18 (“Confluence Rivers” or the “Company”).

19  
20 **Q. Are you the same Ned W. Allis who previously filed direct testimony in this  
21 proceeding?**

22 A. Yes. I have provided my qualifications in my direct testimony.

23  
24 **II. PURPOSE OF TESTIMONY**

25 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

26 A. The purpose of my rebuttal testimony is to respond to the testimonies of Missouri  
27 Public Service Commission Staff (“Staff”) witness Amanda Coffey and Office of  
28 the Public Counsel (“OPC”) witness John Robinett. I note that Ms. Coffey’s  
29 testimony does not specifically respond to the depreciation study I performed, as

1 she will instead address the study her rebuttal testimony.<sup>1</sup> I will, therefore, respond  
2 to her testimony in my surrebuttal testimony. However, because she, like Mr.  
3 Robinett, proposes to use depreciation rates based on other companie(s) or sources,  
4 rather than a depreciation study of the Company's assets, portions of my rebuttal to  
5 Mr. Robinett also apply to Ms. Coffe.

6

7 **III. RESPONSE TO OPC AND STAFF PROPOSALS**

8 **Q. Before responding to Ms. Coffe's and Mr. Robinett's testimony, please**  
9 **explain the differences between the depreciation proposals of each party.**

10 A. The primary difference between the Company's proposal and the recommendations  
11 of both Staff and OPC is that the Company's proposal is based on a depreciation  
12 study of the Company's assets. On the other hand, Staff and OPC's proposals are  
13 based on depreciation rates used for other utilities or, in those instances in which  
14 Staff and OPC recommend the use of the Company's current depreciation rates,  
15 those current depreciation rates were established several years ago and were not  
16 based on statistical life or net salvage analyses for the Company and not necessarily  
17 based on the current composition of the Company's asset base. The Company's  
18 depreciation proposal is appropriately based on service life and net salvage  
19 estimates developed with expert judgment and extensive industry knowledge. Just  
20 as important, depreciation rates are calculated based on the Company's current  
21 plant and accumulated depreciation balances, including the age distribution of its  
22 current asset base. The Company's depreciation rates are, therefore, an accurate  
23 reflection of the amount to be allocated to expense through depreciation.

24

25 **Q. Why have Staff and OPC proposed to use depreciation rates that are not based**  
26 **on a depreciation study for the Company?**

27 A. It is not entirely clear. Staff's testimony does not address this and will instead do  
28 so in rebuttal testimony. Meanwhile, other than to argue that the Company should

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<sup>1</sup> Direct testimony of Amanda Coffe, p. 2, lines 13-14.

1 not have performed a depreciation study, Mr. Robinett does not provide any  
2 evidence that there is anything wrong with the depreciation study and the rates I  
3 have recommended. Indeed, Mr. Robinett does not provide any specific criticisms  
4 of any of the Company’s recommended depreciation rates (*i.e.*, any of the  
5 individual accounts or other details of the study).

6  
7 Instead, Mr. Robinett simply proposes that the Company begin collecting the data  
8 needed for a study, a process the Company has already begun. He also argues that  
9 the Company should not be able to recover the cost of performing the depreciation  
10 study, believing that ratepayers received “essentially nothing” for the cost of the  
11 study.<sup>2</sup> However, Mr. Robinett’s testimony does not accurately describe the  
12 process of a depreciation study, as he apparently believes, incorrectly, that  
13 statistical life and net salvage analyses are the only part of a study of value. The  
14 remainder of Mr. Robinett’s testimony generally complains about the process by  
15 which Confluence Rivers hired my firm, Gannett Fleming, to perform the study,  
16 even though Mr. Robinett does “not inherently have a problem with Confluence’s  
17 selected depreciation service provider, which is a familiar outside consultant  
18 appearing regularly before this Commission...”<sup>3</sup> I will respond to Mr. Robinett’s  
19 commentary below, but at this point, while Staff and OPC may have made their  
20 own recommendations, there is no testimony on the record disputing any of the  
21 depreciation rates I have proposed or providing reason why these depreciation rates  
22 would be inappropriate.

23  
24 **Q. On page 1 of his testimony, Mr. Robinett observes that there is no requirement**  
25 **for water utilities to perform a depreciation study. Should utilities perform**  
26 **depreciation studies even if there is no specific regulatory requirement?**

27 A. Yes. Regardless of any legal or regulatory requirements it is important to  
28 periodically review depreciation rates to ensure they align with a company’s asset

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<sup>2</sup> Direct Testimony of John Robinett, p. 3, lines 4-5.  
<sup>3</sup> Direct Testimony of John Robinett, p. 2, lines 7-9.

1 base and with reasonable expectations for their service lives and net salvage. In  
2 this regard, contrary to Mr. Robinett's suggestion, a depreciation study, even absent  
3 a regulatory requirement, helps to best assign depreciation expense to the  
4 generation of customers that receive the benefit of the underlying asset. For this  
5 reason, the best practice in the industry is for utilities to perform depreciation  
6 studies every three to five years. Indeed, as noted by Mr. Robinett, Missouri  
7 American Water Company regularly performs and files depreciation studies with  
8 the Commission. Specifically, Missouri American Water Company filed, without  
9 a specific regulatory requirement, depreciation studies in its 2010 (WR-2010-  
10 0131); 2015 (WR-2015-0301); and 2020 (WR-2020-0344) rate cases.

11

12 **Q. Mr. Robinett's testimony on page 3 implies that, because there was not**  
13 **sufficient historical data to perform statistical life and net salvage analyses,**  
14 **there was nothing of value that came from the depreciation study. Please**  
15 **address his testimony on this issue.**

16 A. Mr. Robinett appears to have a fundamental misunderstanding of how a  
17 depreciation study is performed. Statistical life and net salvage analyses are only  
18 one part of a depreciation study and the data for that analysis is not the only data  
19 that needs to be assembled and used to determine the most reasonable depreciation  
20 rates. Even for a study such as this one, for which there is limited data for the  
21 statistical life and net salvage analyses, there are still many tasks involved with the  
22 study in order to develop the most reasonable depreciation rates.

23

24 **Q. What is the purpose of a depreciation study?**

25 A. The purpose of a depreciation study is to develop depreciation rates for each  
26 depreciable group of property (*i.e.*, an account or subaccount) that most reasonably  
27 determine the rate at which the full cost (including net salvage) of these assets  
28 should be recovered over their useful lives. There are several inputs to calculating  
29 depreciation rates, including service life estimates, net salvage estimates, the age of  
30 assets in service, their original cost and their level of accumulated depreciation.

1 Each of these inputs must be determined through the course of a study and two of  
2 the primary inputs – service lives and net salvage – are based on a combination of  
3 statistical analyses of historical data as well as professional judgment that  
4 incorporates the extensive experience of the experts performing the studies. This  
5 expertise not only includes knowledge of the assets studied but also the estimates  
6 for similar property across the industry. The statistical life and net salvage analyses,  
7 which Mr. Robinett’s testimony appears to imply are the only important  
8 components of a study, are actually just one of many types of data and information  
9 needed to complete a depreciation study. Further, even if sufficient data for the  
10 service life and net salvage analyses are unavailable, there are still many other  
11 factors and components of the study that provide value in determining the most  
12 reasonable depreciation rates. Essentially, Mr. Robinett’s pursuit of the perfect in  
13 terms of statistical analyses stands in the way of him recognizing the good in this  
14 study.

15

16 **Q. On what do you base these conclusions?**

17 A. I have worked on hundreds of depreciation studies over the course of my career for  
18 all different types of utilities. In my current role, I am a project manager or project  
19 principal on close to a hundred depreciation studies or depreciation-related  
20 assignments each year. I also am familiar with textbooks on depreciation, including  
21 published by sources such as NARUC, and teach several courses on depreciation  
22 for the Society of Depreciation Professionals.

23

24 **Q. What are the steps in performing a depreciation study?**

25 A. Once a study commences, the first step is to gather available data for both statistical  
26 analyses and depreciation calculations. There are three primary databases that are  
27 assembled during this step: 1) data comprising vintage balances for depreciation  
28 calculations; 2) data for service life analyses; 3) data for net salvage analyses.  
29 Second, once the data is compiled, it is then reviewed in detail to ensure the most  
30 reasonable databases are used for the study. Third, statistical analyses of lives and

1 net salvage are performed. The fourth step is to then take site visits and meeting  
2 with Company subject matter experts to gather more information on the assets  
3 studied. Once all of this information has been assembled, estimates of service lives  
4 and net salvage can be made. Then, depreciation rates can be calculated using the  
5 data from item #1 above and the service life and net salvage estimates from the  
6 study. Once the results have been reviewed by Company personnel, a final report  
7 with the depreciation study results can be prepared. Importantly, the data  
8 limitations raised by Mr. Robinett only impact the ability to perform the statistical  
9 analyses in step three. Even absent the statistical analysis, the other steps are  
10 necessary and were performed in the depreciation study for Confluence Rivers.

11

12 **Q. Mr. Robinett also suggests that “the Commission should order Confluence to**  
13 **begin maintaining data by account as described in Commission rules 20 CSR**  
14 **4240-3.160, 20 CSR 4240-3.175, or 20 CSR 4240-40.090.” Please address this.**

15 A. I agree that the Company should maintain accounting records that will allow for  
16 more years of data available for statistical analyses in future studies. Indeed,  
17 although there is a limited history, the Company has already begun to do so (as  
18 evidenced by the fact that the depreciation study provides rates calculated with  
19 these data for each account). However, it is important to note that the work done  
20 for the current study to develop an aged balance database is a necessary step in  
21 order to maintain accurate records of retirements that incorporate the vintage (and,  
22 therefore) age of such retirements.

23

24 **Q. Do you agree with Mr. Robinett and Ms. Coffey’s recommendations?**

25 A. No. The depreciation rates in the Company’s depreciation study are the proposals  
26 that are based on a depreciation study and calculated using the Company’s plant  
27 and accumulated depreciation balances. Ms. Coffey’s proposals are not based on a  
28 depreciation study.<sup>4</sup> Mr. Robinett’s criticism are not based on an accurate

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<sup>4</sup> As noted above, Ms. Coffey’s rebuttal testimony will address the depreciation study and so I will respond further to her in my surrebuttal testimony.



1           understanding of what is involved with performing a depreciation study, instead  
2           believing the statistical life and net salvage analyses to be the only meaningful  
3           components of a study. Accordingly, their proposed depreciation rates are less  
4           reasonable to apply to the Company's current plant investment than I have  
5           recommended in the depreciation study.

6

7   **Q.    Does this conclude your direct testimony?**

8   A.    Yes.

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

In the Matter of Confluence Rivers Utility )  
Operating Company, Inc.'s Request for Authority )  
to Implement a General Rate Increase for Water ) **File No. WR-2023-0006**  
Service and Sewer Service Provided in Missouri ) **File No. SR-2023-0007**  
Service Areas. )

**AFFIDAVIT OF NED W. ALLIS**

**COMMONWEALTH OF PENNSYLVANIA** )  
 ) **ss**  
**COUNTY OF CUMBERLAND** )

Ned W. Allis, of lawful age and being first duly sworn, deposes and states:

1. My name is Ned W. Allis. I am associated with the firm of Gannett Fleming Valuation and Rate Consultants, LLC. I have been retained by Confluence Rivers Utility Operating Company, Inc. to provide my recommendations regarding depreciation rates in this case.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ned W. Allis

Subscribed and sworn to me this 19th day of June, 2023

  
\_\_\_\_\_  
Notary Public

My commission expires February 20, 2027.

Commonwealth of Pennsylvania - Notary Seal  
Cheryl Ann Rutter, Notary Public  
Cumberland County  
My commission expires February 20, 2027  
Commission number 1143028  
Member, Pennsylvania Association of Notaries